

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

N.M. Oil Cons. Div. 2
1301 W. Grand Ave.
Alamogordo, NM 88210
SUBMIT IN TRIPLICATE
(Other instructions on reverse side)

I-14
FORM APPROVED
OMB NO. 1004-0136

Expires: February 28, 1995

5. LEASE DESIGNATION AND SERIAL NO.

NM 14124

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME, WELL NO.

Marquardt 12 Penn Federal No.2

9. API WELL NO.

30-015-34329

10. FIELD AND POOL, OR WILDCAT

White City; Penn

11. SEC. T., R., M., BLOCK AND SURVEY

OR AREA

Sec. 12 T25S R26E

12. COUNTY OR PARISH

Eddy

13. STATE

NM

1a. TYPE OF WORK

DRILL ☒

DEEPEN ☐

1b. TYPE OF WELL

OIL ☐

GAS ☒

SINGLE ☐

MULTIPLE ☐

WELL

WELL

OTHER

ZONE

ZONE

2. NAME OF OPERATOR

Gruy Petroleum Management Co.

3. ADDRESS AND TELEPHONE NO.

P.O. Box 140907 Irving TX 75014 972-401-3111

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)

2310' FNL & 1330' FEL Section 12-25S-26E

RECEIVED

JUL 05 2005

OCD-ARTESIA

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*

17 miles South of Carlsbad

15. DISTANCE FROM PROPOSED*
LOCATION TO NEAREST
PROPERTY OR LEASE LINE, T.O.
(Also to nearest drlg. unit line, if any)

1330'

16. NO. OF ACRES IN LEASE

1280

17. NO. OF ACRES ASSIGNED
TO THIS WELL

640

18. DISTANCE FROM PROPOSED LOCATION*
TO NEAREST WELL, DRILLING COMPLETED,
OR APPLIED FOR, ON THIS LEASE, FT.

2134'

19. PROPOSED DEPTH

13000'

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)

3236' GR

22. APPROX. DATE WORK WILL START*

06-30-05

Carlsbad Controlled Water Basin

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2" WITNESS	J-55 13 3/8"	54.5 #	200'	225 sx circulate
12 1/4"	NS-110 9 5/8"	40 #	3200'	1000 sx circulate
8 3/4"	P-110 5 1/2"	17 #	13000'	1920 sx TOC 2700'

From the base of the surface pipe through the running of production casing, the well will be equipped with a 5000 - psi BOP system. We are requesting a variance for the 13 3/8" surface casing and BOP testing from Onshore Order No. 2, which states all casing strings below the conductor, shall be pressure tested to .22 psi per foot or 1500 # whichever is greater, but not to exceed 70% of the manufactures stated maximum internal yield. During the running of the surface pipe and the drilling of the intermediate hole we do not anticipate any pressures greater than 1000 # and are requesting a variance to test the 13 3/8" casing and BOP system to 1000 # psi, and use rig pumps instead of an independent service company.

IN ABOVE SPACE, DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24 SIGNED Zeno Farris TITLE Mgr. Ops. Admin DATE 06-06-05

(This space for Federal or State office use)

PERMIT No.

APPROVAL DATE

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:

APPROVED BY /s/ Joe G. Lara

TITLE FIELD MANAGER

DATE

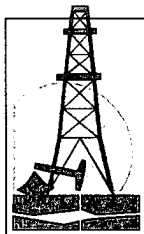
JUL 01 2005

APPROVAL FOR 1 YEAR

*See Instructions On Reverse Side
Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

5-17
9.5



Gruy Petroleum Management Co.

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907

A wholly-owned subsidiary of Magnum Hunter Resources, Inc., a NYSE company MHR

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

Bureau of Land Management
2909 West 2nd Street
Roswell New Mexico 88201-2019
Attn: Ms. Linda Askwig

Gruy Petroleum Management Co. accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land, or portion thereof, as described below:

Lease No.: NM - 14124

Legal Description: All Sec 12, T25S-R26E
Containing 640 acres, Eddy County New Mexico

Formation (S): Morrow/Pennsylvanian

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

Authorized Signature: Zeno Farris
Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: 06/06/05

Application to Drill

Gruy Petroleum Management Co.
Marquardt 12 Penn Federal No. 2
Unit Letter G Section 12
T25S - R26E Eddy County, NM

In response to questions asked under Section II B of Bulletin NTL-6 the following information is provided for your consideration:

1 Location: 2310' FNL & 1330' FEL Sec. 1 2 25S 26E

2 Elevation above sea level: GR 3236'

3 Geologic name of surface formation: Quaternary Alluvium Deposits

4 Drilling tools and associated equipment: Conventional rotary drilling rig using fluid as a circulating medium for solids removal.

5 Proposed drilling depth: 13000'

6 Estimated tops of geological markers:

T/Salt	200'	Cisco Canyon	9928
B/Salt	800'	Strawn	10078
Delaware	1500	Atoka	10388
Bone Spring	6168	Morrow	11,158
Wolfcamp	8098	Barnett	11,768

7 Possible mineral bearing formation:

Strawn	Gas
Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-200'	13 3/8"	54.5	8-R	ST&C	J-55
12 1/4"	0-3200'	9 5/8"	40	8-R	ST&C	NS-110
7 7/8"	0-13000'	5 1/2"	17	8-R	ST&C	N-80 / S-95

Application to Drill

Gruy Petroleum Management Co.
Marquardt 12 Penn Federal No. 2
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T25S - R26E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 200' of 13 3/8" J-55 54.5 ST&C casing. Cement with 225 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 3200' of 9 5/8" NS-110 40# ST&C casing or casing sufficient to reach the base of the reef complex. Cement in two stages, first stage cement with 775 Sx. Of Class POZ/C Cement + additives, second stage cement with 225 Sx. Of Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 13000' of 5 1/2" NP-80 / S-95 17# ST&C casing. Cement in two stages, first stage cement with 870 Sx. of Class POZ/C Cement + additives. Second stage cement with 1050 Sx of Class "C" Estimated top of cement 2700'.

10 Pressure control Equipment:

Exhibit "E". A 13 3/8" 5000 PSI working pressure B.O.P. consisting of one set of blind rams and one set of pipe rams and a 5000 # annular type preventer. A choke manifold and 120 gallon accumulator with floor and remote operating stations and auxiliary power system. Rotating head below 6000'. A kelly cock will be installed and maintained in operable condition and a drill string safety valve in the open position will be available on the rig floor. BOP unit will be hydraulically operated. BOP will be nipped up on the 9 5/8" casing and will be operated at least once a day while drilling and the blind rams will be operated when out of hole during trips. No abnormal pressure or temperature is expected while drilling.

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 200'	8.4 - 8.6	30 - 32	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
200' - 3200'	9.7 - 10.0	28 - 29	May lose circ	Brine water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
3200' - 8300'	8.4 - 9.9	28 - 29	NC	Fresh water. Paper for seepage. Lime for pH (9 - 9.5)
8300' - 10000'	8.45 - 8.9	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 13000'	8.9 - 9.7	29 - 45	NC	XCD Polymer mud system.

Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. In order to run DST's, open hole logs, and casing, the viscosity and water loss may have to be adjusted in order to meet these needs. Mud system monitoring equipment with derrick floor indicators and visual/audio alarms shall be installed and operative prior to drilling into the Wolfcamp formation. This equipment will remain in use until production casing is run and cemented.

Application to Drill

Gruy Petroleum Management Co.
Marquardt 12 Penn Federal No. 2
Unit Letter G Section 12
T25S - R26E Eddy County, NM

12 Testing, Logging and Coring Program:

- A. Mud logging program: One-man unit from 8000' to TD
- B. Electric logging program: CNL / LDT / CAL / GR, DLL / CAL / GR
- C. No DST's, or cores are planned at this time.

13 Potential Hazards:

No abnormal pressures or temperatures or H₂S gas are expected. Adequate flare lines will be installed off the mud / gas separator where gas may be flared safely. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 4000 PSI, estimated BHT 190.

14 Anticipated Starting Date and Duration of Operations:

Road and location construction will begin after BLM approval of APD. Anticipated spud date as soon as approved. Drilling expected to take 35 - 45 days. If production casing is run an additional 30 days will be required to complete and construct surface facilities.

15 Other Facets of Operations:

After running casing, cased hole gamma ray neutron collar logs will be run from total depth over possible pay intervals. The Strawn / Morrow / Atoka pay will be perforated and stimulated. The well will be tested and potentialed as a gas well.

Hydrogen Sulfide Drilling Operations Plan

- 1 All Company and Contract personnel admitted on location must be trained by a qualified H2S safety instructor to the following:
 - A. Characteristics of H2S
 - B. Physical effects and hazards
 - C. Proper use of safety equipment and life support systems.
 - D. Principle and operation of H2S detectors, warning system and briefing
 - E. Evacuation procedure, routes and first aid.
 - F. Proper use of 30 minute pressure demand air pack.
- 2 H2S Detection and Alarm Systems
 - A. H2S detectors and audio alarm system to be located at bell nipple, end of blooie line (mud pit) and on derrick floor or doghouse.
- 3 Windsock and/or wind streamers
 - A. Windsock at mudpit area should be high enough to be visible.
 - B. Windsock at briefing area should be high enough to be visible.
- 4 Condition Flags and Signs
 - A. Warning sign on access road to location.
 - B. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure and danger. Red flag, danger, H2S present in dangerous concentration. Only emergency personnel admitted to location
- 5 Well control equipment
 - A. See exhibit "E"
- 6 Communication
 - A. While working under masks chalkboards will be used for communication.
 - B. Hand signals will be used where chalk board is inappropriate.
 - C. Two way radio will be used to communicate off location in case of emergency help is required. In most cases cellular telephones will be available at most drilling foreman's trailer or living quarters.
- 7 Drillstem Testing Not Anticipated

Hydrogen Sulfide Drilling Operations Plan

- 8 Drilling contractor supervisor will be required to be familiar with the effects H₂S has on tubular goods and other mechanical equipment.
- 9 If H₂S is encountered, mud system will be altered if necessary to maintain control of formation. A mud gas separator will be brought into service along with H₂S scavengers if

Surface Use Plan

Gruy Petroleum Management Co.
Marquardt 12 Penn Federal No. 2
Unit Letter G Section 12
T25S - R26E Eddy County, NM

- 1 Existing Roads: Area maps, Exhibit "B" is a reproduction of Lea Co. General Highway Map. Exhibit "C" is a reproduction of a USGS Topographic Map, showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.
 - A. Exhibit "A" shows the proposed well site as staked.
 - B. From the intersection of County Road # 720 (Black River Rd.) and County Road # 742 (Forehand Rd.) Go south on Co. Rd. 742 for 4.0 miles. Turn right, west and go 1.0 miles. Turn left SW and go for 1.5 miles. Turn left SE and go 0.5 miles. Veer to the right and continue on south for 0.9 miles to a proposed road survey. Follow proposed road survey southeast 0.5 to this location.
- 2 PLANNED ACCESS ROADS: 2787' of access road will be constructed.
- 3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"
 - A. Water wells - None Know
 - B. Disposal wells - None known
 - C. Drilling wells - None known
 - D. Producing wells - As shown on Exhibit "A"
 - E. Abandoned wells - As shown on Exhibit "A"

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., HOBBS, NM 88240

Energy, Minerals and Natural Resources Department

Form C-102

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION

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

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code 87280	Pool Name White City, Penn (Gas)
Property Code	Property Name MARQUARDT 12 PENN FEDERAL	Well Number 2
OGRID No. 162683	Operator Name GRUY PETROLEUM MANAGEMENT COMPANY	Elevation 3236'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	12	25-S	26-E		2310	NORTH	1330	EAST	EDDY

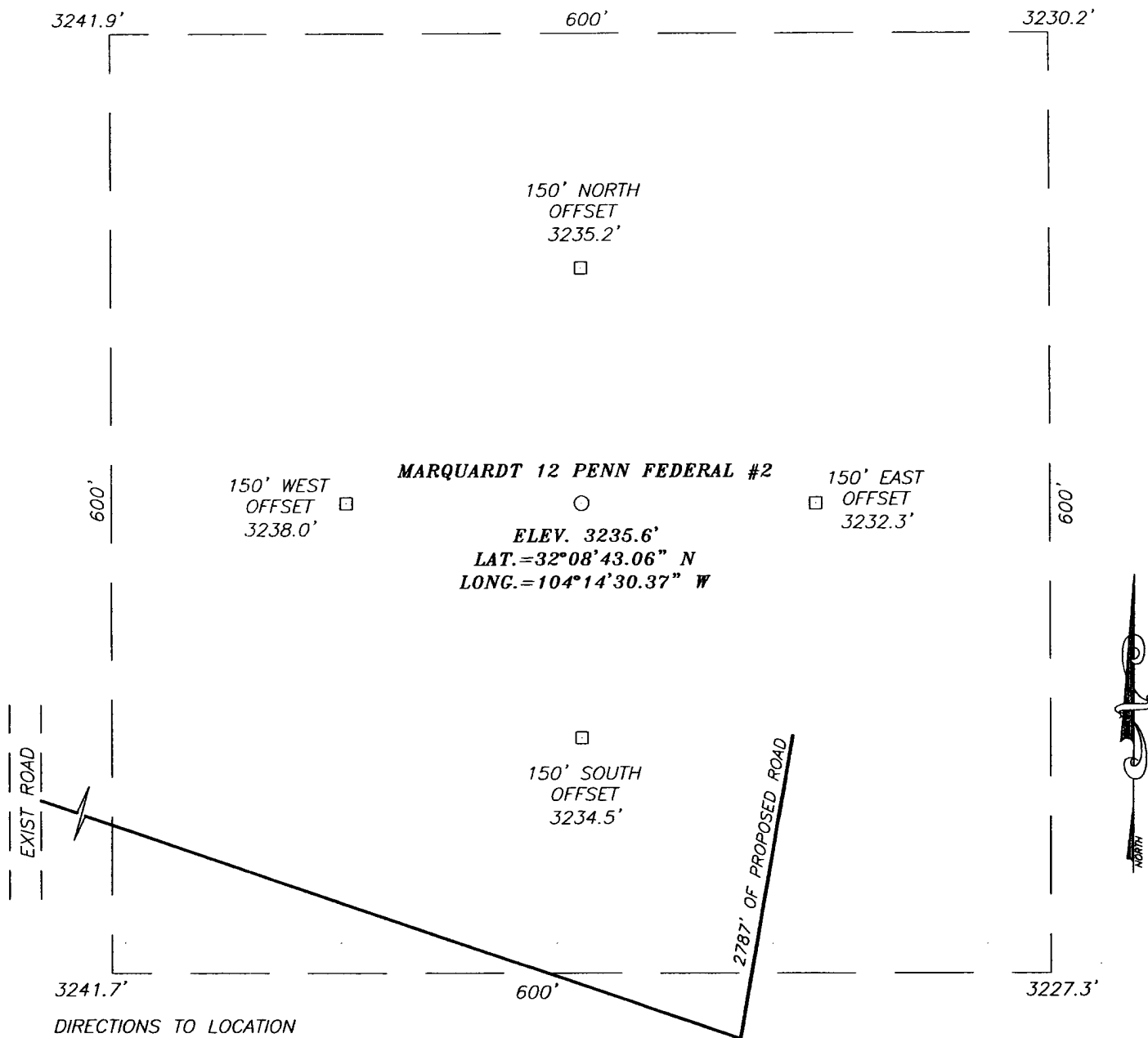
Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 640	Joint or Infill Y	Consolidation Code	Order No.						

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

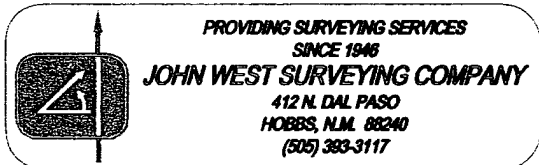
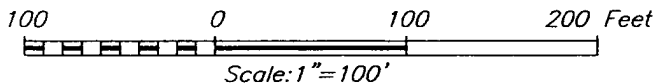
<p>Marquardt 12 Penn Fed #2</p> <p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=416591.7 N X=528339.3 E</p> <p>LAT.=32°08'43.06" N LONG.=104°14'30.37" W</p>		<h3>OPERATOR CERTIFICATION</h3> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Zeno Farris</i></p> <p>Signature</p> <p>Zeno Farris</p> <p>Printed Name</p> <p>Mgr Operations Admin</p> <p>Title</p> <p>June 7, 2005</p> <p>Date</p>
<p>Marquardt 12 Penn Fed #1</p> <p>1760'</p>		<h3>SURVEYOR CERTIFICATION</h3> <p>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.</p> <p>MAY 12, 2005</p> <p>Date Surveyed</p> <p>Signature & Seal of Professional Surveyor</p> <p><i>GARY S. EDISON</i></p> <p>05.11.0733</p> <p>Certificate No. GARY S. EDISON 12641</p>

SECTION 12, TOWNSHIP 25 SOUTH, RANGE 26 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF CO. RD. #720 (BLACK RIVER RD.) AND CO. RD. #742 (FOREHAND RD.) GO SOUTH ON CO. RD. #742 FOR APPROX. 4.0 MILES. TURN RIGHT (WEST) AND GO APPROX. 1.0 MILES. TURN LEFT (SW) AND GO APPROX. 1.5 MILES. TURN LEFT (SE) AND GO APPROX. 0.5 MILES, VEER TO THE RIGHT AND CONTINUE ON SOUTH FOR APPROX. 0.9 MILES TO A PROPOSED ROAD SURVEY. FOLLOW PROPOSED ROAD SURVEY SOUTHEAST APPROX. 0.5 MILES EAST TO THIS LOCATION.

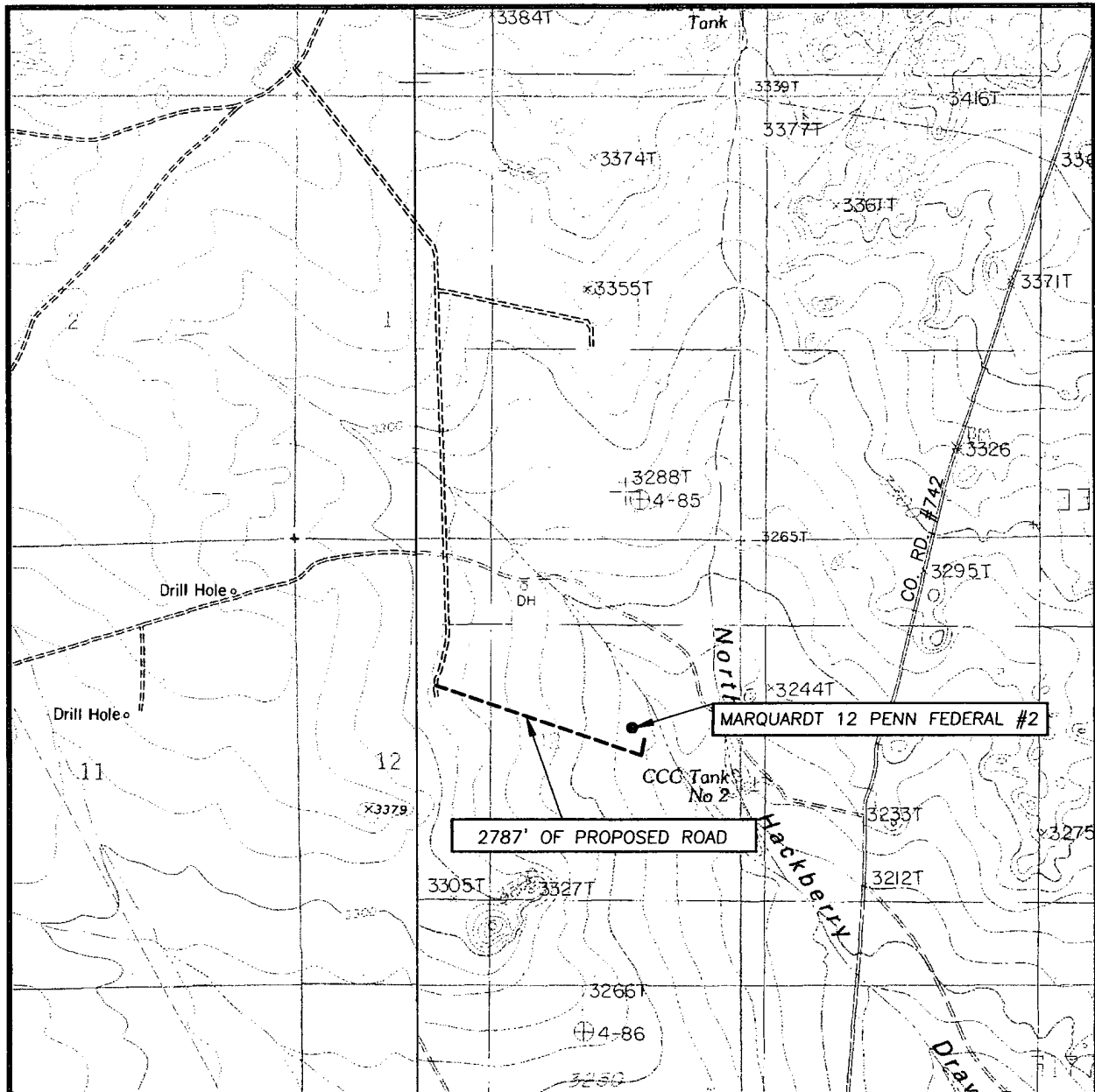


GRUY PETROLEUM MANAGEMENT COMPANY

MARQUARDT 12 PENN FEDERAL #2 WELL
 LOCATED 2310 FEET FROM THE NORTH LINE
 AND 1330 FEET FROM THE EAST LINE OF SECTION 12,
 TOWNSHIP 25 SOUTH, RANGE 26 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 05/12/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.0733	Dr By: J.R.
Date: 05/25/05	Disk: CD#5
05110733	Scale: 1"=100'

LOCATION VERIFICATION MAP

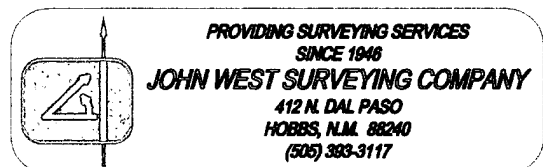


SCALE: 1" = 2000'

CONTOUR INTERVAL:
BOND DRAW, N.M. - 10'
BLACK RIVER VILLAGE, N.M. - 20'

SEC. 12 TWP. 25-S RGE. 26-E
SURVEY N.M.P.M.
COUNTY EDDY
DESCRIPTION 2310' FNL & 1330' FEL
ELEVATION 3236'
OPERATOR GRUY PETROLEUM
MANAGEMENT COMPANY
LEASE MARQUARDT 12 PENN FEDERAL
U.S.G.S. TOPOGRAPHIC MAP
BOND DRAW, N.M.

Exhibit C



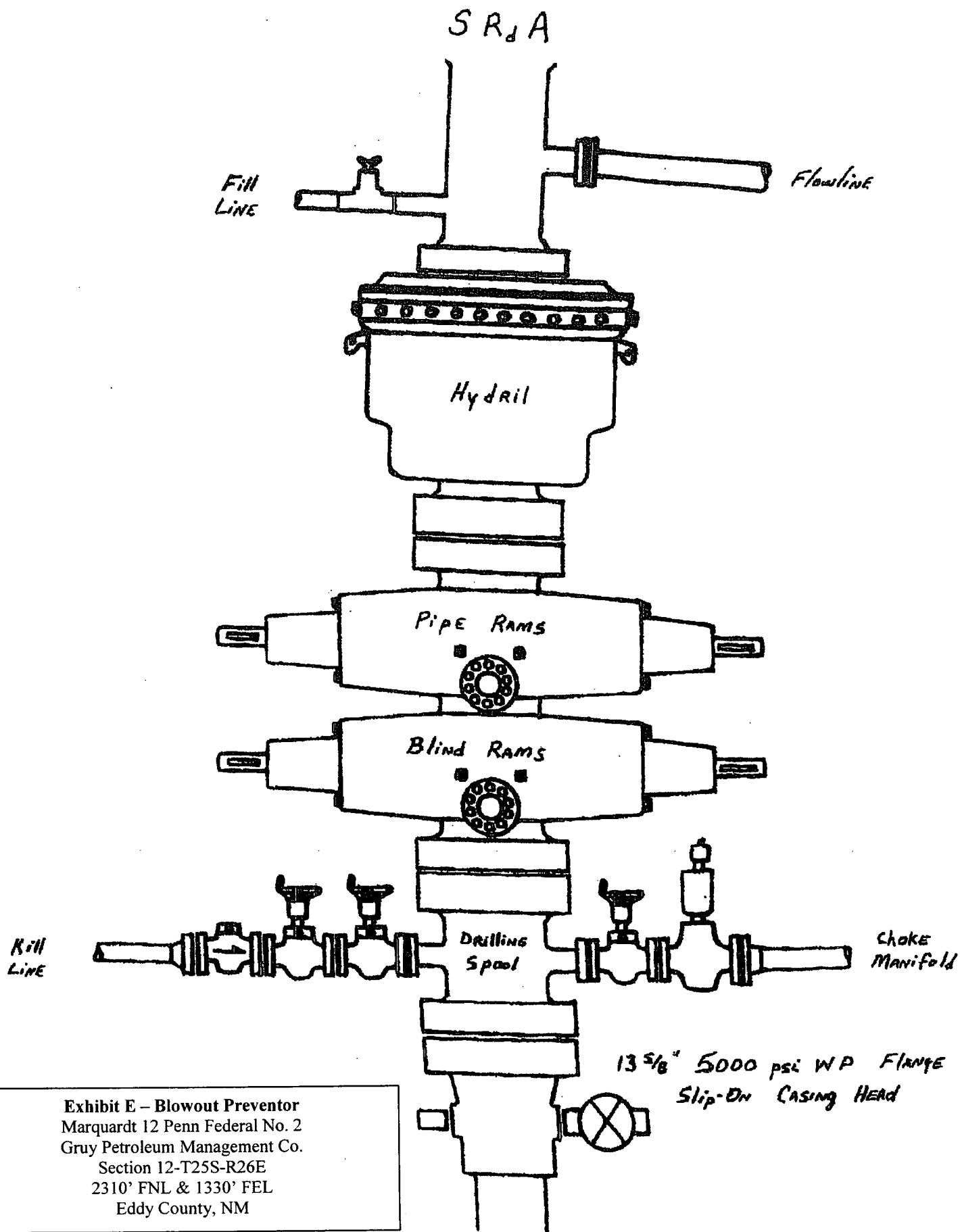


Exhibit E – Blowout Preventor
 Marquardt 12 Penn Federal No. 2
 Gruy Petroleum Management Co.
 Section 12-T25S-R26E
 2310' FNL & 1330' FEL
 Eddy County, NM

DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE

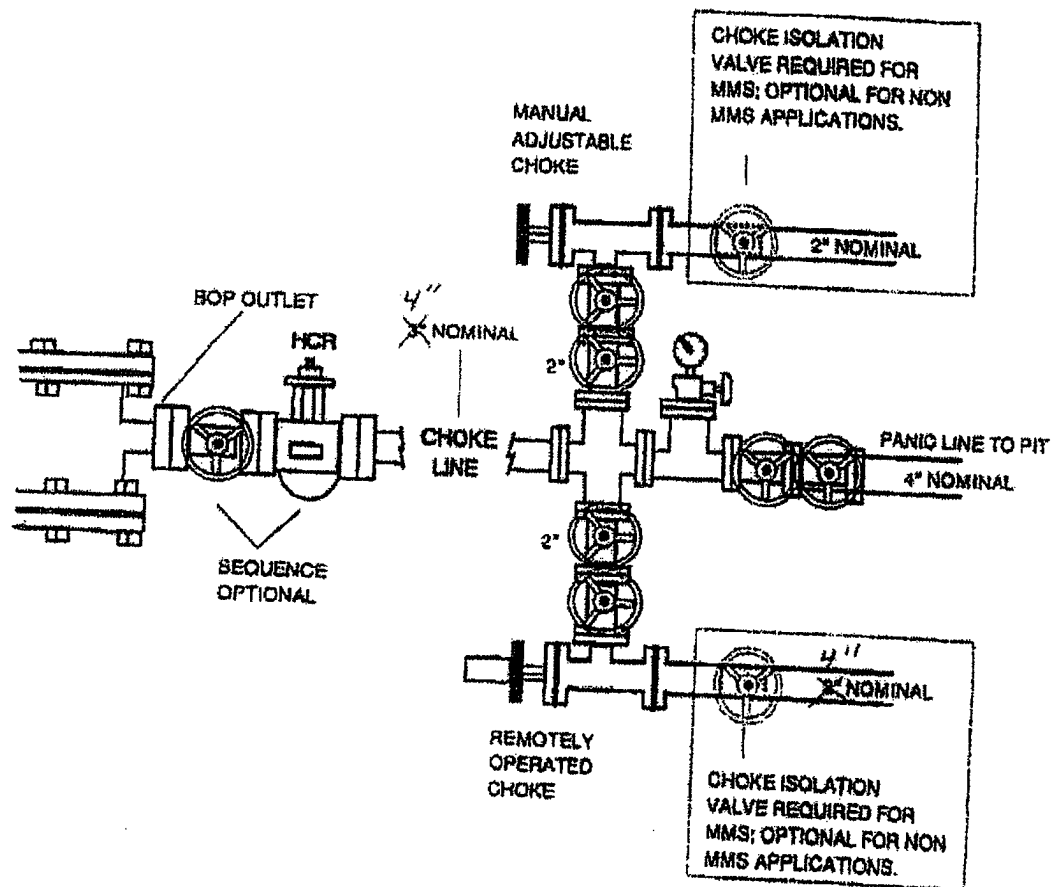


Exhibit E1 – Choke Manifold Diagram
Marquardt 12 Penn Federal No. 2
Gruy Petroleum Management Co.
Section 12-T25S-R26E
2310' FNL & 1330' FEL
Eddy County, NM