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(June 1990) DEPARTMEN	TED STATES VT OF THE INTERIOR LAND MANAGEMENT	FORM APPROVED Budget Bureau No. 1004-0135 Expires: March 31, 1993 5. Lease Designation and Serial No. NMLC068848 \u2264					
Do not use this form for proposals to di	AND REPORTS ON WELLS rill or to deepen or reentry to a different reservoir. R PERMIT—" for such proposals	6. If Indian, Allouce or Tribe Name					
	T IN TRIPLICATE	7. If Unit or CA, Agreement Designation					
1. Type of Well X Oil Gas Well Well Other	8. Weil Name and No.						
Well Well Other Name of Operator PRONGHORN MANAGEMENT	MARSHALL FED. #7						
3. Address and Telephone No.	30-025-25201						
P. O. BOX 1772 HOBBS	10. Field and Pool, or Exploratory Area CRUZ DELAWARE						
4. Location of Well (Footage, Sec., T., R., M., or Survey E 990' FNL & 1980' FWL S19-T23S-R33E	11. County or Parish, State LEA						
12. CHECK APPROPRIATE BOX	s) TO INDICATE NATURE OF NOTICE, REPOI	RT, OR OTHER DATA					
TYPE OF SUBMISSION	TYPE OF ACTION						
X Notice of Intent		Change of Plans					
Subsequent Report	Recompletion Plugging Back Casing Repair	New Construction Non-Routine Fracturing Water Shut-Off					
Final Abandonment Notice	Altering Casing Other	Conversion to Injection Conversion to Injection Completion or V Completion or Recompletion Report and Log for					
 give subsurface locations and measured and true vertice 1. Move in and rig up. 2. Swab well. Check proding 3. Install B.O.P. POOH 4. Rig up wireline and p Ramsey Sand pay. 5. TIH with frac tubing 6. Rig up BJ. Frac well 7. Swab and flow test weil 8. Put well on production 9. Clean location. Rig 	Il pertinent details, and give pertinent dates, including estimated date of starting cal depths for all markers and zones pertinent to this work.)* POOH with rods and pump. oduction and fluid level. with tubing. perforate additional Bell Canyon and packer. ell. on. down. Move out. SEC CONDICIONS Must be completed by CW-	ар 252627282000 100 1/2007 СП 2					
4. I hereby certify that the foregoing is true and correct Signed	President	7/17/07 ACCEPTED FOR RECOR					
Approved by	OC DISTRICT SUPERVISOR/GENERAL MANAGER	AUG 8 2007					
r representations as to any matter within its jurisdiction.	nowingly and willfully to make to any department or agency of the United S	PETROLEUM ENGINEER					

PRONGHORN MANAGEMENT CORPORATION

P. O. Box 1772 Hobbs, NM 88241 Ph. 505-392-2495 Fax: 505-392-2592

July 20, 2007

Bureau of Land Management 620 E Greene Carlsbad, NM 88220 Attn: Wesley Graham

Dear Sir:

The first phase of our project would start immediately upon approval. Successful work over would open up additional deepening, drilling and stimulation opportunities. We would continue operations until all wellbores are back in compliance.

Thank you for your patience and consideration. Call me with any questions.

Sincerely,

Balen

G. A. Baber 505-392-2495 Office 505-318-7521 Cell

cc: Steve Caffey Hobbs

Phase I.

- 1. Recomplete D.L. State #1
- 2. Add additional perfs and frac Marshall (2)
- 3. Add additional perfs and frac D.L. (1)
- 4. Add additional perfs and frac E.F. (1)
- 5. Add additional perfs and frac Fields (1)

Revitalization Potential Cruz (Delaware) Field

History

The Cruz (Delaware) Field covers approximately 960 acres and is located in Lea County, New Mexico. Production is from the Ramsey sand member of the Bell Canyon Delaware formation at an average depth of approximately 5,100'. This field is part of a northeast-southwest trending channel deposit, typical of the Delaware, with the sand going from thin and tight on either edge of the channel to thick (up to 90+ feet) and porous (averaging 25%) in the middle of the channel. In addition to these stratigraphic constraints, the field appears to have an oil/water contact at -1,430' subsea and becomes wet down dip. Water saturation averages 47% in the oil zone. Solution gas drive is considered to be the primary drive mechanism.

The field has experienced three major development periods since its discovery by Exxon in the early 1960s. The first coincided with the initial field development. The second was in the mid-1970s, and the third occurred in the early 1980s. Production peaked in 1984 at 525 bopd with 18 wells producing. Since inception, the field has produced over 1.1 million barrels of oil and 1.9 Bcf of gas out of a total of 20 wells, of which 15 would be considered commercial and account for nearly all of the production. In addition, the field has produced over 5.3 million barrels of water during its life.

Workover Potential (Stimulation)

Most of the wells in the Cruz Field were completed naturally. Recently, operators in other Delaware fields in the Permian Basin have proven that restimulating existing wells, even those that have been fraced previously, can be an economically viable method of increasing production. Our plan is to obtain bottomhole pressure information on as many of the shut-in wells as possible and then choose several candidates to frac using state-of-the-art technology. If successful, these techniques could then be expanded fieldwide.

Workover Potential (Deeper Delaware Pays)

A number of "deep" wells have been drilled in the vicinity of the Cruz Field since its discovery. As a result, production has now been established out of several different zones throughout the entire Delaware section, not just the Ramsey which is the highest sand member. Following the drilling of the initial well in the northern portion of the field, which was a deep test, the remaining Cruz Field wells were TD'd at a much shallower depth just below the Ramsey. As a result, that well was the only well in the field to penetrate the entire Delaware section. Recently, several companies have developed techniques that apply artificial intelligence to information obtained from old log suites to identify potentially productive behind-pipe zones, which is then presented graphically in the form of a "new" log. This has been done on the deep well. Based on those results, combined with an assessment of zones producing from other wells in the immediate area, it appears there may be several Delaware pays below the Ramsey that are worth testing in this wellbore. Our plan is to selectively test several of these pays. In the event one or more of them prove productive, it is conceivable that a number of the inactive shallow wells could be deepened to and completed in these same zones. This could also lead to additional development drilling.

Development Drilling Potential (Undrilled 40 Acre Locations)

Based on current geologic mapping, there are at least five undrilled 40 acre locations left to develop within the known field limits. In addition, it appears that one of the original wells did not perform as well as anticipated and therefore is a candidate to be re-drilled. Our plan is to drill at least four of these locations, possibly taking two of them horizontal (see below).

Development Drilling Potential (20 Acre Infill Potential / Horizontal Drilling)

Based on a volumetric analysis of the field, it appears that drainage areas may be considerably less than the 40 acre proration units assigned to individual wells due to water coning. A review of available core analyses and individual well performance indicates the field has a fairly distinct oil/water contact at approximately -1,430' subsea. A volumetric estimate of Original-Oil-In-Place ("OOIP") was made for the productive portion of the reservoir above the oil/water contact. It is estimated that the field contains at least 19 million barrels of OOIP above the oil/water contact. Based on its cumulative recovery to date, the current field-wide recovery efficiency stands at approximately 6%, much lower than one would expect from a properly developed solution gas drive reservoir exhibiting similar rock and fluid properties. Production performance shows increasing water cuts with decreasing total fluid volumes over time, suggestive of coning.

A number of Permian Basin fields have been downspaced as high product prices influence development economics. Based on its low recovery efficiency, the Cruz Field appears to be a candidate for infill drilling to 20 acre spacing. There is some precedence for this potential within the field itself. The Marshall #8 was drilled in late 1977 as a replacement well for the Marshall #4 which went down in 1975. It is situated such that it is essentially a 20 acre infill location. Although the cumulative production attributable to the #8 is somewhat suspect due to allocation issues, it appears this well has produced at least 37,000 bo. Our plan would be to selectively drill at least two additional 20 acre infill locations to test the economic viability of developing the field on denser spacing.

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This field may also be a good candidate for horizontal drilling. It contains a distinct, continuous pay interval and evidence suggests it suffers from coning. Delaware sands have now been successfully exploited using horizontal drilling in other parts of the Permian Basin. Our plan would be to drill two of the updip locations as horizontals. Depending on those results, we would also study the feasibility of drilling horizontal laterals out of existing wellbores within the main portion of the field.

Improved Recovery (Waterflooding)

Case studies have shown that a significant improvement in oil recovery can be achieved through waterflooding high water-cut fields such as the Cruz, even though they may not possess all the traditional reservoir and fluid parameters associated with a prime waterflood candidate. At today's oil prices, even a moderate improvement in recovery could prove to be economic. Our plan is to initiate a pilot waterflood to determine the potential improvement in recovery that would result from a field wide waterflood project.

During the field's last development stage, Exxon turned one of the downdip wells into a disposal well and for a period of several years injected 50% - 75% of the produced water from the field downdip into the lower portion of the reservoir well below the oilwater contact. It is difficult to see any direct benefit that resulted from this action, but it was more likely simply a method of cheap water disposal rather than an attempt to improve production, and should therefore not condemn any future waterflood plans for the field.

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Marshall Federal #5, #6, #7, #8 Pronghorn Management Corporation August 6, 2007 Conditions

It has come to my attention that Pronghorn Management Corporation is currently under a shut-in order.

Therefore, until the bond conditions required in the shut-in order have been met and the assessments paid, the proposed plan for these wells can't be approved.

After the bond has been increased to \$150,000 and proper documentation submitted to the Carlsbad Field Office, the program for these wells can be resubmitted and will be reviewed again.

The plan to reduce the spacing to 20 acres will have to be reviewed by NMOCD as a non-standard spacing unit. 19.15.3.104.D.2.

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