

New Mexico Oil Conservation Division, District I
1625 N. French Drive
Hobbs, NM 88240

Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

0069

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007


APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		R-111-POTASH	
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone			
2. Name of Operator Preston Exploration, LLC		7. If Unit or CA Agreement, Name and No. NA	
3a. Address P. O. Box 7520 The Woodlands, TX 77387		8. Lease Name and Well No. Imperial 6 Federal #1	
3b. Phone No. (include area code) 281-367-8697		9. API Well No. 30-025-36957	
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1650' FNL & 990' FWL At proposed prod. zone 1650' FNL & 990' FWL Lot 5		10. Field and Pool, or Exploratory Hat Mesa	
11. Sec., T. R. M. or Blk. and Survey or Area Section 6, T-21-S, R-33-E			
14. Distance in miles and direction from nearest town or post office* 8 miles southeast of Halfway, New Mexico		12. County or Parish Lea	
13. State NM			
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 990'		16. No. of acres in lease 306.39	
17. Spacing Unit dedicated to this well 306.39			
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. NA		19. Proposed Depth 14,200'	
20. BLM/BIA Bond No. on file Pending			
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3748' GL		22. Approximate date work will start* 08/25/2004	
23. Estimated duration 60 Days			

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature 	Name (Printed/Typed) Randall K. Ford	Date 08/03/2004
Title Consultant		

Approved by (Signature) /s/ Linda S. C. Rundell	Name (Printed/Typed) /s/ Linda S. C. Rundell	Date 10 NOV 2004
Title STATE DIRECTOR	Office NM STATE OFFICE	

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section
States any false, fictitious or fraudulent statements or

*(Instructions on page 2)

OPER. OGRID NO. 212226

PROPERTY NO. 34415

POOL CODE

EFF. DATE 11/19/04

API NO. 30-025-36957

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED



State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I

1625 N. FRENCH DR., HOBBS, NM 58240

DISTRICT II

1201 W. GRAND AVENUE, ARTESIA, NM 58210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30-025-36957	Pool Code ✓	Pool Name Wildcat Miss
Property Code 34415	Property Name IMPERIAL 6 FEDERAL	Well Number 1
OGRID No. 212226	Operator Name PRESTON EXPLORATION	Elevation 3748'

Surface Location

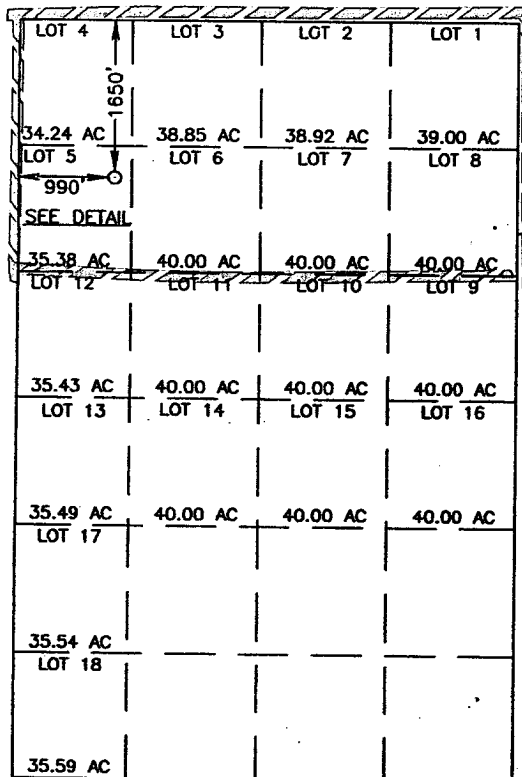
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
5	6	21-S	33-E		1650'	NORTH	990'	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
306.39			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



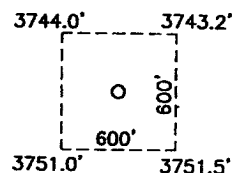
SCALE - 1"=2000"

GEODETIC COORDINATES
NAD 27 NMF.

Y=552790.6 N
X=721066.7 E

LAT.=32°31'03.67" N
LONG.=103°36'58.15" W

DETAIL



OPERATOR CERTIFICATION

I hereby certify the the information
contained herein is true and complete to the
best of my knowledge and belief.

Randell K. Ford
Signature

Randell K. Ford
Printed Name

President
Title

July 28, 2004
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown
on this plat was plotted from field notes of
actual surveys made by me or under my
supervision, and that the same is true and
correct to the best of my belief.

JUNE 29, 2004

Date Surveyed LA

Signature & Seal of
Professional Surveyor

GARY EIDSON 7/13/04
04.11.0801

Certificate No. GARY EIDSON

12641

MULTI POINT SURFACE USE AND OPERATIONS PLAN FOR

PRESTON EXPLORATION, LLC
IMPERIAL "6" Federal #1

Surface location: 1650' FNL & 990' FWL
Section 6, T-21-S, R-33-E
Lea County, New Mexico
Lease No.: NM 110837

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan to be followed in rehabilitating the surface and environmental effects associated with the operation.

1. EXISTING ROADS:

- A. Exhibit "A" is a vicinity map showing the location of the proposed well as staked. The well site location is approximately 24 miles South/Southeast of Maljamar, New Mexico.
- B. Directions: Westbound on State Hwy #176, west of Marathon Road, one half mile west of milepost #7. Turn south onto lease road. Go approximately 1,850' (0.35 miles) South to a proposed road survey. Follow proposed road survey 0.5 miles East to Southwest corner of proposed well pad and 212' northeast to this well.

2. PLANNED ACCESS ROAD:

- A. Length and Width: The proposed access road will be approximately 0.5' long and 12' wide and run East to the SW corner of the well pad and 212' long and 12' wide and run northeast to this well. Exhibit D.
- B. Construction: The proposed access road will be constructed by grading and topping with compacted caliche. The surface will be properly drained.
- C. Turnouts: None required.
- D. Culverts: None necessary.
- E. Cuts and Fills: None required.
- F. Gates and Cattle Guards: None necessary.
- G. Off lease right of way: None required.

3. LOCATION OF EXISTING WELLS:

Existing wells in the immediate area are shown on the Location Verification Map, Exhibit "B".

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. Preston Exploration, LLC has no production facilities on the lease at this time.
- B. If the well proves to be commercial, the necessary production facilities, gas separation-process equipment and tank battery, if required, will be installed on the drilling pad.

5. LOCATION AND TYPE OF WATER SUPPLY:

It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads.

6. SOURCE OF CONSTRUCTION MATERIAL:

Caliche for surfacing the proposed access road and well site pad will be obtained from the location, if available, or from an approved Federal pit. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access road.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the drilling pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil Produced during tests will be stored in test tanks.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.

G. All trash and debris will be removed from the well site within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

None required.

9. WELL SITE LAYOUT:

A. Exhibit "C" shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area has been staked and flagged 600' x 600'.

B. Mat Size: 230' x 330', plus 180' x 180' reserve pit on the north.

C. Cut & Fill: The location will require a 2-foot cut on the south with fill to the north.

D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

A. After completion of drilling and/or completion operations, all equipment and other material not needed for operations will be removed. The well site will be cleaned of trash leaving the site aesthetically pleasing to the extent possible.

B. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to be worked.

11. OTHER INFORMATION:

A. Surface Ownership - Bureau of Land Management

B. Mesa Field Services, P. O. BOX 3072, CARLSBAD, NEW MEXICO 88221, conducted an archaeological survey. No significant archaeological resources were found in the area of the planned access road or of the proposed well site.

C. Oil & Gas Lease:
NM NM 110837

Section 6, T-21-S, R-33-E
Lots 1, 2, 3, 4, 5, 6, 7, and 8

D. RECORD LESSEE: Capstone Oil & Gas Company, LP
P. O. Box 10187
Midland, TX 79702

E. BOND COVERAGE:

\$25,000 Statewide Oil & Gas Surety Bond
BLM Bond # Pending

12. OPERATOR'S REPRESENTATIVE:

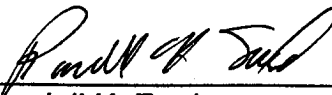
The field representative for assuring compliance with the approved use and operations plan is as follows:

R. K. Ford & Associates
415 West Wall, Suite 1700
Midland, Texas 79701
432-682-0440 (Office)
432-682-0441 (Fax)
432-570-7216 (Home)
432-559-2222 (Cell)
Randell@rkford.com (E-mail)

13. CERTIFICATION:

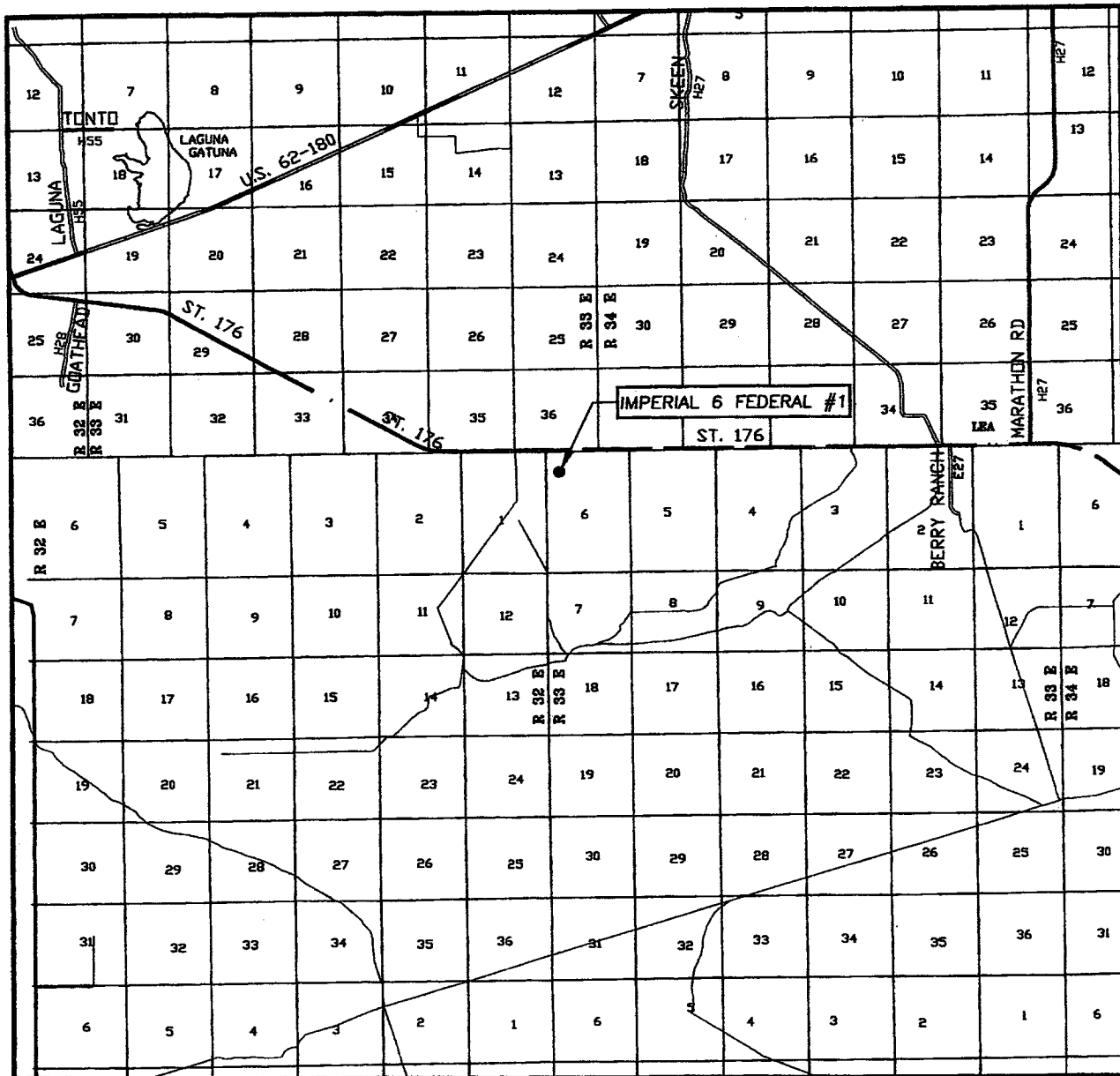
I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exist; that the statements made in this plan are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Preston Exploration, LLC and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved.

August 3, 2004



Randell K. Ford
President

VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 6 TWP. 21-S RGE. 33-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 1650' FNL & 990' FWL

ELEVATION 3748'

OPERATOR PRESTON EXPLORATION

LEASE IMPERIAL 6 FEDERAL

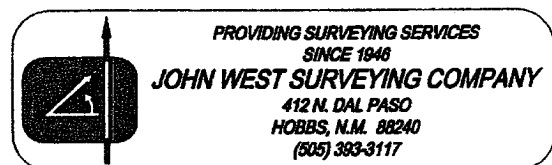
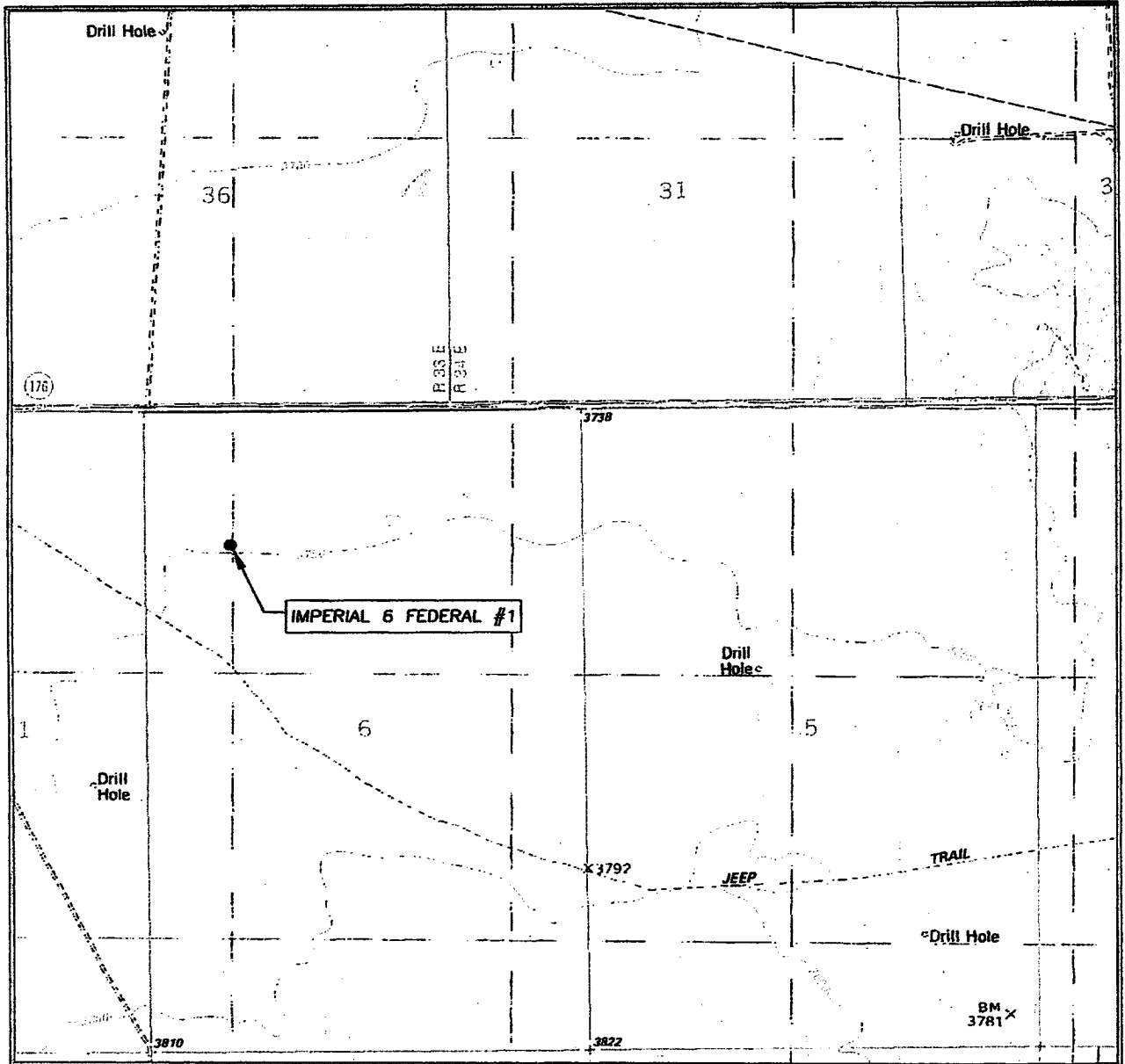


Exhibit A
Preston Exploration, LLC
Multi Point Surface Use and Operations Plan

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
LEA, N.M. - 10'

SEC. 6 TWP. 21-S RGE. 33-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 1650' FNL & 990' FWL

ELEVATION 3748'

OPERATOR PRESTON EXPLORATION

LEASE IMPERIAL 6 FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
LEA, N.M.

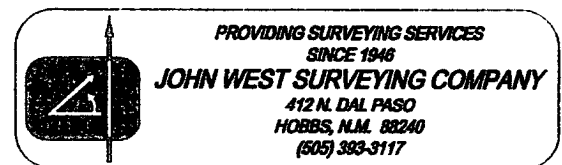
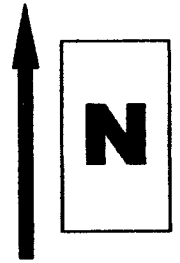


Exhibit B
Preston Exploration, LLC
Multi Point Surface Use and Operations Plan

Scale 1" = 100'



DRILLING RIG LAYOUT
Preston Exploration, LLC
Imperial 6 Federal #1

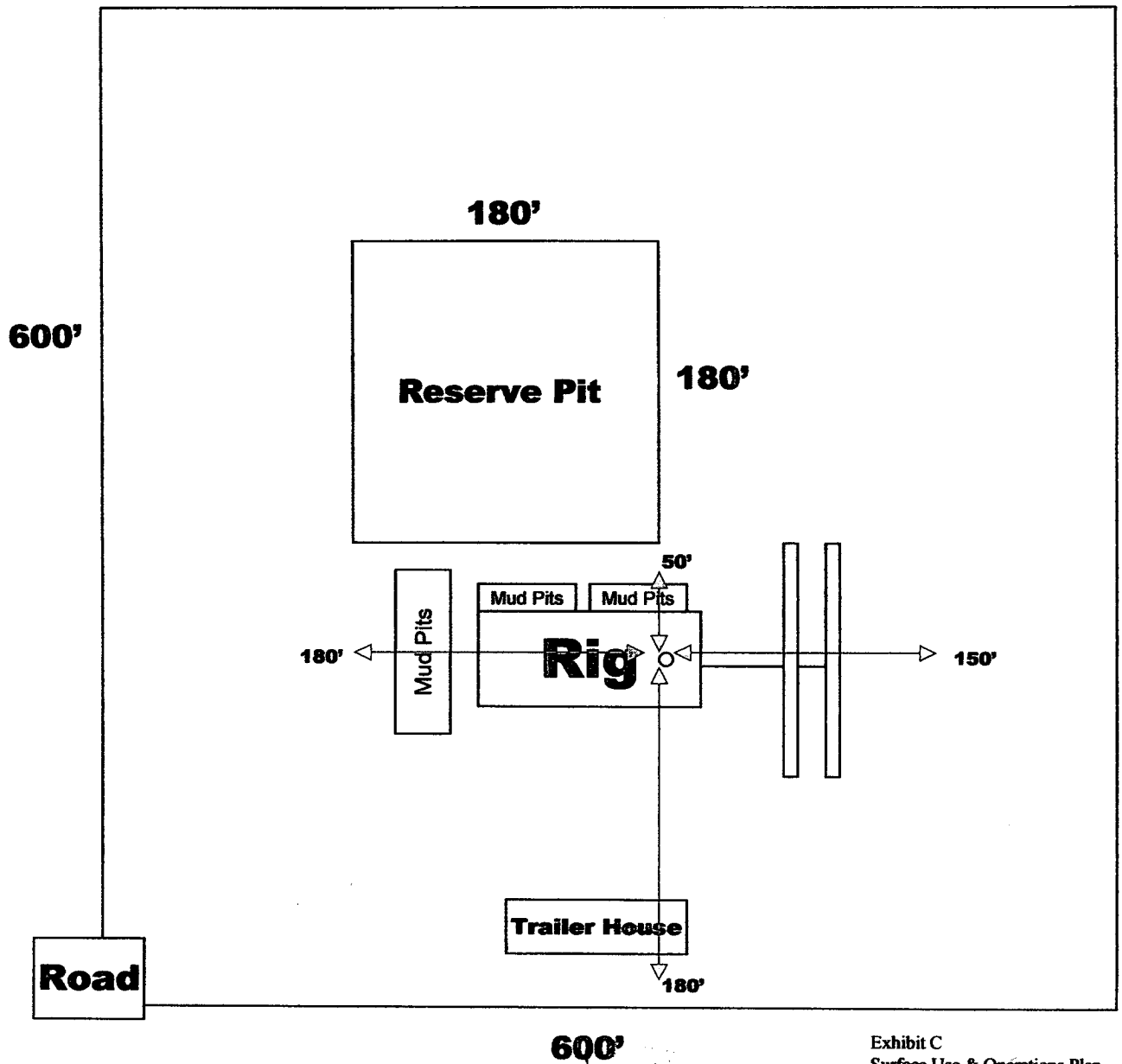
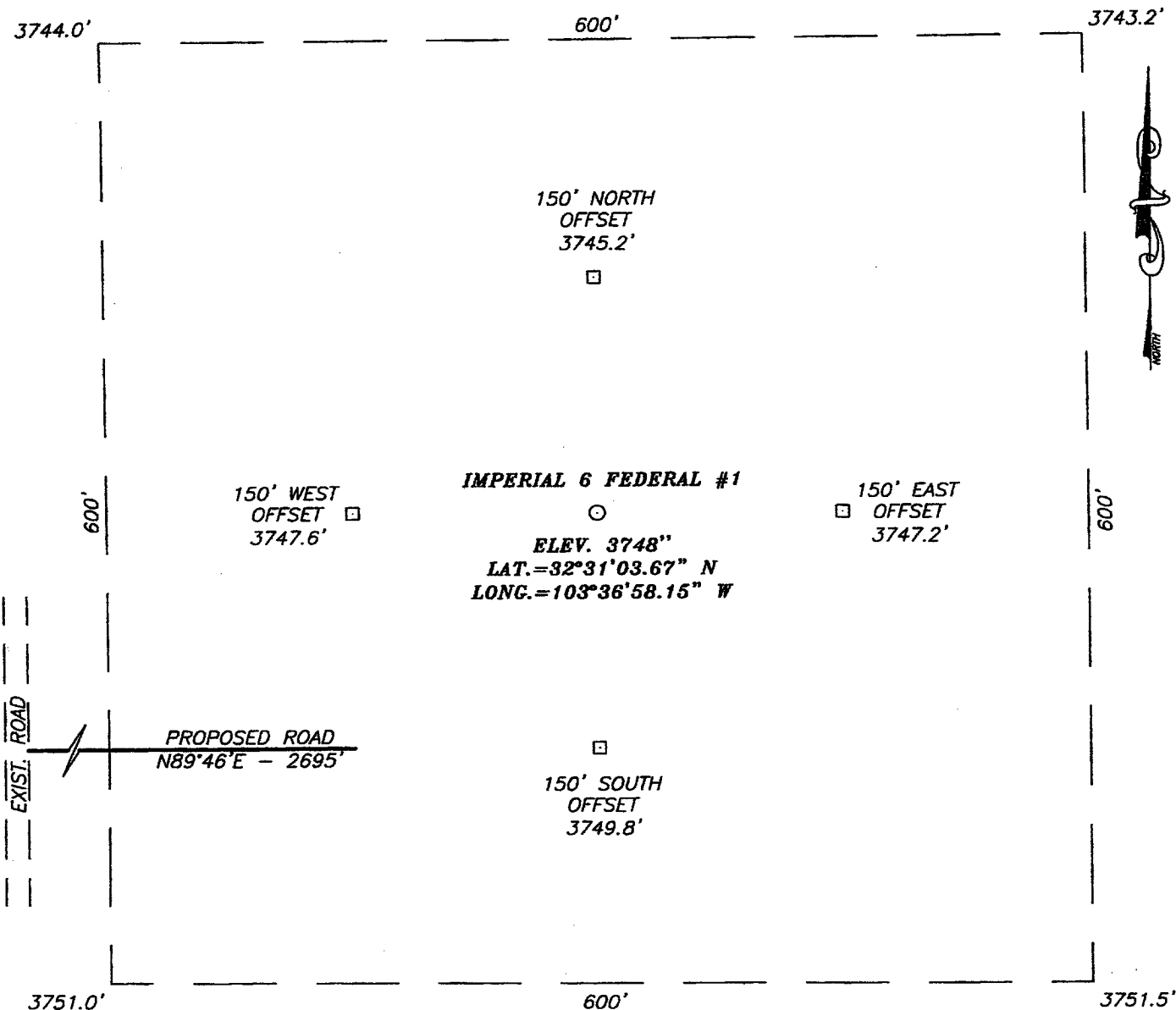


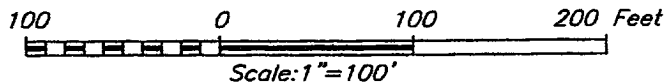
Exhibit C
Surface Use & Operations Plan

SECTION 6, TOWNSHIP 21 SOUTH, RANGE 33 EAST, N.M.P.M.,
LEA COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

WESTBOUND ON ST. HWY #176, WEST OF MARATHON ROAD, ONE HALF MILE WEST OF MILE POST #7 TURN SOUTH ONTO LEASE ROAD. GO APPROX. 1850' (0.35 MILES) SOUTH TO A PROPOSED ROAD SURVEY. FOLLOW PROPOSED ROAD SURVEY 0.5 MILES EAST TO SOUTHWEST CORNER OF PROPOSED WELL PAD AND 212' NORTHEAST TO THIS WELL.



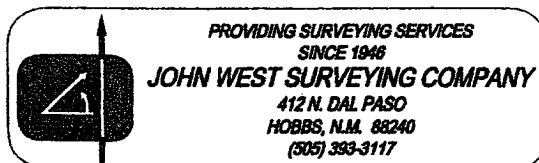
PRESTON EXPLORATION

IMPERIAL 6 FEDERAL #1 WELL
LOCATED 1650 FEET FROM THE NORTH LINE
AND 990 FEET FROM THE WEST LINE OF SECTION 6,
TOWNSHIP 21 SOUTH, RANGE 33 EAST, N.M.P.M.,
LEA COUNTY, NEW MEXICO.

Survey Date: 6/29/04	Sheet 1 of 1 Sheets
W.O. Number: 04.11.0801	Dr By: LA
Date: 7/1/04	Rev 1:N/A
Disk: CD#3	04110801
Scale: 1"=100'	

Exhibit D

Preston Exploration, LLC
Multi Point Surface Use and Operations Plan



DRILLING PROGRAM

PRESTON EXPLORATION, LLC

IMPERIAL 6 FEDERAL #1

Section 6, T-21-S, R-33-E

Lea County, New Mexico

The following items supplement Form 3160-3 in accordance with instructions contained in Onshore Oil and Gas Orders #1 and #2, and all other applicable federal and state regulations.

1. ESTIMATED TOPS OF GEOLOGIC MARKERS:

Rustler Anhydrite	1,500'
Salado Salt	1,900'
Yates	3,250'
Capitan Reef (top)	3,550'
Capitan Reef (base)	5,270'
Cherry Canyon	5,700'
Brushy Canyon	7,330'
Lower Brushy Canyon	8,450'
Bone Spring	8,750'
Avalon ss	8,900'
1 st BS ss	9,650'
2 nd BS ss	10,430'
3 rd BS ss	11,200'
Wolfcamp	11,520'
Wolfcamp Chert	11,750'
Penn Shale	12,140'
Strawn	12,620'
Atoka Clastics	12,900'
Morrow "A"	13,040'
Lower "A" ss pay	13,320'
Morrow "B"	13,370'
Upper "B" ss	13,450'
Lower "B" ss	13,370'
Morrow "C"	13,770'
Miss (Barnett Shale)	14,000'
Total Depth	14,200'

2. ESTIMATED DEPTHS TO WATER, OIL, OR GAS FORMATIONS:

Fresh Water	Above 200'
Oil and Gas	Brushy Canyon, Atoka Clastics, Morrow

3. Pressure control equipment: The blow out preventer equipment (BOP) shown in Exhibit #1 will consist of a 3000 psi double ram type preventer for drilling the intermediate hole. The blowout preventer stack for the production hole will consist of at least a double-ram blowout preventer and annular preventer rated to 5000 psi working pressure. A diagram of the BOPs and choke manifold is attached. All BOPs and accessory equipment will be tested according to Onshore Order #2 before drilling out.

4. PROPOSED CASING PROGRAM:

<u>Hole Size</u>	<u>Interval</u>	<u>Casing Size</u>	<u>Weight</u>	<u>Grade, Joint</u>
17-1/2"	^{1675'} 0 - 1,500'	13-3/8"	54.5#	K-55 ST&C
12-1/4"	0 - 5,300'	9-5/8"	43.5#	K-55 LT&C
8-1/2"	0 - 14,200'	5-1/2"	20#	N-80 LT&C

Equivalent or adequate grades and weights of casing may be substituted at time casing is run, depending on availability. Changes will be relayed to BLM prior to running.

5. PROPOSED CEMENTING PROGRAM

20" conductor	cemented with ready mix to surface
13-3/8" surface	800 sxs Premium Plus cement, 2% calcium chloride
9-5/8" intermediate	900 sxs Interfill "C" cement, 1/4# per sx Flocele 250 sxs Premium Plus cement
5-1/2" production	400 sxs Light Cement 480 sxs Super "H" cement .5% Halad, .4% CFR-3, 3# per sx Gilsonite

6. PROPOSED MUD SYSTEM:

<u>DEPTH</u>	<u>DESCRIPTION</u>	<u>MUD WEIGHT</u>	<u>VISCOSITY</u>	<u>WATER LOSS</u>
^{1675' 535} 0 - 1,500'	fresh water	8.6 - 8.8 ppg	28 - 30	NC
800' - 5,300'	fresh & brine water	8.4 - 10 ppg	28 - 34	NC
4,500 - 13,200'	fresh/brine/mud	8.4 - 10.4 ppg	28 - 40	6-8 cc

7. TESTING, LOGGING AND CORING PROGRAM:

Samples	10' Samples from 5,300'
DST's	Possible Morrow
Logging	Density, Lateral, Resistivity
Coring	Possible sidewall core

8. ABNORMAL PRESSURES AND TEMPERATURES:

None anticipated. Maximum bottom hole pressure should not exceed 5,200 psi.

ANTICIPATED STARTING DATE AND DURATION OF OPERATIONS:

It is planned that operations will commence on August 25, 2004. Drilling should be completed within 45 days followed by completion operations.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

PRESTON EXPLORATION, LLC

Imperial "6" Federal #1

I. HYDROGEN SULFIDE TRAINING

A. All regularly assigned personnel, contracted or employed by Preston Exploration, LLC will receive training from a qualified instructor in the following areas prior to commencing drilling potential hydrogen sulfide bearing formations in this well:

- 1.** The hazards and characteristics of hydrogen sulfide (H₂S).
- 2.** The proper use and maintenance of personal protective equipment and life support systems.
- 3.** The proper use of H₂S detectors, alarms, warning systems, briefing areas, evacuation procedures and prevailing winds.
- 4.** The proper techniques for first aid and rescue procedures.

B. In addition, supervisory personnel will be trained in the following areas:

- 1.** The effects of H₂S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
- 2.** Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.

3. The contents and requirements of the H₂S Drilling Operations Plan.
- C. There will be an initial training session just prior to encountering a known or probable H₂S zone (within 3 days or 500 feet) and weekly H₂S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H₂S Drilling Operations Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H₂S SAFETY EQUIPMENT AND SYSTEMS

Note: All H₂S safety equipment and systems will be installed, tested and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H₂S.

- A. Well Control Equipment.
1. Flare line with continuous pilot.
 2. Choke manifold with a minimum of one remote choke.
 3. Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.
 4. Auxiliary equipment to include: annular preventer, mud-gas separator, rotating head and flare.

B. Protective Equipment for Essential Personnel:

Mark II Surviveair 30-minute units located in the dog house and at briefing areas, as indicated on well site diagram.

- C. H₂S Detection and Monitoring Equipment:
1. Two portable H₂S monitors positioned on location for best coverage and response. These units have warning lights and audible sirens when H₂S levels of 20 ppm are reached.
 2. One portable SO₂ monitor positioned near flare line.

D. Visual Warning Systems

1. Wind direction indicators are shown on well site diagram.

2. Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used when appropriate. See example attached.

E. Mud Program

1. The Mud Program has been designed to minimize the volume of H₂S circulated to the surface. Proper mud weights, safe drilling practices and the use of H₂S scavengers will minimize hazards when penetrating H₂S bearing zones.
2. A mud-gas separator will be utilized as needed.

F. Metallurgy:

All drill strings, casing, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and line and valves shall be suitable for H₂S service.

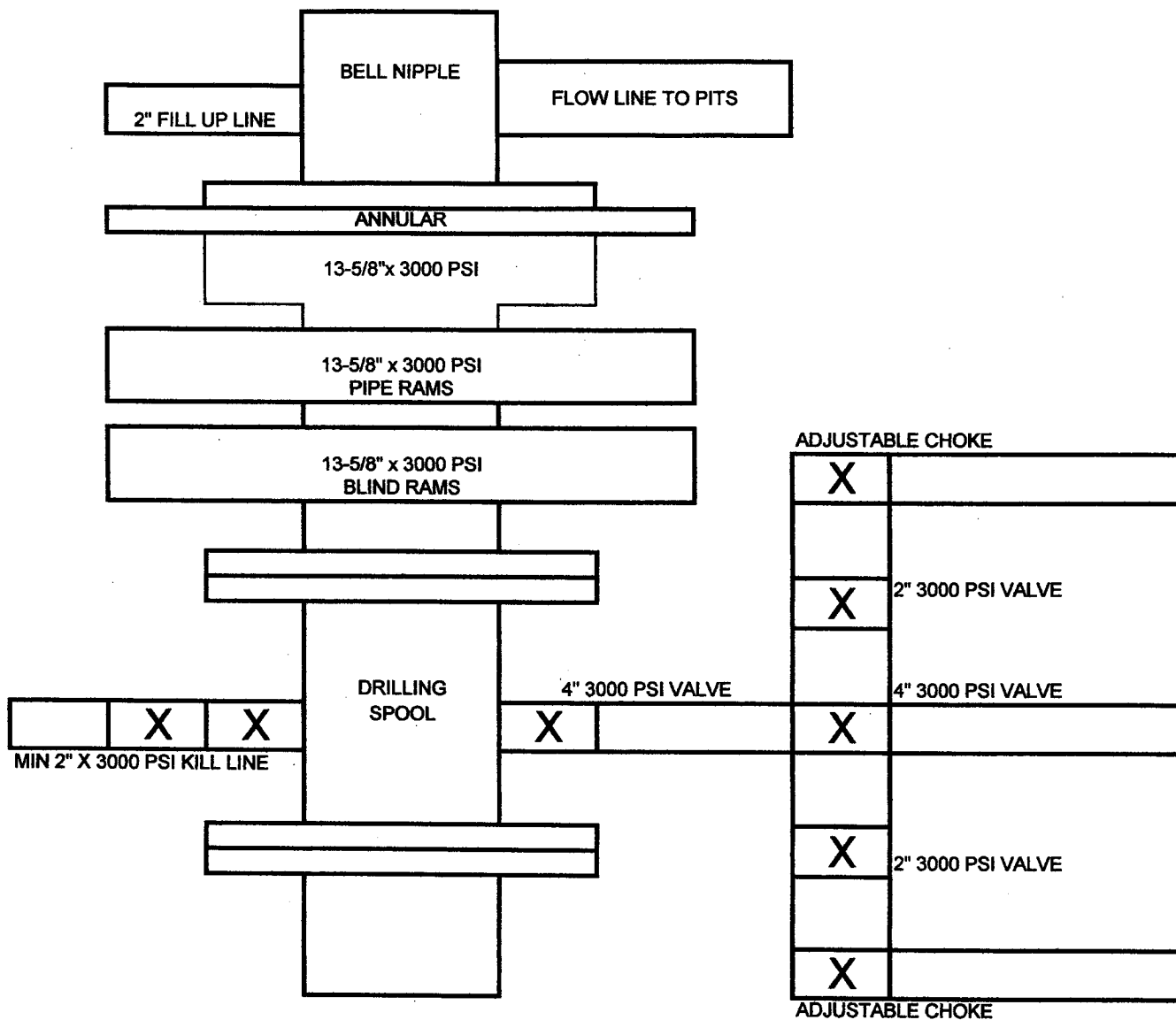
G. Communication:

Cellular telephone communications in company vehicles, rig floor and mud logging trailer.

H. Well Testing:

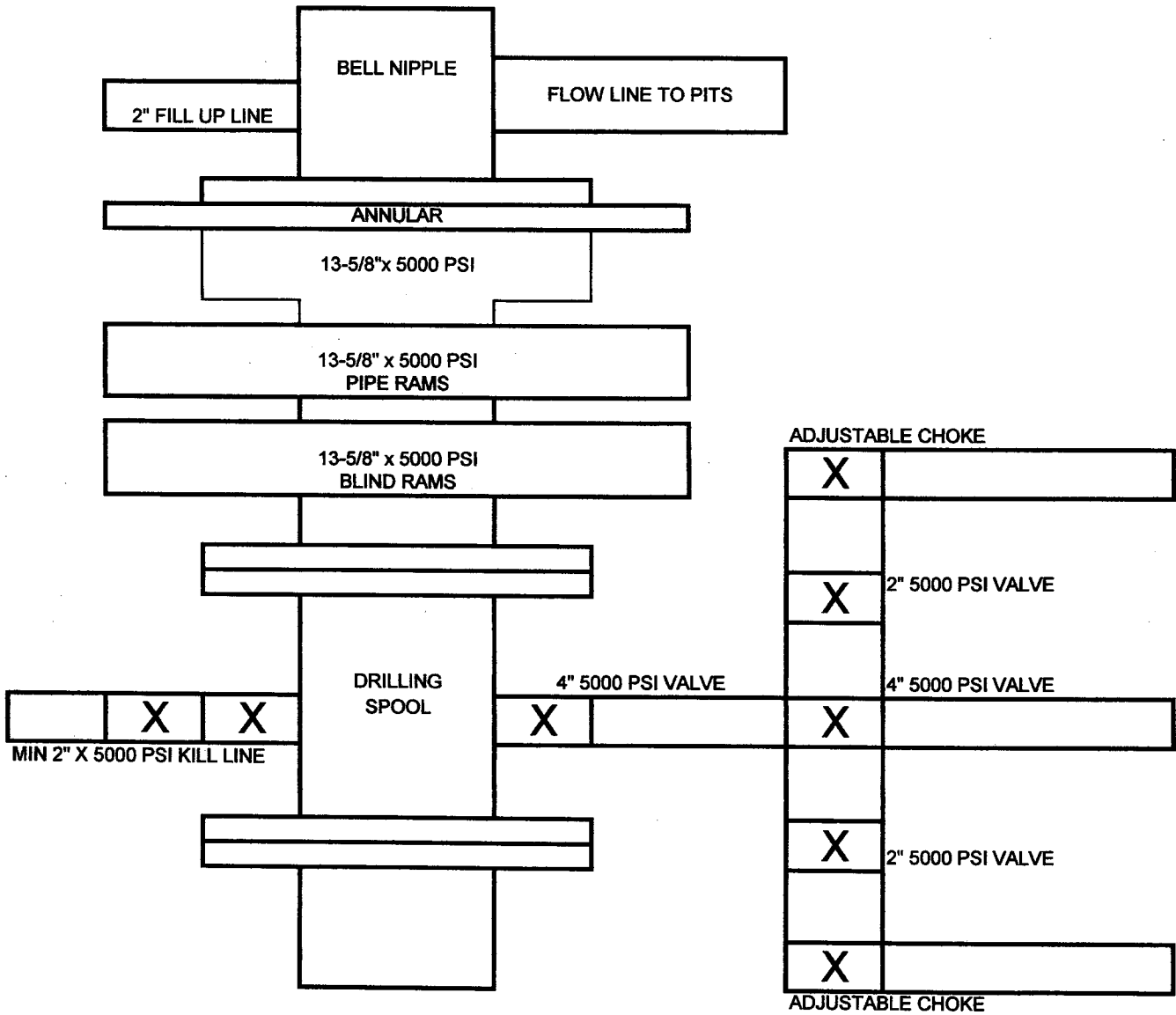
Drill stem testing will be performed with a minimum number of personnel in the immediate vicinity, which are necessary to safely and adequately conduct the test. The drill stem testing and an H₂S environment will be conducted during the daylight hours.

BOP SCHEMATIC FOR
12-1/4" HOLE



Preston Exploration, LLC
Imperial 6 Federal #1
Lea County, New Mexico

BOP SCHEMATIC FOR
8-1/2" HOLE



Preston Exploration, LLC
Imperial 6 Federal #1
Lea County, New Mexico

RECEIVED

United States Department of the Interior

Bureau of Land Management 2004 AUG 19 AM 10:02

Roswell Field Office

2909 Second Street

Roswell, New Mexico 88201-1287

BLM FAX 505-251-6000
POWELL OFFICE

Statement Accepting Responsibility for Operations

Operator Name: Preston Exploration, LLC
Street or Box: P. O. Box 7520
City, State: The Woodlands, Texas
Zip Code: 77387

The undersigned accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Lease No: NM 110837

Legal Description of Land:

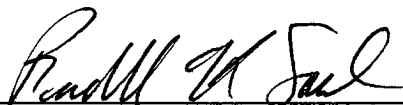
Township 21 South, Range 33 East, Lea County, New Mexico

Lots 1, 2, 3, 4, 5, 6, 7, and 8 of Section 6

Bond Coverage:

Statewide Oil and Gas Surety Bond, Preston Exploration, LLC (Principal)

BLM Bond File No.: NMB 000223



Randell K. Ford
Agent
August 18, 2004