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		Hobbs, N	M. 88240		FOR	M APPROVED
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2. NAME OF OPERATOR	n Management Co.		T	1		Unit 17 Federal No. 2
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Application to Drill

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea 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: 1450' FNL & 1200' FWL Section 17-T19S-R34E
- 2 <u>Elevation above sea level:</u> GR 3754'

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- 3 Geologic name of surface formation: Quaternery Alluvium Deposits
- 4 <u>Drilling tools and associated equipment:</u> Conventional rotary drilling rig using fluid as a circulating medium for solids removal.
- 5 Proposed drilling depth: 14000'
- 6 Estimated tops of geological markers:

T/Salt	1658'	Strawn	12164
B/Salt	3232'	Atoka	12416
Delaware	6070'	Morrow	12,747
Bone Spring	8136'		
Wolfcamp	10861		

7 Possible mineral bearing formation:

Oil
Gas
Gas

8 Casing program:

Hole Size	Interval	Casing OD	Weight	Thread	Collar	Grade
17 1/2"	0-425'	13 3/8"	54.5	8-R	ST&C	J-55
12 1/4"	0-3500'	9 5/8"	40	8-R	ST&C	NS-110
7 7/8"	0-14000'	5 1/2"	17	8-R	ST&C	P-110

Application to Drill

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea County, NM

9 Cementing & Setting Depth:

13 3/8"	Surface	Set 425' of 13 3/8" J-55 54.5 # ST&C casing. Cement with 490 Sx. Of Class "C" cement + additives, circulate cement to surface.
9 5/8"	Intermediate	Set 3500' of 9 5/8" NS-110 40 # ST&C casing. Cement in two stages, first stage cement with 850 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 14000' of 5 1/2" P-110 17# ST&C casing. Cement in two stages, first stage cement with 1100 Sx. of Class POZ/C Cement + additives. Second stage cement with 520 Sx of Class "C" Estimated top of cement 2700'.
10 Pressure control Ec		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 - 450'	8.7 - 9.2	32 - 34	May lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
450' - 1600'	10 - 10.3	28 - 29	May lose circ	Fresh water. Add paper as needed to control seepage and add lime to control pH (9-10). Use high viscosity sweeps to clean hole.
1600' - 3500'	8.4 - 9.9	28 - 29	NC	Brine water. Paper for seepage. Lime for pH (9 - 9.5)
3500' - 8300'	8.4 - 9.9	28 - 29	NC	Brine water. Paper for seepage. Lime for pH (9 - 9.5)
8300' - 10000'	9.2 - 9.4	28 - 29	NC	Cut brine. Caustic for pH control.
10000' - 14000'	9.2 - 10.6	32 - 34	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. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea 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 <u>3000</u> PSI, estimated BHT <u>190</u>.

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 <u>35 - 45</u> 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 <u>Morrow / Atoka pay will be</u> perforated and stimulated. The well will be tested and potentialed as a gas well.

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea 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 junction of US HWY 62-180 and Lea Co. Road H-55, go Northeast on US 62 2.7 miles to a lease road, then North 2.3 miles, then 0.1 miles West, then 0.1 west, then Southwest 2.3 miles, then 2.3 miles North to proposed road to 7 Fed # 2, thence S62'02'08"E, 1176.9 feet; thence S38'20'01"E, 3534 feet to the proposed location.
- 2 PLANNED ACCESS ROADS: 1543.8' of 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 None known
- C. Drilling wells None known
- D. Producing wells As shown on Exhibit "A"
- E. Abandoned wells As shown on Exhibit "A"

Surface Use Plan

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea County, NM

4 If, on completion this well is a producer Gruy Petroleum Management Co. will furnish maps and/or plats showing on site facilities or off site facilities if needed. This will be accompanied by a Sundry Notice.

5 LOCATION AND TYPE OF WATER SUPPLY:

Water will be purchased locally from a commercial source and trucked over the access roads or piped in flexible lines laid on top of the ground.

6 SOURCE OF CONSTRUCTION MATERIAL:

If possible construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and transported over the access route as shown on Exhibit "C".

7 METHODS OF HANDLING WASTE MATERIAL:

- A. Drill cuttings will be disposed of in the reserve pit.
- B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in an approved sanitary land fill.
- C. Salts remaining after completion of well will be picked up by supplier, including broken sacks.
- D. Sewage from living quarters will drain into holes with a minimum depth of 10'. These holes will be covered during drilling and will be back filled upon completion. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.
- E. Remaining drilling fluids will be allowed to evaporate in the reserve pit until the pit is dry enough for breaking out. In the event that drilling fluids do not evaporate in a reasonable time they will be hauled off by transports and be disposed of at a state approved disposal facility. Later pits will be broken out to speed drying. Water produced during testing will be put in reserve pits. Any oil or condensate produced will be stored in test tanks until sold and hauled from the site.

8 ANCILLARY FACILITIES:

A. No camps or airstrips to be constructed.

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea County, NM

9 WELL SITE LAYOUT

- A. Exhibit "D" shows location and rig layout.
- B. This exhibit indicates proposed location of reserve and trash pits and living facilities.
- C. Mud pits in the active circulating system will be steel pits and the reserve pit is proposed to be unlined, unless subsurface condition encountered during pit construction indicates that lining is needed for lateral containment of fluids.
- D. If needed, the reserve pit is to be lined with PVC or polyethylene line. The pit liner will be 12 mils thick. Pit liner will extend a minimum 2'00" over the reserve pits dikes where the liner will be anchored down.
- E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

10 PLANS FOR RESTORATION OF SURFACE

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

However, in either event, the reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

If the well is a dry hole, the pad and road area will be recountered to match the existing terrain. Topsoil will be spread to the extent possible. Revegetation will comply with BLM standards.

Should the well be a producer, the previously noted procedures will apply to those areas which are not required for production facilities.

Surface Use Plan

Gruy Petroleum Management Co. Pipeline Deep Unit 17 Federal No. 2 Unit E Section 17 T19S - R34E Lea County, NM

11 OTHER INFORMATION:

- A. The location is located in 1 m coppice dunes in loose tar sands. Vegetation in the area is mesquite, shin oak, and grasses.
- B. The wellsite is on surface owned by the Bureau of Land Management, Department of the Interior. The land is used mainly for farming, cattle ranching and oil and gas production.
- C. An Archaeological survey will be conducted by Southern New Mexico Archaeological Services on the location and access road, and this report will be on file with the Bureau of Land Management in the Carlsbad BLM office.
- D. Within 1 1/2 miles of this location, there are no dwellings.

12 OPERATORS REPRESENTATIVE:

Gruy Petroleum Management Company P.O. Box 14097 Irving, TX 75014 Office Phone: (972) 443-6489 Zeno Farris

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 Gruy Petroleum Management Company and/or its contractors/subcontractors and be in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

NAME: Zono Fa 2/7/2005 DATE:

TITLE: Manager, Operations Administration



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., an American Stock Exchange company

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-003622

Legal Description: W/2 Sec 17, T19S-R34E Containing 320.00 acres, Lea County New Mexico

Formation (S): Morrow

Bond Coverage: Nationwide BLM Bond

BLM Bond File No.: NM 2575

en Authorized Signature:

Representing Gruy Petroleum Management Co.

Name: Zeno Farris

Title: Manager, Operations Administration

Date: 02/07/05

DISTRICT I 1625 N. French Dr., Hobbs, NM 88240 DISTRICT II 811 South First, Artesia, NM 88210

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DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410 DISTRICT IV 2040 South Pacheco, Santa Fe, NM 87505

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Energy, Minerals and Natural Resources Department

Form C-102 Revised March 17, 1999

Submit to Appropriate District Office State Lease - 4 Copies Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

2040 South Pacheco Santa Fe, New Mexico 87504-2088

D AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

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Exhibit A One Mile Radius Map Pipeline Deep Unit 17 Federal No. 2 Gruy Petroleum Management Co. Unit E-Sec 17-T19S-R34E 1450' FNL & 1200' FWL Lea County, NM

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Exhibit B

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$\left[\right]$	8	9	10	11	12	7	AKEEN H27 B	9	10	11	MARATH HE7	7	8	9	10	
) " U	.S. 62-180	15	14	13	18	17	16	15	14	1 8	ພ ¹⁸ ກ	17	16	15	
	20	21	22	23	24	19	20	21	22	23	24	19	20	21	22	
	PIPELINE DEEP UNIT "17" FEDERAL #2 Located at 1450' FNL and 1200' FWL Section 17, Township 19 South, Range 34 East, N.M.P.M., Lea County, New Mexico.															
	P.O. Box 1786 1120 N. West County Rd. Hobbs, New Mexico 88241 (505) 393-7316 - Office focused on excellence in the oilfieldW.O. Number: 4802AA - JLP #1GRUY PETROLEUM Survey Date: 12/01/04Survey Date: Scale: 1" = 2000' Date: 12/07/04Survey Date: 12/01/04PETROLEUM MANGEMENT COMPANY								IT							

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Exhibit E-Cont'd **Blowout Preventor-Choke Manifold** Pipeline Deep Unit 17 Federal No. 2 Gruy Petroleum Management Co. Unit E-Sec 17-T19S-R34E 1450' FNL & 1200' FWL

Lea County, NM

District J 1625 N. French Dr., Hobbs, NM 88240 District II 1301 W. Grand Avenue, Artesia, NM 88210 District III 1000 Rio Brazos Road, Aztec, NM 87410 District IV 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico Energy Minerals and Natural Resources

> Oil Conservation Division 1220 South St. Francis Dr. Santa Fe, NM 87505

For drilling and production facilities, submit to appropriate NMOCD District Office. For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes D No X Type of action: Registration of a pit or below-grade tank X Closure of a pit or below-grade tank D

Operator: Gruy Petroleum Management Co. Address: P.O. Box 140907, Irving, Tx 75014-0907	Telephone: 972-443-6489e-mail address: zfarris@magnumhunter.com
Facility or well name: Pipeline Deep Unit 17 Fed No.24	_API #: 30-025. 37194 U/L or Qtr/Qtr E Sec 17 T 19S R 34E
County: Lea Latitude 323948.6 N	Longitude 1033513.6 W NAD: 1927 🔀 1983 🗌 Surface Owner Federal 🗌 State 🗋 Private 🗋 Indian 🗋

Pit	Below-grade tank	
<u>[ype:</u> Drilling 🔀 Production 🗋 Disposal 🗍	Volume:bbl Type of fluid:	
Workover 📋 Emergency 🗖	Construction material:	
Lined 🔀 Unlined 🔲	Double-walled, with leak detection? Yes 📋 If not,	explain why not.
Liner type: Synthetic 🔀 Thickness <u>12</u> mil Clay 🗖 Volume		
bbl		
Depth to ground water (vertical distance from bottom of pit to seasonal high	Less than 50 feet	(20 points)
water elevation of ground water.)	50 feet or more, but less than 100 feet	-(10 points)
	100 feet or more	0 points
Wellhead protection area: (Less than 200 feet from a private domestic	Yes	(20 points)
water source, or less than 1000 feet from all other water sources.)	No	Le points
	Less than 200 feet	(20 paints)
Distance to surface water: (horizontal distance to all wetlands, playas,	200 feet or more, but less than 1000 feet	(10 points)
irrigation canals, ditches, and perennial and ephemeral watercourses.)	1000 feet or more	0 points
	Ranking Score (Total Points)	-0-
If this is a pit closure: (1) attach a diagram of the facility showing the pit's	relationship to other equipment and tanks. (2) Indicat	e disposal location:
onsite 🔲 offsite 🔲 If offsite, name of facility	(3) Attach a general description of remedial actio	n taken including remediation start date and en

date. (4) Groundwater encountered: No 🗌 Yes 🗋 If yes, show depth below ground surface______ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines , a general permit , or an (attached) alternative OCD-approved plan.

Printed Name/Title Zeno Farris Manager Operations Administration

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Signature

Approval: APR 1 3 2	005		
Date:	-	and the	
Printed Name/Title	PETROLEUM ENGINEER	Signature January	
	PETROLLOW		