Form 3160-3
(July 1992)

N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210

SUBMIT IN TRIPLICATE: (Other instructions on reverse side)

FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

5. LEASE DESIGNATION AND SERIAL NO.: NMNM1487

6. IF INDIAN, ALLOTTES OR TRIBE NAME:

1a. TYPE OF WORK: DRILL ☒ 0930 DEEPEN ☐

1b. TYPE OF WELL: OIL WELL ☐ GAS WELL ☒ OTHER SINGLE ZONE ☒ MULTIPLE ZONE ☐

7. UNIT AGREEMENT NAME:

2. NAME OF OPERATOR: Gruy Petroleum Management Co. 162683

8. FARM OR LEASE NAME, WELL NO.: Federal 35050
Muskegon 17 State Com No. 2

3. ADDRESS AND TELEPHONE NO.: P.O. Box 140907 Irving TX 75014 972-401-3111

RECEIVED
AUG 19 2005
OCD-ARTESIA

9. API WELL NO.: 30-015-34283

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
660' FSL & 660' FEL

10. FIELD AND POOL, OR WILDCAT: Empire; Morrow, South

11. SEC. T.,R.,M., BLOCK AND SURVEY OR AREA: Sec. 17 T17S R29E

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: 7 miles west of Loco Hills

12. COUNTY OR PARISH: Eddy

13. STATE: NM

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O (Also to nearest drlg. unit line, if any): 660'

16. NO. OF ACRES IN LEASE: 320

17. NO. OF ACRES ASSIGNED TO THIS WELL: S/2 320

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

19. PROPOSED DEPTH: 11500'

20. ROTARY OR CABLE TOOLS: Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.): 3602' GR Roswell Controlled Water Basin

22. APPROX. DATE WORK WILL START*: 10-15-05

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE,SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	H-40 13 3/8"	48 #	250 WITNESS	390 sx circulate
12-1/4"	J-55 9 5/8"	40 #	2600'	1200 sx circulate
8-3/4"	P-110 5 1/2"	17#	11500'	1620 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 0.22 psi per foot or 1500#, whichever is greater, but not to exceed 70% of the manufacturer's 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 we 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 07-20-05

(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 AUG 17 2005

*See Instructions On Reverse Side

APPROVAL FOR 1 YEAR

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.

Salt 29.5

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

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

State of New Mexico
Energy, Minerals and Natural Resources Department

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	Pool Code	Pool Name
		Empire; Morrow, South

Property Code	Property Name	Well Number
	MUSKEGON 17 STATE COM	2

OGRID No.	Operator Name	Elevation
162683	GRUY PETROLEUM MANAGEMENT COMPANY	3602'

Surface Location

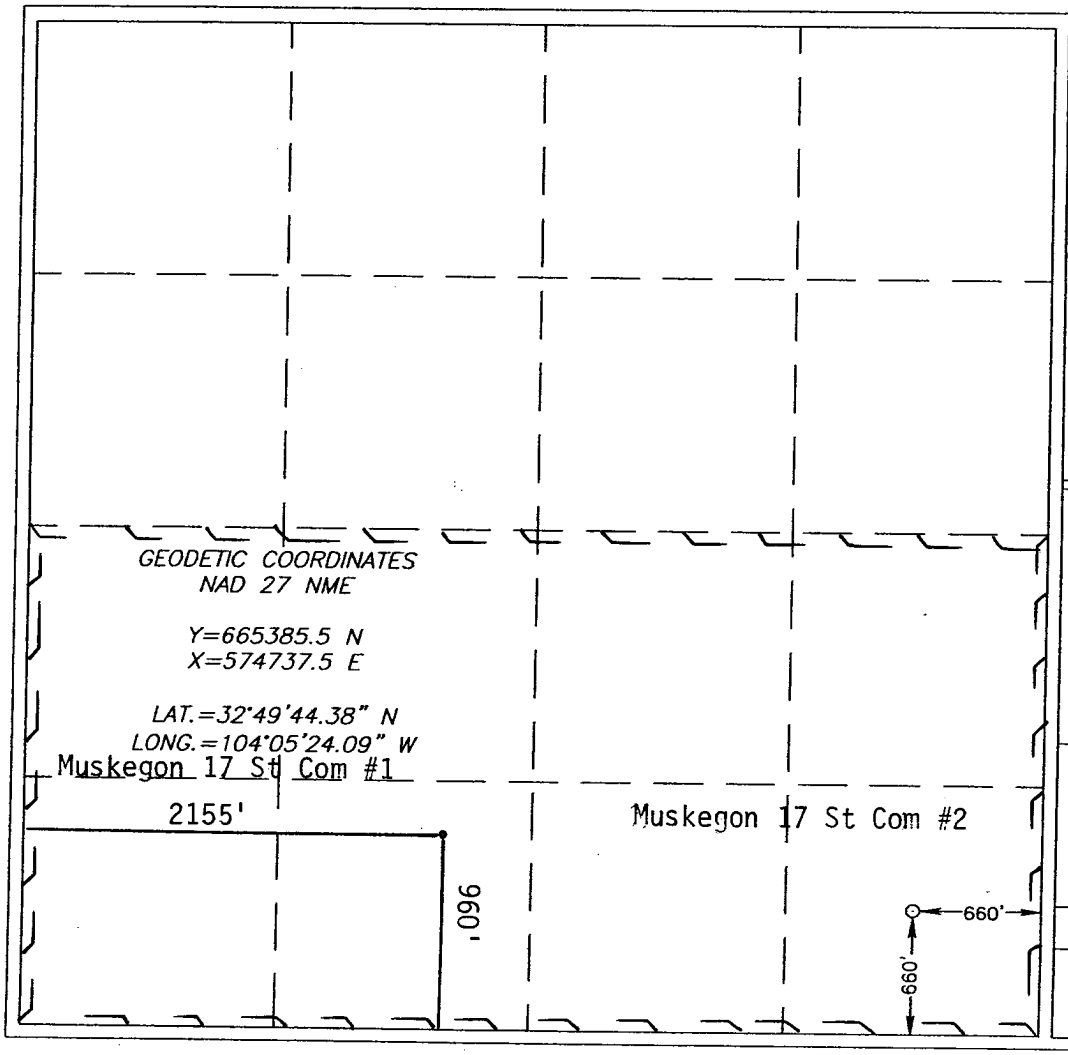
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	17	17-S	29-E		660	SOUTH	660	EAST	EDDY

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	Joint or Infill	Consolidation Code	Order No.
320	Y	C	

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



OPERATOR CERTIFICATION

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

Zeno Farris
Signature

Zeno Farris
Printed Name

Mgr Operations Admin
Title

July 22, 2005
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 supervison, and that the same is true and correct to the best of my belief.

JULY 12, 2005
Date Surveyed DEL

Signature & Seal of Professional Surveyor

GARY G. EIDSON
NEW MEXICO
05.11.1092
REGISTERED PROFESSIONAL SURVEYOR
7/14/05

Certificate No. GARY EIDSON 12641

Application to Drill

Gruy Petroleum Management Co.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E 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: SHL 660' FSL & 660' FEL Sec 17-T17S-R29E

2 Elevation above sea level: 3602'

3 Geologic name of surface formation: Quaternery 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: 11500'

6 Estimated tops of geological markers:

Rustler	225'
San Andres	2400'
Wolfcamp	7290'
Strawn	9865'
Atoka	10115'
Morrow	10500'

7 Possible mineral bearing formation:

Grayburg/San Andres	Oil
Strawn	Gas
Atoka	Gas
Morrow	Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-250'	13 3/8"	48	8-R	ST&C	H-40
12 1/4"	0-2600'	9 5/8"	40	8-R	LT&C	J-55
8 3/4"	0-11500'	5 1/2"	17	8-R	LT&C	P-110

Application to Drill

Gruy Petroleum Management Co.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E Eddy County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 250 of 13 3/8" H-40 48# ST&C casing. Cement with 390 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 2600' of 9 5/8" J-55 40# LT&C casing Cement in two stages, first stage cement with 1000 Sx. Of Class POZ/C Cement + additives, second stage cement with 200 Sx. Of Class "C" + additives, circulate cement to surface.
5 1/2"	Production	Set 11500' of 5 1/2" P-110 17# LT&C casing. Cement in two stages, first stage cement with 1020 Sx. of Class POZ/C Cement + additives. Second stage cement with 600 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 nippled 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

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 250'	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.
250' - 2600'	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.
2600' - 8300'	8.4 - 9.9	28 - 29	NC	Brine 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' - 11500'	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.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E Eddy County, NM

12 Testing, Logging and Coring Program:

A. Mud logging program: Two - man unit from 2600' to TD

B. Electric logging program: CNL / LDT / CAL / GR, DLL / CAL / GR

C. No DSTs 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 175 .

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 Morrow pay will be perforated and stimulated. The well will be tested and potentialed as a gas well.

Hydrogen Sulfide Drilling Operations Plan

Gruy Petroleum Management Co.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E Eddy County, NM

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 flow 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

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

Gruy Petroleum Management Co.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E Eddy County, NM

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 seperator will be brought into service along with H2S scavengers if

Surface Use Plan

Gruy Petroleum Management Co.
Muskegon 17 State Com No. 2
Unit Letter P Section 17
T17S - R29E 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 US Hwy. #82 and Co. Rd. #211 (Old Loco), go North on Co. Rd. #211 approx. 1.2 miles. Turn Right (East) and go approx. 0.3 miles. Turn Right (Southeast) and go approx. 0.1 miles. This location is 150' North.

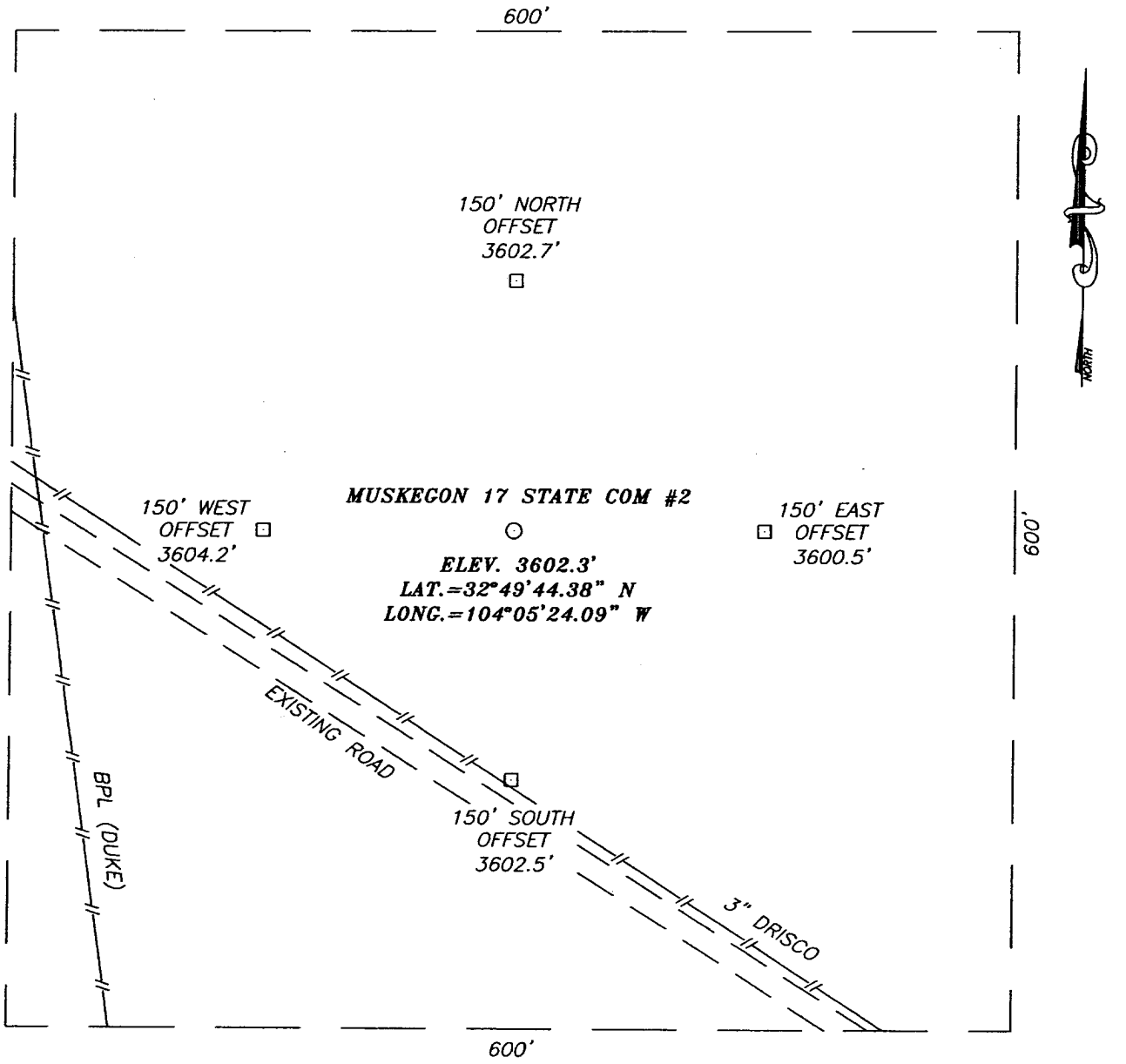
2 PLANNED ACCESS ROADS: No new access road will be constructed.

3 LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A"

A. Water wells -	None known
B. Disposal wells -	Mack Energy Muskegon 16 State Com # 1 SWD SE/4SW/4 section 16
C. Drilling wells -	None known
D. Producing wells -	As shown on Exhibit "A"
E. Abandoned wells -	As shown on Exhibit "A"

SECTION 17, TOWNSHIP 17 SOUTH, RANGE 29 EAST, N.M.P.M.,

EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. #82 AND CO. RD. #211 (OLD LOCO). GO NORTH ON CO. RD. #211 APPROX. 1.2 MILES. TURN RIGHT (EAST) AND GO APPROX. 0.3 MILES. TURN RIGHT (SE) AND GO APPROX. 0.1 MILES. THIS LOCATION IS 150' NORTH.

100 0 100 200 Feet

Scale:1"=100'

PROVIDING SURVEYING SERVICES SINCE 1946

JOHN WEST SURVEYING COMPANY

412 N. DAL PASO

HOBBS, N.M. 88240

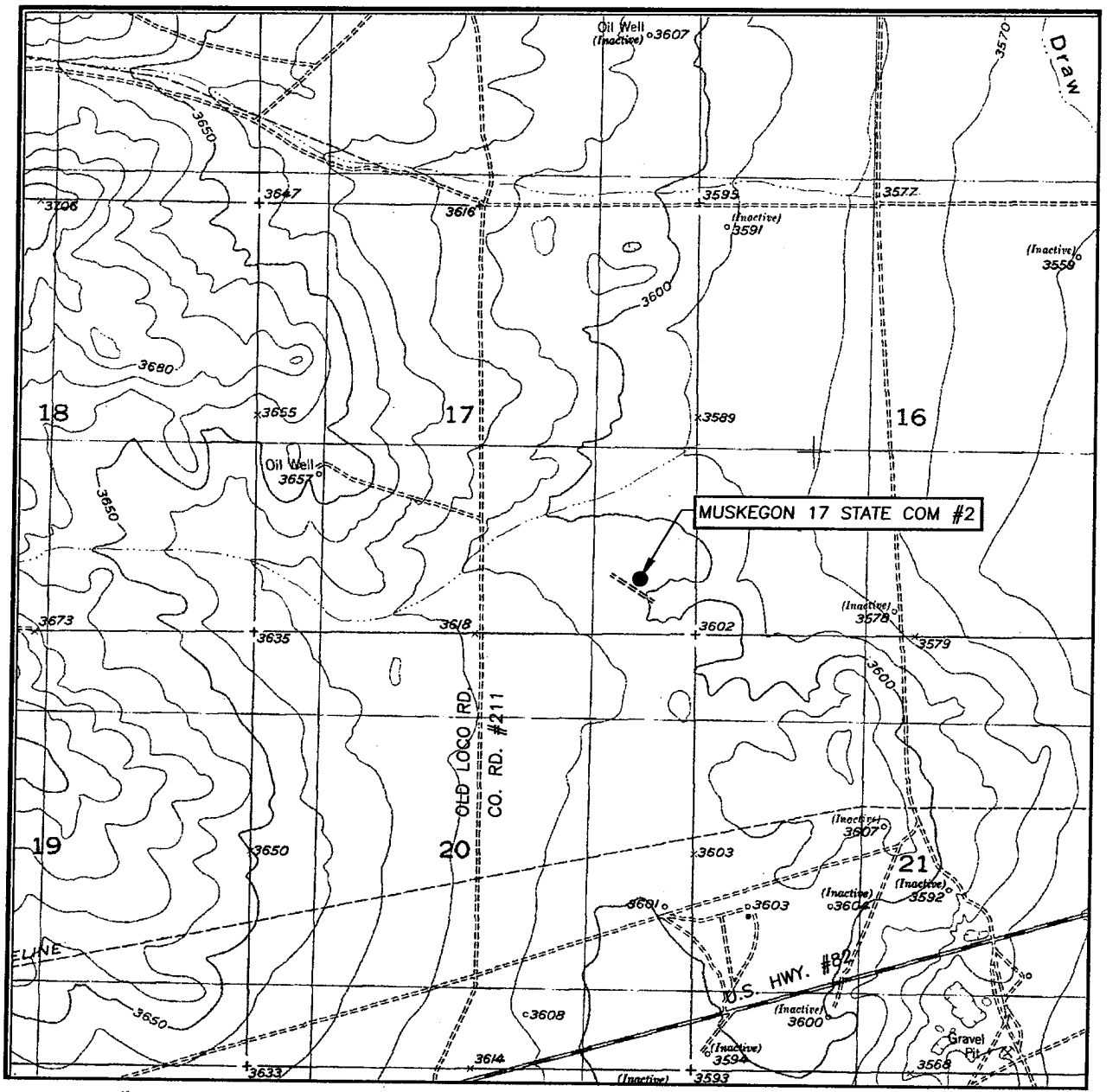
(505) 393-3117

GRUY PETROLEUM MANAGEMENT COMPANY

MUSKEGON 17 STATE COM #2 WELL
LOCATED 660 FEET FROM THE SOUTH LINE
AND 660 FEET FROM THE EAST LINE OF SECTION 17,
TOWNSHIP 17 SOUTH, RANGE 29 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO.

Survey Date: 07/12/05	Sheet 1 of 1 Sheets		
W.O. Number: 05.11.1092	Dr By: DEL	Rev 1:N/A	
Date: 07/12/05	Disk: CD#4	05111092	Scale:1"=100'

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
RED LAKE SE, N.M. – 10'

SEC. 17 TWP. 17-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FSL & 660' FEL

ELEVATION 3602'

OPERATOR GRUY PETROLEUM MANAGEMENT COMPANY

LEASE MUSKEGON 17 STATE COM

U.S.G.S. TOPOGRAPHIC MAP
RED LAKE SE, N.M.

PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117

Exhibit C

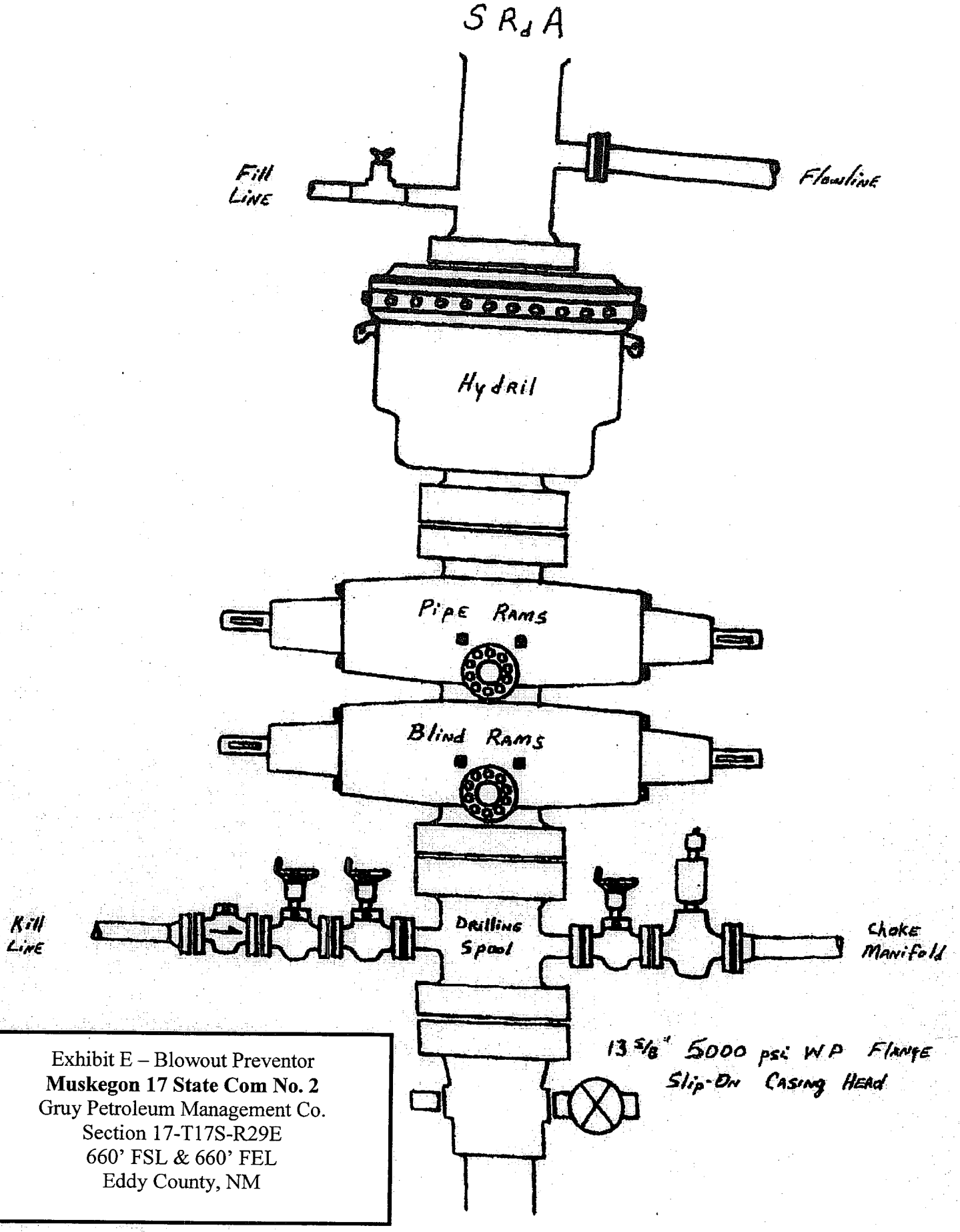


Exhibit E – Blowout Preventor
Muskegon 17 State Com No. 2
Gruy Petroleum Management Co.
Section 17-T17S-R29E
660' FSL & 660' FEL
Eddy County, NM

DRILLING OPERATIONS
CHOKE MANIFOLD
5M SERVICE

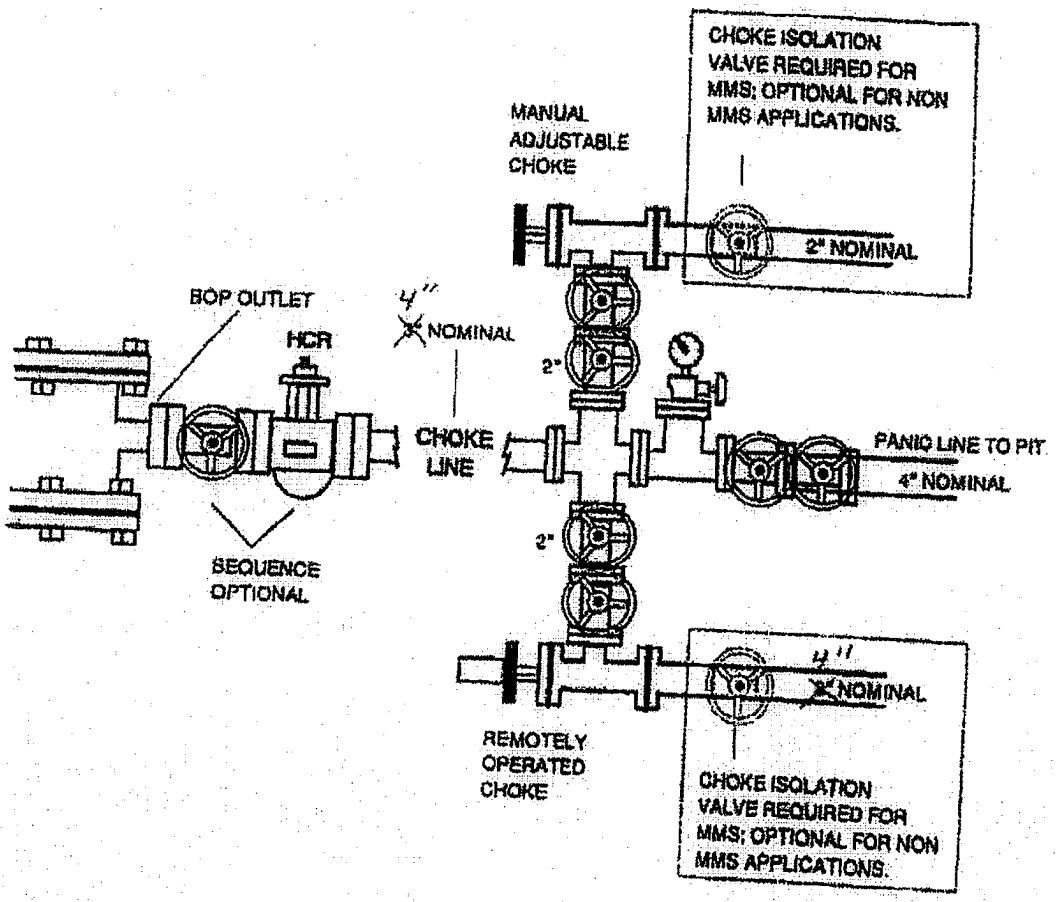


Exhibit E Cont'd – Choke Manifold
Muskegon 17 State Com No. 2
Gruy Petroleum Management Co.
Section 17-T17S-R29E
660' FSL & 660' FEL
Eddy County, NM

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.: NMNM - 1487

Legal Description: S/2 Sec 17, T17S-R29E
Containing 320 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: July 22, 2005

CONDITIONS OF APPROVAL - DRILLING

Operator's Name:	**Gruy Petroleum Management Co.**
Well Name & No.	**Muskegon 17 Federal Com #1**
Location:	**660' FSL, 660' FEL, Section 17, T. 17 S., R. 29 E., Eddy County, New Mexico**
Lease:	**NM-1487**

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

A. Well spud

B. Cementing casing: **13-3/8** inch **9-5/8** inch **5-1/2** inch

C. BOP tests

3. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

4. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15-day time frame.

5. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

6. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

II. CASING:

1. The **13-3/8** inch surface casing shall be set at **approximately 250 feet and cement circulated to the surface.** If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the **9-5/8** inch intermediate casing is **to be circulated to the surface**.

3. The minimum required fill of cement behind the **5-1/2** inch production casing is **to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval.**

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the **13-3/8** inch casing shoe and shall be tested as described.

NOTE: A waiver to test the 13-3/8" casing to 1000# with the rig pumps is granted.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **5000** psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the **Wolfcamp** formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

7/27/2005
acs