

**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT**

SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

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

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/>			5. LEASE DESIGNATION AND SERIAL NO. NMLC-030132B	
b. TYPE OF WELL OIL WELL <input checked="" type="checkbox"/> GAS WELL <input type="checkbox"/> OTHER <input type="checkbox"/>			6. IF INDIAN, ALLOTTEE OR TRIBE NAME _____	
2. NAME OF OPERATOR Melrose Operating Co			7. UNIT AGREEMENT NAME _____	
3. ADDRESS AND TELEPHONE NO. PO Box 5061, Midland, TX 79704 915/685-1761			8. FARM OR LEASE NAME, WELL NO. Closson B Federal #38	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.) At surface 660 FSL, 660 FEL, Unit P At proposed prod. zone Same			9. API WELL NO. 30-025-35207	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* 15 miles SW of Eunice, NM			10. FIELD AND POOL, OR WILDCAT Jalmat (TN-YT-7R)	
15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT (Also to nearest drg. unit line, if any) (330')			11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA Sec 19, T22S, R36E	
16. NO. OF ACRES IN LEASE 1640			12. COUNTY OR PARISH Lea	
17. NO. OF ACRES ASSIGNED TO THIS WELL 40			13. STATE NM	
18. DISTANCE FROM PROPOSED* LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 1043			19. PROPOSED DEPTH 3900	
20. ROTARY OR CABLE TOOLS Rotary			21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3553' GR	
22. APPROX. DATE WORK WILL START* 09/15/00			23. PROPOSED CASING AND CEMENTING PROGRAM	

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12-1/4"	8-5/8" J-55	24#	1450'	575 sx
7-7/8"	4-1/2" - 5-1/2"	9.5# - 17#	3900'	700 sx

Plan to drill a 12-1/4" hole to 1450' & set 8-5/8" surface csg to 1450' & cmt to surf w/200 sx CI C tail & 375 sx 35/65 C POZ lead. Drill a 7-7/8" hole to 3900' & run 4-1/2" or 5-1/2" prod csg & cmt to surf w/700 sx cmt. Will complete in the 7R/YT formation & stimulate as necessary for optimum production.

EXHIBITS:

1. Survey Plat
2. BOP Diagram
- 3A-D Area, Topo, Access & Lease Maps
4. 1 mile Radius Map
5. Drill Site Layout

Surface Use & Operations Plan
Drilling Program
H2S Operations Plan
Letter of Responsibility

**APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS**

OPER. OGRID NO. 184860
PROPERTY NO. 25185
POOL CODE 33820
EFF. DATE 10-23-00
API NO. 30-025-35207

IN ABOVE SPACE DESCRIBE PROGRAM: If proposal is to deepen, give data on present productive zone and prod deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blow

24. SIGNED Bonnie Ottwater TITLE Regulatory Tech DATE 08/31/00

(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 LARRY D. BRAY TITLE Assistant Field Manager, Lands And Minerals DATE OCT 19 2000

*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.

Handwritten initials: J, C, H, m, p

District I

1625 N. French Dr., Hobbs, NM 88240

District II

811 South First, Artesia, NM 88210

District III

1808 Rio Brazos Rd., Aztec, NM 87416

District IV

2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural ResourcesOIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505Form C-102
Revised March 17, 1999Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-35207		Pool Code 33820	Pool Name Jalmat (TN-97-7R)
Property Code 25185	Property Name CLOSSON B FEDERAL		Well Number 38
GRID No. 184860	Operator Name Melrose Operating Co		Elevation 3531.

10 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	19	22-S	36-E		660	SOUTH	660	EAST	LEA

11 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 40	Joint or Infill	Consolidation Code	Order No.
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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

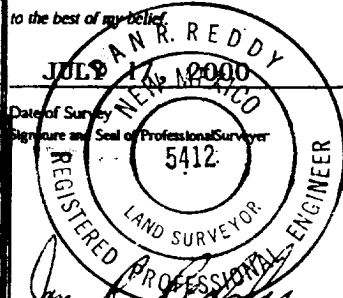
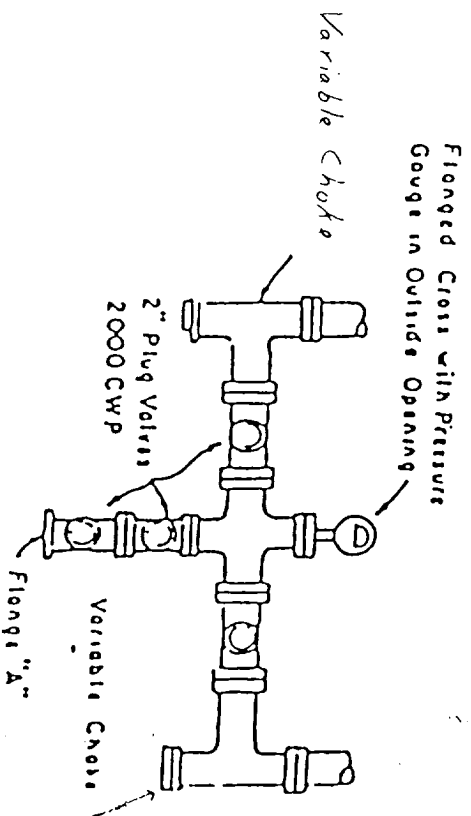
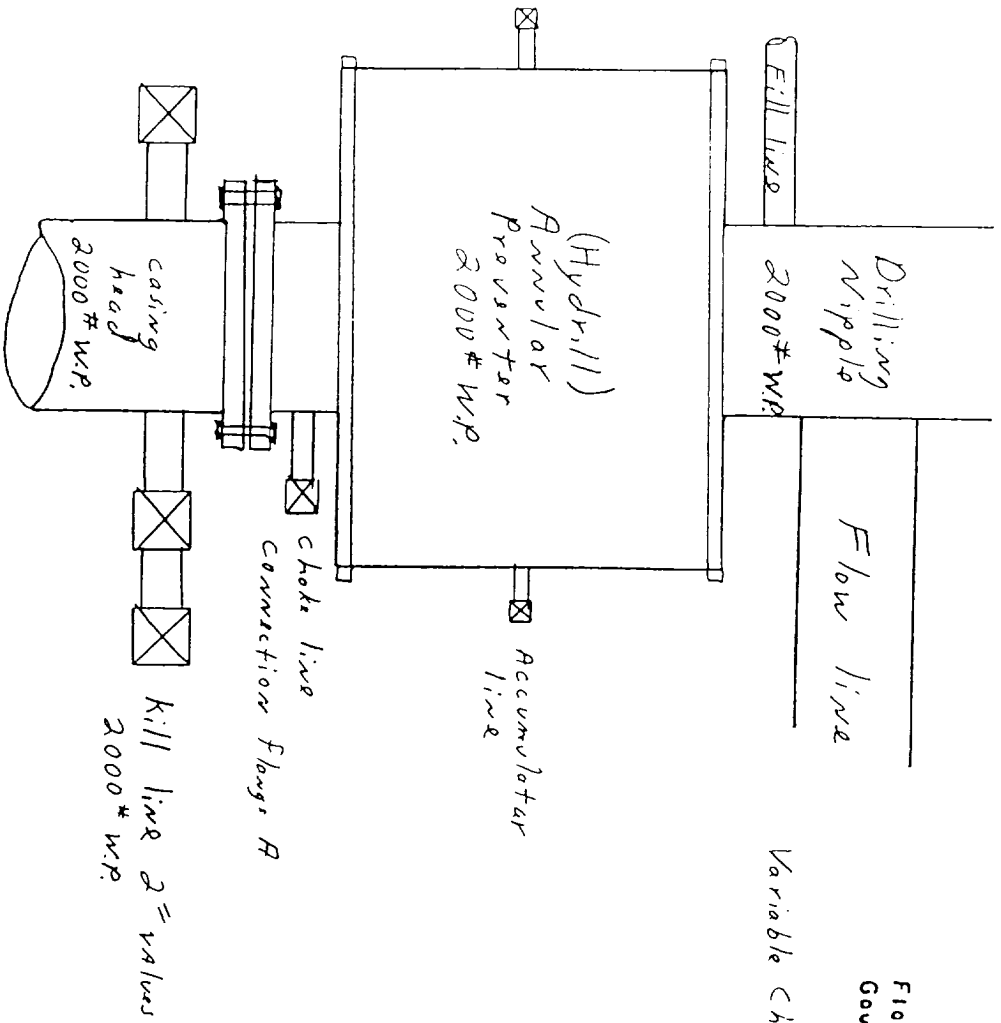
16					17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief Signature <u>Bonnie Atwater</u> Printed Name <u>Bonnie Atwater</u> Title <u>Reg Tech</u> Date <u>8-31-00</u>
					18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. Date of Survey <u>JUL 17 2000</u> Signature and Seal of Professional Surveyor  <u>J. R. Reddy</u> NM PE&PS NO. 5412 Certificate Number

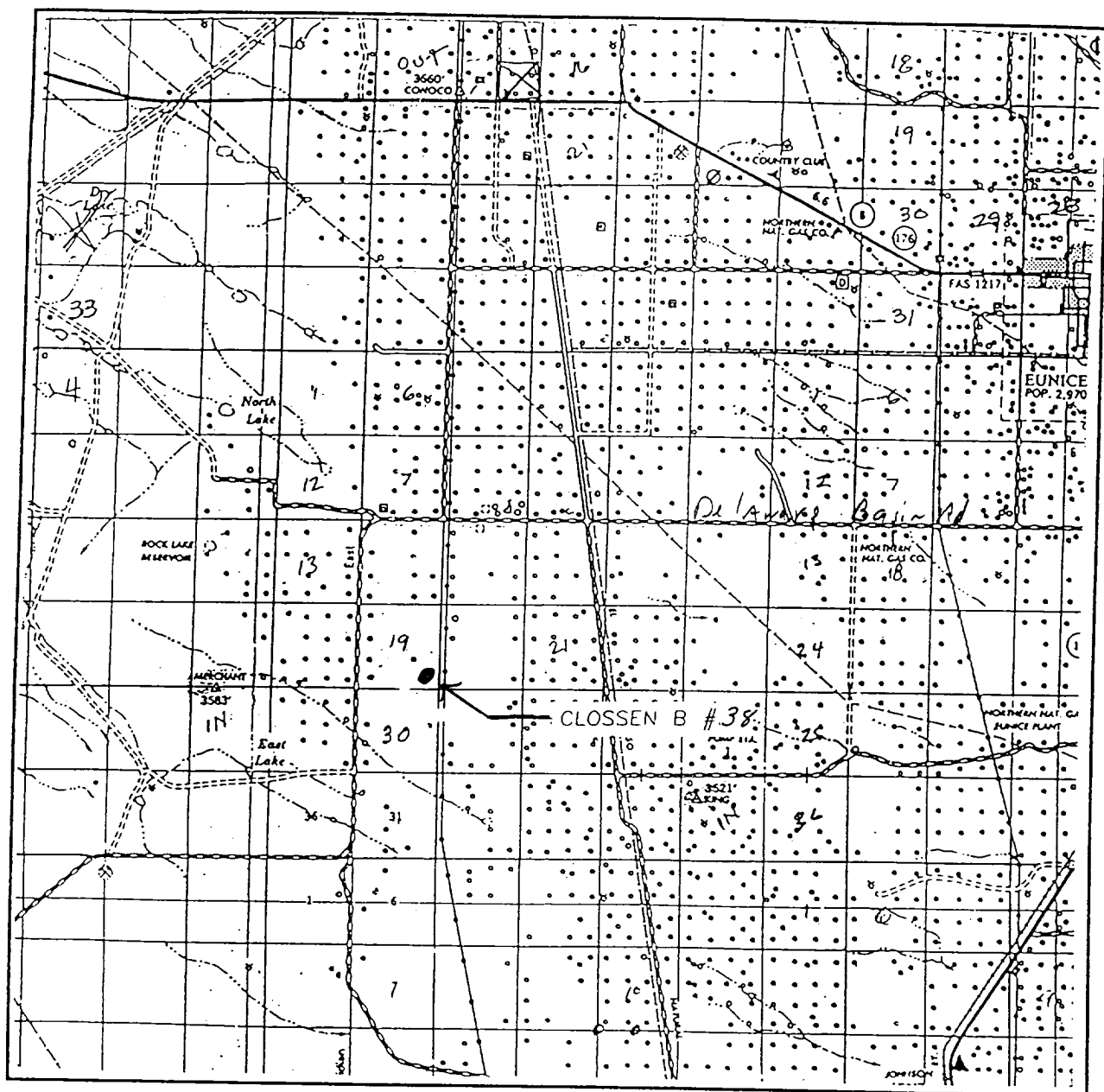
Exhibit #1



PLAN VIEW-CHOKE MANIFOLD

Exhibit #2

VICINITY MA.



SCALE: 1" = 2 MILES

SEC. 19 TWP. 22-S RGE. 36-E

SURVEY _____ N.M.P.M.

COUNTY _____ LEA

DESCRIPTION 660' FSL & 660' FEL

ELEVATION 3531'

OPERATOR Melrose Operating

LEASE CLOSSEN B #38

Exhibit 3A

Closson B Fed. # 38

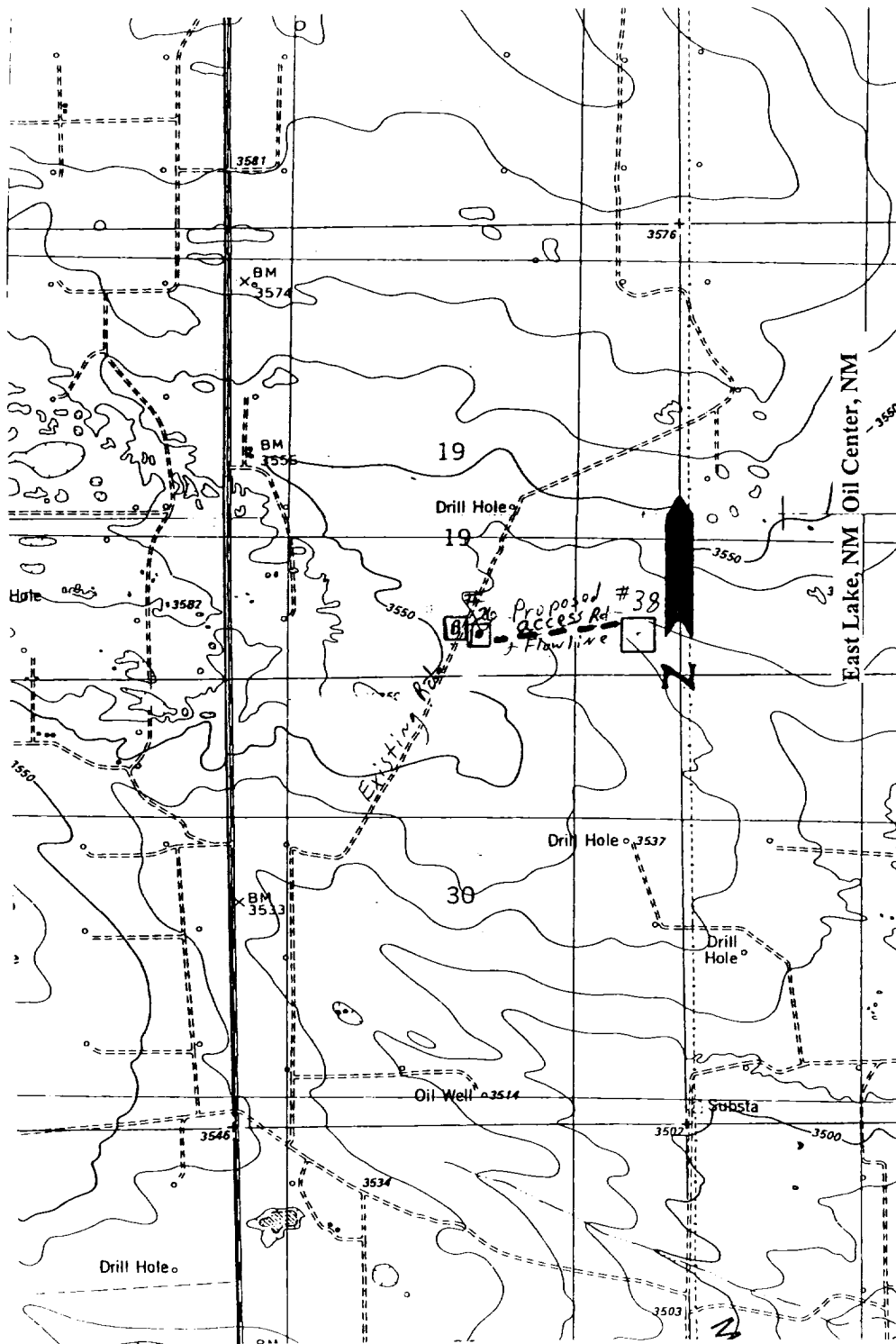
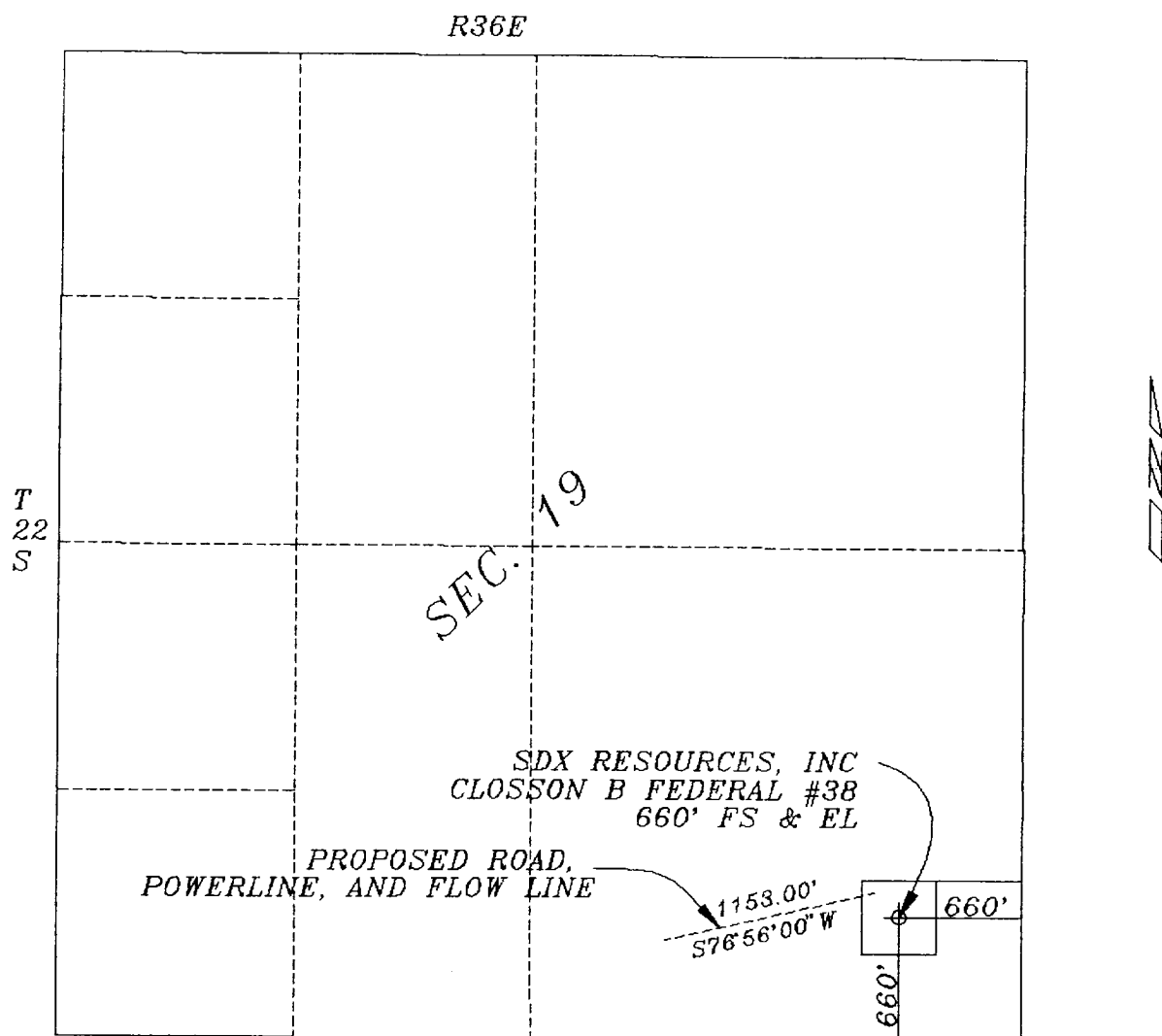


Exhibit 3-B

WELL LOCATION SKETCH

LOCATED IN SEC. 19, T22S, R36E, LEA COUNTY, NEW MEXICO.

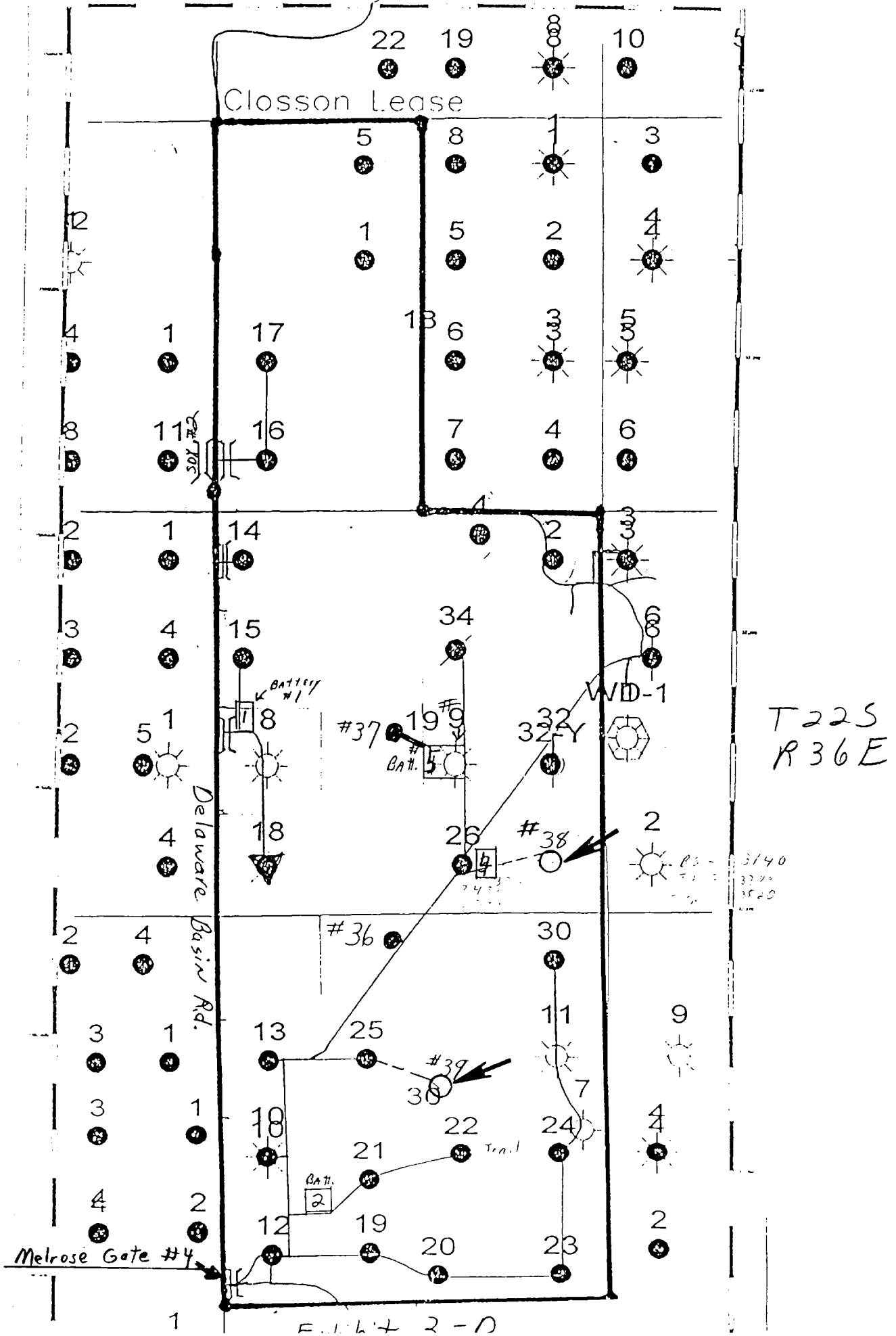


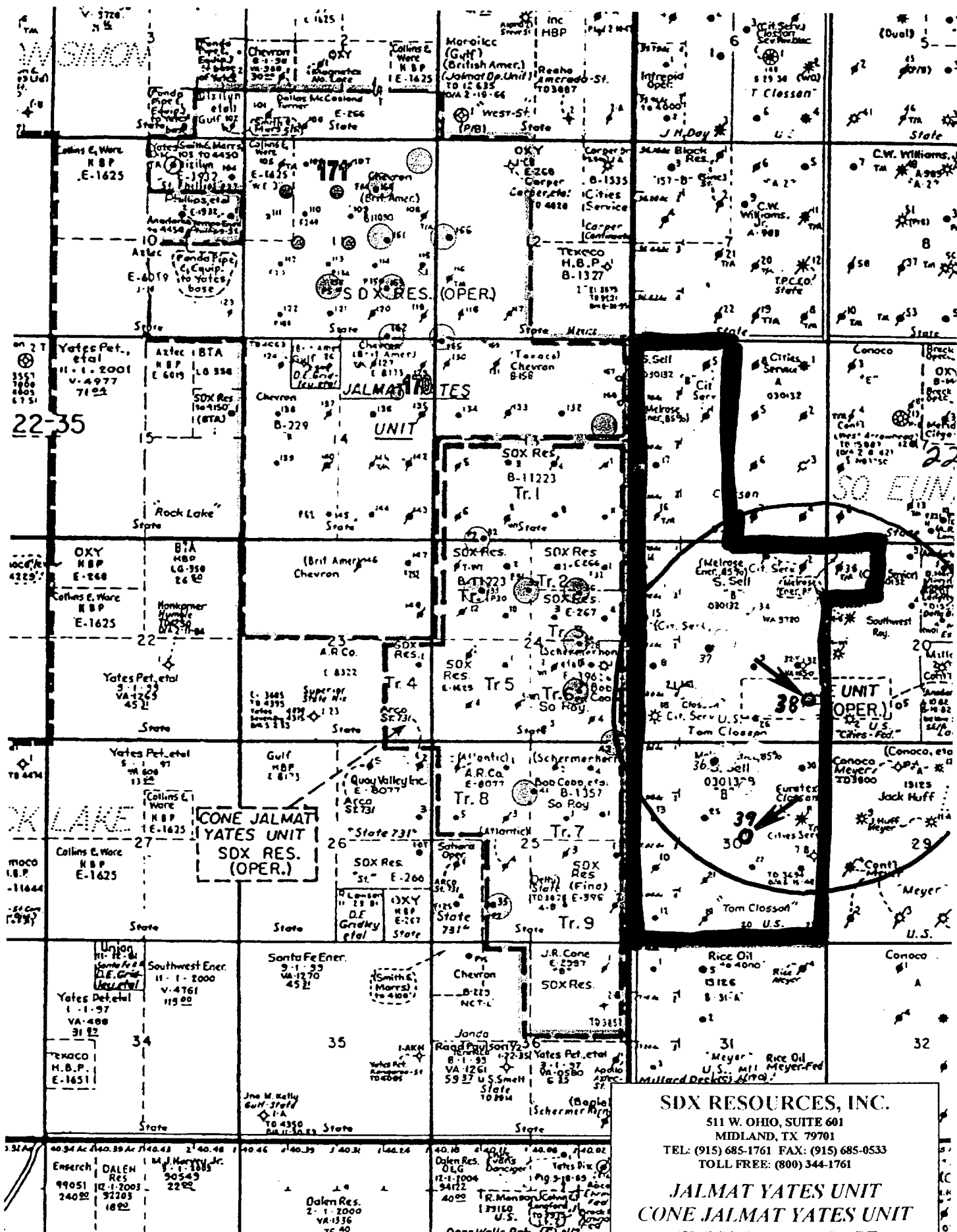
Scale 1" = 1000 ft

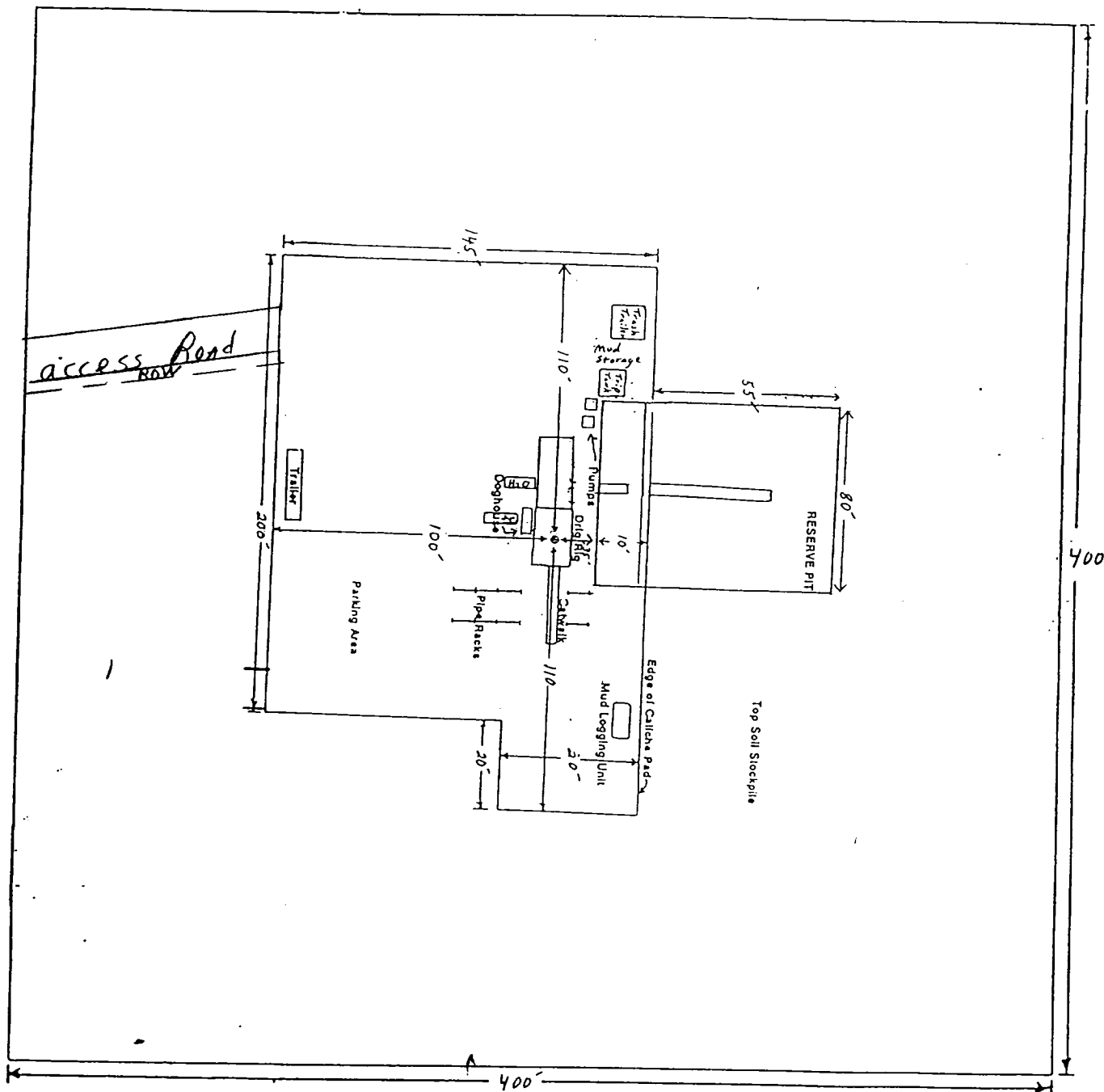
PREPARED BY: DAN R. REDDY NM PE&PS
PREPARED FOR: SDX RESOURCES, INC
JULY 20, 2000

Exhibit 3-C

Clos ~ Battery & Road Map







SDX RESOURCES, INC.

Drilling Rig Layout

Closson B #38

N

Exhibit #5

SURFACE USE AND OPERATIONS PLAN
Melrose Operating Co.
Closson B Federal # 38
660' FSL, 660' FEL
Unit P, Sec. 19, T22S, R36E
Lea Co., NM

1. Existing Roads:

- A. The well site and elevation plat for the proposed well is shown in Exhibit #1. It was staked by Dan Reddy, Carlsbad, New Mexico.
- B. All roads to the location are shown in Exhibit #3A& B. The existing roads are labeled and upgrading of the road prior to drilling will be done where necessary as determined during the onsite inspection.
- C. Directions to location: S. of Eunice on Hwy. 207 ~ 4 M to Delaware Basin Road . Turn right & go 13 M on Delaware Basin. Turn left at Melrose gate # 4 (combo 0001). Stay left and go immediately N. Go .25 M and turn right and then take the Y to the left. Follow road to Closson # 26 (battery #4) and turn right to location.
- D. Routine grading and maintenance of existing roads will be conducted as necessary to maintain their condition as long as any operations continue on this lease.

2. Proposed Access Road:

Exhibit #3A&B show the existing road.

~1153' of new road will be needed. Access road is shown on Exhibit #3 A & B.

3. Location of Existing Wells:

Exhibit #4 shows all existing wells within a one-mile radius of this well.

4. Location of Existing and/or Proposed Facilities and ROW's:

- A. If the well is productive:
 - 1. The well will be tested and a flowline will be laid to the existing Closson B battery # 4 beside the existing road. ROW shown in exhibit 3C.
 - 2. Any battery improvements necessary will be done on the existing battery #4 . The location of the battery is shown in exhibit 3D.
 - 3. A Power line will be built to location from the existing line shown in exhibit 3C. ROW is shown in exhibit 3C.
- B. If the well is productive, rehabilitation plans are as follows:
 - 1. The reserve pit will be back-filled after the contents of the pit are dry (within 120 days after the well is complete).
 - 2. Topsoil removed from the drill site will be used to recontour the pit area to the original natural level, as nearly as possible, and reseeded as per BLM specifications.

5. Location and Type of Water Supply:

The well will be drilled with a combination brine and fresh water mud systems as outlined in the drilling program. The brine and fresh water will be obtained from commercial water stations in the area and hauled to roads shown in Exhibit #3. No water well will be drilled on the location.

6. Source of Construction Materials:

All caliche required for construction of the drill pad and any new access road will be obtained from the drilling pits and/or on site when possible. Any additional caliche will be obtained from approved caliche pits. All roads and pads will be constructed of 6" rolled and compacted caliche.

7. Methods of Handling Water Disposal:

- A. Drill cuttings not retained for evaluation purposes will be disposed into the reserve pit.
- B. Drilling fluids will be contained in plastic lined pits. The reserve pit will contain any excess drilling fluid or flow from the well during drilling, cementing and completion operations. The reserve pit will be an earthen pit, approximately 80' x 55' x 6' deep, fenced, and plastic-lined (5-7 mil thickness).
- C. Water produced from the well during completion may be disposed into the reserve pit. After the well is permanently placed on production, produced water will be trucked to an approved disposal site.
- D. Garbage and trash produced during drilling or completion operations will be collected in a trash trailer by a contractor. All water and fluids will be disposed of into the reserve pit. Salts and other chemicals produced during drilling or testing will be disposed into the reserve pit. No toxic waste or hazardous chemicals will be produced by this operations.
- E. After the rig is moved out and the well is either completed or abandoned, all waste materials will be cleaned-up within 90 days. No adverse materials will be left on the location. The reserve pit will be completely fenced and kept closed until it has dried. When the reserve pit is dry enough to breakout and fill and as weather permits the unused portion of the well site will be leveled and reseeded as per BLM specifications. Only that part of the pad required for production facilities will be kept in use.

8. Ancillary Facilities:

None

9. Well Site Layout:

- A. The drill pad layout is shown in Exhibit #5. Dimensions of the pad and pits and location of major rig components are shown. Top soil, if available, will be stockpiled per BLM specifications as determined at the on-site inspection. Because the pad is almost level no major cuts will be required.

- B. Exhibit #5 shows the planned orientation for the rig and associated drilling equipment, reserve pit, trash pit, pipe racks, turn-around, parking areas and access road. No permanent living facilities are planned but a temporary foreman/toolpusher's trailer will be on location during the drilling operations.
- C. The reserve pit will be lined with high-quality plastic sheeting (5-7 mil thickness).

10. Plan for Restoration of the Surface:

- A. Upon completion of the proposed operation, if the well is to be abandoned, the pit area, after allowing to dry, will be broken out and leveled. The original top soil will be returned to the entire location which will be leveled and contoured to as nearly the original topography as possible.

All trash and garbage will be hauled away in order to leave the location in an anesthetically pleasing condition. All pits will be filled and the location leveled within 120 days after abandonment.

- B. The disturbed area will be revegetated by reseeding during the proper growing season with a seed mixture of native grasses as recommended by the BLM.
- C. The reserve pit will be fenced prior to and during drilling operations. The fencing will remain in place until the pit area is cleaned-up and leveled. No oil will be left on the surface of the fluid in the pit.
- D. Upon completion of the proposed operations, if the well is completed, the reserve pit area will be treated as outlined above within the same prescribed time. The caliche from any area of the original drill site not needed for production operations or facilities will be removed and used for construction of thicker pads. Any additional caliche required for facilities will be obtained from an approved caliche pit. Topsoil removed from the drill site will be used to raconteur the pit area and any unused portions of the drill pad to the original natural level and reseeded as per BLM specifications.

11. Surface Ownership:

BLM

12. Other Information:

- A. The area around the well site is grassland. The vegetation is native scrub grasses with abundant catclaw and mesquite.
- B. There is no permanent or live water in the immediate area.

- C. An archaeological survey has been requested and will be forwarded to the BLM when completed.

13. Lessee's and Operator's Representative:

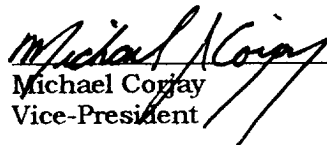
The Melrose Operating Co. representative for assuring compliance with the surface use plan is as follows:

Michael Corjay
Melrose Operating, Inc.
PO Box 5061
Midland, TX 79704
915/685-1761 Office
915/685-0533 Fax

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 the work associated with the operations proposed herein will be performed by Melrose Operating Co. and its contractors and subcontractors in conformity with this plan and the terms and conditions which it is approved.

Melrose Operating Co..



Michael Corjay
Vice-President

DRILLING PROGRAM
Melrose Operating Co.
Closson B Federal # 38
660' FSL, 660' FEL
Unit P, Sec. 19, T22S, R36E
Lea Co., NM

1. Geologic Name of Surface Formation:

Quaternary Alluvium

2. Estimated Tops of Important Geologic Markers:

Top of salt	1520'
Base of salt	3210'
Tansill	3225
Yates	3365
7-Rivers	3615

3. Estimated Depth of Anticipated Fresh Water, Oil or Gas:

Water Sand	100' – 150'	Fresh Water
Yates	3365-3615'	Oil & Gas
7-Rivers	3615+	Oil & Gas

Fresh water sands will be protected by running 8-5/8" casing to a minimum depth of 1450' and circulating cement. All other zones will be isolated by running 4-1/2" or 5-1/2" production casing and circulating cement.

4. Casing Program:

<u>Hole Size</u>	<u>Interval</u>	<u>OC Csg</u>	<u>Weight Grade Jt Cond Type</u>
12-1/4"	0 – 1450	8-5/8"	24#, J55, New
7-7/8"	0 – TD	4-1/2" – 5-1/2"	9.5# - 17#, J55, Used

Cement Program:

8-5/8" Surface Casing:	Cemented to surface with 200 sx of Class C with 2% CaCl tail and 375 sxs. 35/65 "C" POZ with 6% gelland ¼#/sx Flocele lead.
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5-1/2" Production Casing:	Cemented with 300 sx of Class C and 400 sx of Lite C with 6# salt/sx and ¼#/sx Flocele. This should circulate cement to the surface.
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5. Minimum Specifications for Pressure Control:

The blowout preventer equipment (BOP) shown in Exhibit #2 will consist of an annular bag type preventer (2000 psi WP). Unit will be hydraulically operated. BOP will be nipped up on the 8-5/8" surface csg and used continuously until TD is reached. BOP and accessory equipment will be tested to 1000 psi before drilling out of surface casing. A 2" kill line and a 2" choke line will be included in the drilling spool. Other accessories to the BOP equipment will include a kelly cock.

6. Types and Characteristics of the Proposed Mud System:

The well will be drilled to TD with a combination of fresh water and brine water mud system. The applicable depth and properties of this system are as follows:

<u>Depth</u>	<u>Type</u>	<u>Weight (ppg)</u>	<u>Viscosity (sec)</u>	<u>Waterloss (cc)</u>
0 – 1450	Fresh Water (spud mud)	8.8	30 – 35	N/C
1450-TD	Brine water, SWG, Starch	10.0	30	24

Sufficient mud materials to maintain mud properties and meet minimum lost circulation and weight increase requirements will be kept at the wellsite at all times.

7. Auxiliary Well Control and Monitoring Equipment:

- A. A kelly cock will be kept in the drill string at all times.
- B. A mud logging unit complete with H₂S detector will be continuously monitoring drilling penetration rate and hydrocarbon shows from 3200' to TD.

8. Logging, Testing and Coring Program:

- A. Drillstem tests will be run on the basis of drilling shows.
- B. The electric logging program will consist of GR-Dual Laterolog and GR-Compensated Neutron-Density from TD to 3200'.
- C. Conventional coring may be performed in select intervals if deemed necessary.
- D. Further testing procedures will be determined after the production casing has been cemented at TD based on drill shows and log evaluation.

9. Abnormal Conditions, Pressures, Temperatures, & Potential Hazards:

No abnormal pressure or temperatures are anticipated. The estimated bottom hole temperature (BHT) at TD is 94° and estimated maximum bottom-hole pressure (BHP) is 1000 psig. No abnormal concentrations of hydrogen sulfide or other hazardous gases or fluids have been encountered, reported or are known to exist at this depth in this area. All H₂S operation precautions will be followed (see attached H₂S drilling operations plans). No major loss circulation zones have been reported in offsetting wells.

10. Anticipated Starting Date and Duration of Operations:

Road and location work will not begin until approval has been received from the BLM. The anticipated spud date is October 15, 2000. Once commenced, the drilling operation should be finished in approximately 10 days. If the well is productive, an additional 30 days will be required for completion and testing before a decision is made to install permanent facilities.

HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

SDX Resources Inc.
Closson B Fed. # 38
660 FSL & 660 FEL
Sec. 19 T22S, R36E, Unit P
Lea Co., NM

I. Hydrogen Sulfide Training

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

1. The hazards and characteristics of hydrogen sulfide (H₂S).
2. The proper use and maintenance of personal protective equipment and life support system.
3. The proper use of H₂S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
4. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

1. The effects of H₂S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
3. The contents and requirements of the H₂S Drilling Operations Plan and the Public Protection Plan.

There will be an initial safety session just prior to commencing operations on the well. The initial session shall include a review of the site's specific H₂S Drilling Operations Plan and the Public Protection Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H₂S SAFETY EQUIPEMNT AND SYSTEMS

Note: All H₂S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 1500'.

1. Well Control Equipment:
 - A. Annular Preventer to accommodate all pipe sizes with properly sized closing unit.
2. Protective Equipment for Essential Personnel:
 - A. Mark II Surviveair 30-minute units located in the dog house.

3. H2S Detection and Monitoring Equipment:

- A. 1 – portable H2S monitor positioned on location for best coverage and response.
- B. Mud logging trailer shall have H2S monitoring equipment.

4. Visual Warning Systems:

- A. Guy lines will be flagged and a wind sock will be positioned on location.
- B. Caution/Danger signs shall be posted on roads providing direct access to location.

5. Mud Program:

The mud program has been designed to minimize the volume of H2S circulated to the surface. Proper mud weight, safe drilling practices, will minimize hazards when penetrating H2S bearing zones.

6. Metallurgy:

All drill strings, casings, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and lines, and valves shall be suitable for H2S service as necessary.

7. Communication:

Radio communications in company vehicles including cellular telephone and 2-way radio.

8. Well Testing:

No DST's are planned.

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS


Melrose Operating Co.
PO Box 5061
Midland, TX 79704

August 31, 2000

The undersigned accepts all applicable terms, conditions, stipulations and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Lease No.:	NMLC-030132B
Lease Name:	Closson B Federal #38
Legal Description of Land:	Unit P, 660' FSL 660' FEL Sec. 19, T22S, R36E Lea Co., NM
Formation (s):	Jalmat (TN-YT-7R)
Bond Coverage:	Statewide Bond – State of New Mexico
BLM Bond File No.:	NM2307

Authorized Signature:



Michael Corio
Vice-President