

New Mexico Oil Conservation Division, District I

1625 N. Fourth Drive

Hobbs, NM 88240

(Other instructions on reverse side)

FORM APPROVED
OMB NO. 1004-0186

Expires: February 28, 1995

POTASH

Form 3180-3
(July 1992)UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

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. *)

1650' FSL & 1650' FEL

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

33 miles West of Hobbs NM

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

1650'

16. NO. OF ACRES IN LEASE

600

17. NO. OF ACRES ASSIGNED TO THIS WELL

320

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

2007'

19. PROPOSED DEPTH

14000

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)
3677'

Capitan Controlled Water Basin

22. APPROX. DATE WORK WILL START
11-15-03

PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	J-55 13 3/8"	54.5#	425'	490 sx C circ surface
12 1/4"	J-55 9 5/8"	40 #	3200'	1850 sx C circ sur
7 7/8"	N-80/P-110 5 1/2"	17 #	14000'	1620 sx TOC 2700

The proposed well will be drilled to a depth of 14000' and completed as a Quail Ridge Morrow producer.

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 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. Per onshore order 2 the 13 3/8" 48 # J-55 casing should be tested at 70% of its maximum internal yield of 1730 # or 1211 #. During the running of the surface pipe we do not anticipate any pressures greater than 500 #, and are requesting a variance to test the 13 3/8" casing to 500 #

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

Zero Faus

TITLE

Mgr. Ops. Admin

DATE

09-22-03

(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/ Linda S. C. Rundell

TITLE

STATE DIRECTOR

DATE

NOV 10 2003

*See Instructions On Reverse Side

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

OPER. OGRID NO. 162683
PROPERTY NO. 29031
POOL CODE 83280
EFF. DATE 11-19-03
API NO. 30-025-36488

APPROVAL FOR 1 YEAR

K2

Application to Drill

Gruy Petroleum Management Co.
Mescalero 29 Federal Com 3
Unit Letter J Section 29
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: 1650' FSL & 1650' FEL Sec. ²⁹~~33~~ 19S 34E
- 2 Elevation above sea level: GR 3677'
- 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: 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:

Bone Spring	Oil
Wolfcamp	Oil
Atoka	Gas
Morrow	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-40
12 1/4"	0-3200'	9 5/8"	40	8-R	ST&C	J-55
7 7/8"	0-7000'	5 1/2"	17	8-R	ST&C	N-80
7 7/8"	000-14000'	5 1/2"	17	8-R	ST&C	P-110

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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 3200' of 9 5/8" J-55 40 # ST&C casing. Cement in two stages, first stage cement with 1650 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" NP-80 / P-110 17# ST&C casing. Cement in two stages, first stage cement with 900 Sx. of Class POZ/C Cement + additives. Second stage cement with 500 Sx of Class "C" Estimated top of cement 4800'.

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

11 Proposed Mud Circulating System:

Depth	Mud Wt	Viscosity	Fluid Loss	Type Mud
0 - 450'	8.7 - 9.2	32 - 34	ay lose circ.	Fresh water spud mud add paper to control seepage and high viscosity sweeps to clean hole.
450' - 3200'	10 - 10.3	28 - 29	ay 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.
3200' - 8300'	1/8/00	28 - 29	NC	Fresh 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.
Mescalero 29 Federal Com 3
Unit Letter J Section 29
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 3000 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 Morrow / Atoka pay will be perforated and stimulated. The well will be tested and potentialized as a gas well.

Surface Use Plan

Gruy Petroleum Management Co.
Mescalero 29 Federal Com 3
Unit Letter J Section 29
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 Hobbs, N.M. on Hwy 62/180 Go west 23 1/2 miles to mile maker 78 , turn North (Right) on lease road(Fasken sign on Cattleguard). Road angles NW for 1 mile, North .8 Mile, East for .1 Mile, North .6 mile, East .2 Mile, to location.

- 2 PLANNED ACCESS ROADS: 952' 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.
Mescalero 29 Federal Com 3
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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 with 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 a 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.

Surface Use Plan

Gruy Petroleum Management Co.
Mescalero 29 Federal Com 3
Unit Letter J Section 29
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 indicate 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 6 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 recontoured 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.
Mescalero 29 Federal Com 3
Unit Letter J Section 29
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 has been conducted by Desert West Archaeological Service, this on the location, and this report is 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 contractors/subcontractors in the 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: Zeno Farris

DATE: 9/22/03

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.: LC-068037

Legal Description: S/2 Sec 29, T19S-R34E
Containing 320 acres, Lea County New Mexico

Formation (S): Morrow

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: 09/22/03

DISTRICT I
1825 N. French Dr., Hobbs, NM 88240

DISTRICT II
811 South First, Artesia, NM 88210

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

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
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

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-36488	Pool Code 83280	Pool Name Quail Ridge; Morrow
Property Code 29031	Property Name MESCALERO "29" FEDERAL COM	Well Number 3
OGRID No. 162683	Operator Name GRUY PETROLEUM MANAGEMENT COMPANY	Elevation 3677'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	29	19 S	34 E		1650	SOUTH	1650	EAST	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 320	Joint or Infill Y	Consolidation Code C	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>Mescalero 29 Federal Com 1 1650'</p> <p>LAT N32°37'42.6" LONG - W103°34'45.1"</p> <p>3675.0' 3678.0' 3672.1' 3676.4' 1650'</p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p> Signature Zeno Farris Printed Name Manager Operations Admin Title Sept. 22, 2003 Date</p> <p>SURVEYOR CERTIFICATION</p> <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>SEPTEMBER 10, 2003 Date Surveyed Signature & Seal of Professional Surveyor W.O. No. 3589A Certificate No. 7977 L. Jones 7977 BASIN SURVEYS</p>
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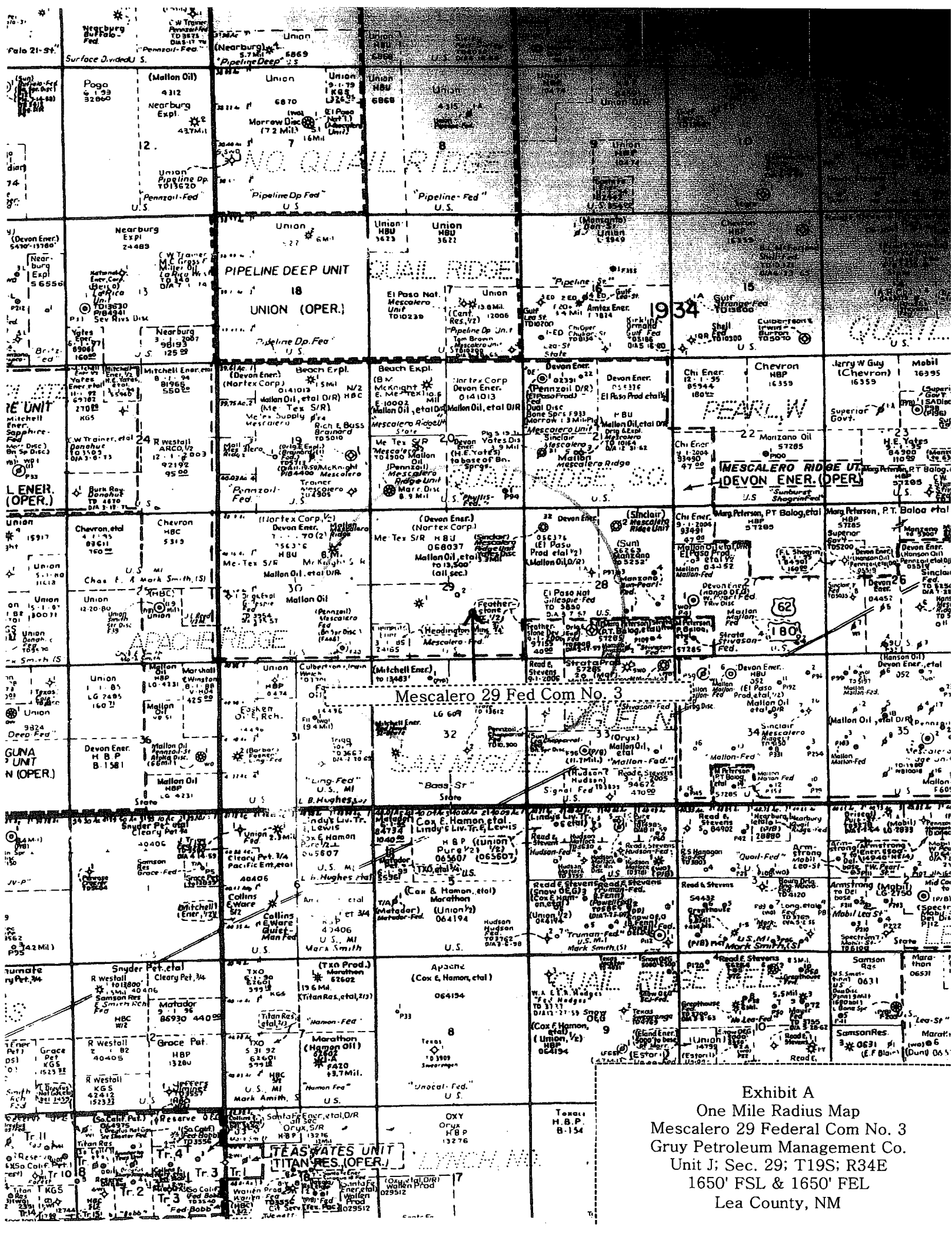
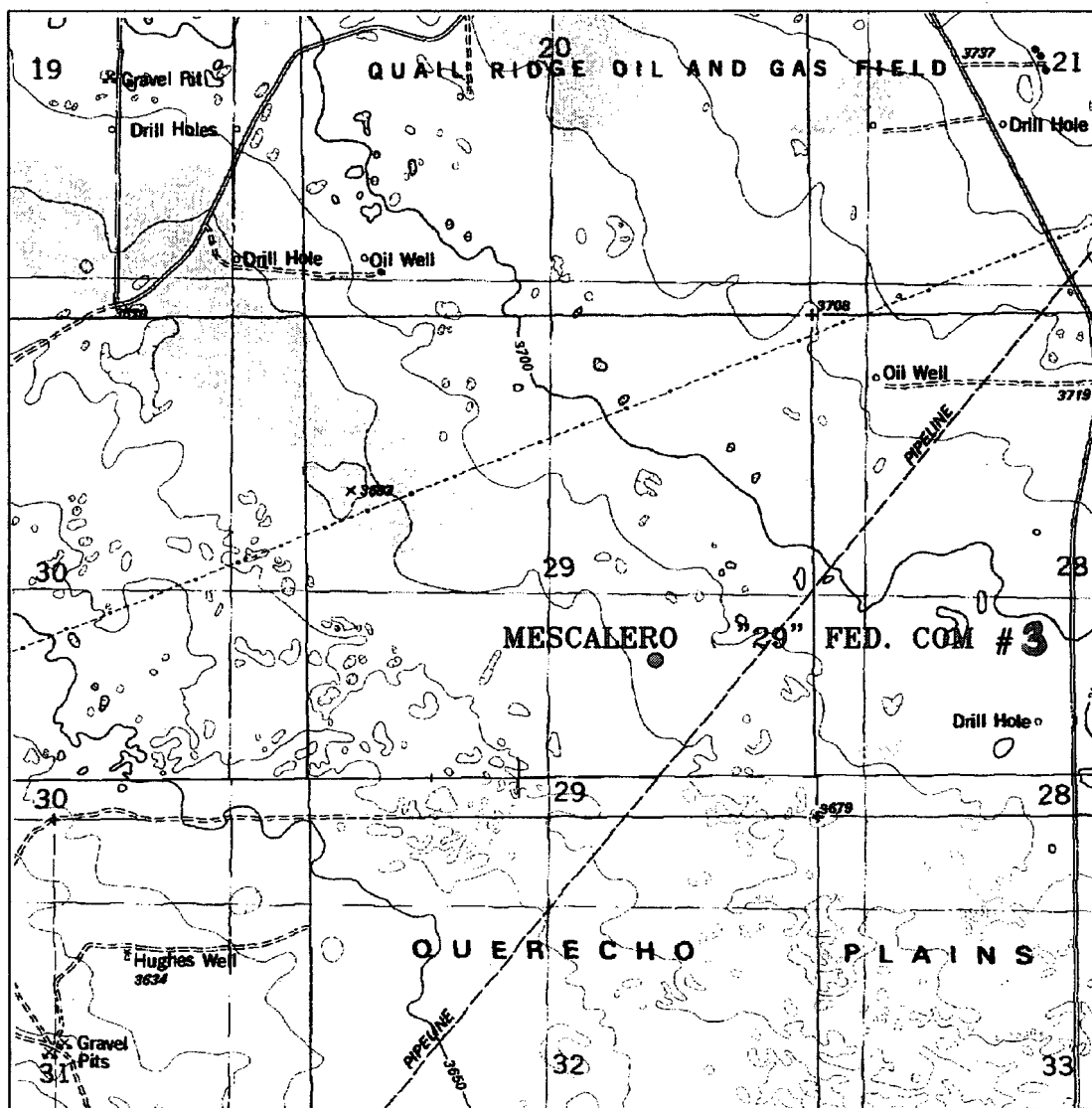


Exhibit A

One Mile Radius Map
Mescalero 29 Federal Com No. 3
Gruy Petroleum Management Co.
Unit J; Sec. 29; T19S; R34E
1650' FSL & 1650' FEL
Lea County, NM



MESCALERO "29" FED. COM #3
 Located at 1650' FSL and 1650' FEL
 Section 29, Township 19 South, Range 34 East,
 N.M.P.M., Lea County, New Mexico.

Exhibit "B"

basin
surveys
 focused on excellence
 in the oilfield

P.O. Box 1786
 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (505) 393-7316 - Office
 (505) 392-3074 - Fax
 basinsurveys.com

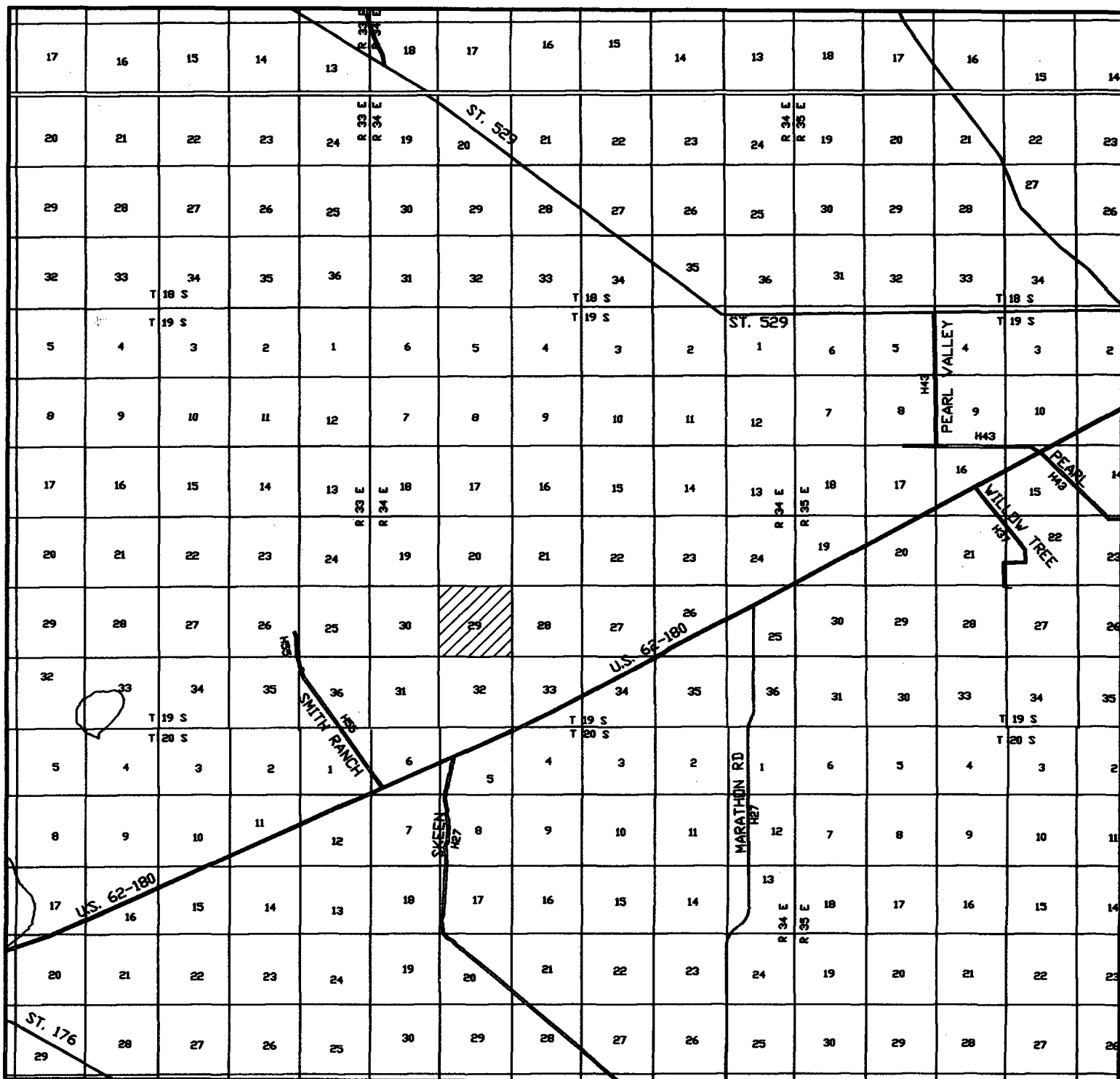
W.O. Number: 3599AA - KJG CD#4

Survey Date: 09-10-2003

Scale: 1" = 2000'

Date: 09-11-2003

**GRUY PETROLEUM
 MANAGEMENT CO.**



MESCALERO "29" FED. COM #3
 Located at 1650' FSL and 1650' FEL
 Section 29, Township 19 South, Range 34 East,
 N.M.P.M., Lea County, New Mexico.

Exhibit "C"

basin
surveys
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P.O. Box 1786
 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (505) 393-7316 - Office
 (505) 392-3074 - Fax
 basin-surveys.com

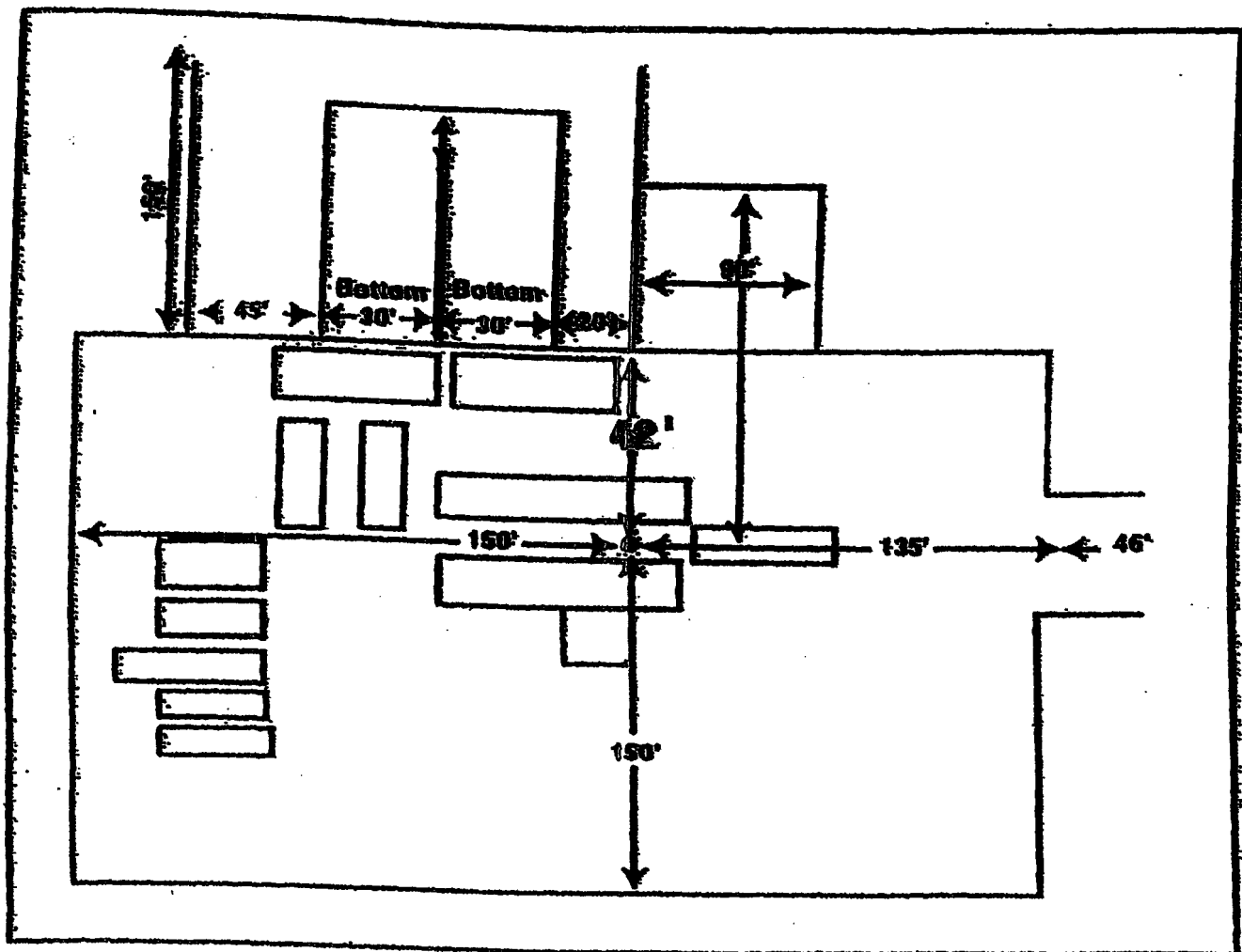
W.O. Number: 3599AA - KJG CD#4

Survey Date: 09-10-2003

Scale: 1" = 2 miles

Date: 09-11-2003

**GRUY PETROLEUM
 MANAGEMENT CO.**



Rig 75

Exhibit D
 Rig Layout Plan
 Mescalero 29 Federal Com No. 3
 Gruy Petroleum Management Co.
 Unit J; Sec. 29; T19S; R34E
 1650' FSL & 1650' FEL
 Lea County, NM

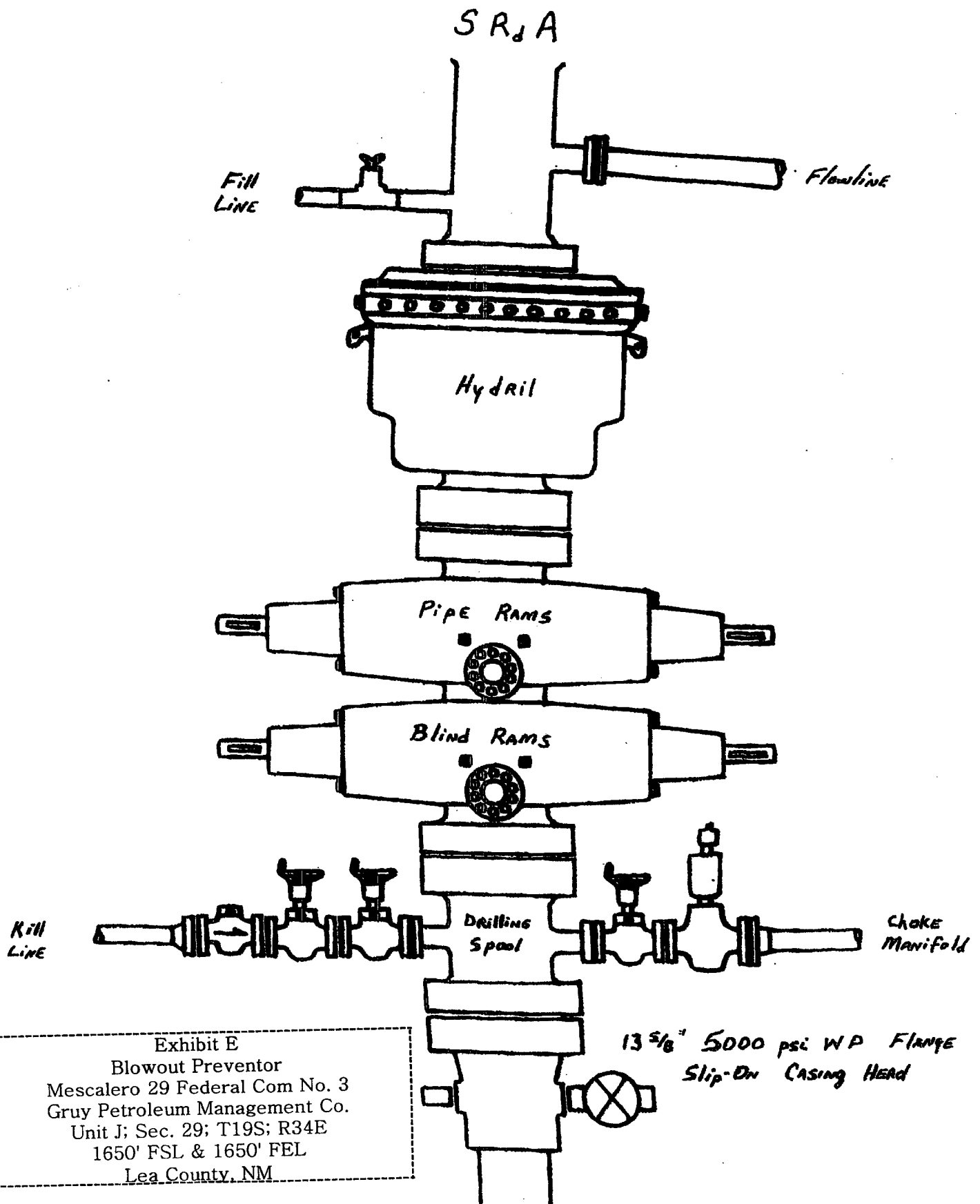


Exhibit E
 Blowout Preventor
 Mescalero 29 Federal Com No. 3
 Gruy Petroleum Management Co.
 Unit J; Sec. 29; T19S; R34E
 1650' FSL & 1650' FEL
 Lea County, NM