

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

OCT 08 2008

OCD-ARTESIA

FORM APPROVED

OMB NO 1004-0137

Expires: July 31, 2010

Form 3160-3
(August 2007)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
APPLICATION FOR PERMIT TO DRILL OR REENTER

S

1a Type of Work. <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No NM-101098
1b Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6 If Indian, Allottee or Tribe Name Not Applicable
2 Name of Operator Yates Petroleum Corporation 25575		7. If Unit or CA Agreement, Name and No. Not Applicable
3a. Address 105 South Fourth Street, Artesia New Mexico 88210		Lease Name and Well No Fuji BMI Federal #1
3b. Phone No (include area code) (575) 748-1471		9. API Well No. 30-DD5-64060
4. Location of well (Report location clearly and in accordance with any State requirements. *) At surface 1980' FNL and 660' FEL, Unit H At proposed prod zone same as above		10 Field and Pool, or Exploratory Wildcat Yeso
14. Distance in miles and direction from the nearest town or post office* Approximately 10 miles east of Dexter, New Mexico		11. Sec., T., R., M., or Blk. And Survey or Area Section 25, T12S-R27E
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drlg unit line, if any) 660'	16. No. of acres in lease 240.00	17. Spacing Unit dedicated to this well SE4NE4
18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. None	19 Proposed Depth 3000'	20. BLM/ BIA Bond No on file NATIONWIDE BOND #NMB000434
21 Elevations (Show whether DF, KDB, RT, GR, etc.) 3715' GL	22 Aproximate date work will start* ASAP	23. Estimated duration 45 Days
24. Attachments ROSWELL CONTROLLED WATER BASIN		

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1 shall be attached to this form

- | | |
|---|---|
| 1. Well plat certified by a registered surveyor. | 4. Bond to cover the operations unless covered by existing bond on file(see item 20 above) |
| 2 A Drilling Plan | 5. Operator certification |
| 3 A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office). | 6. Such other site specific information and/ or plans as may be required by the a authorized officer. |

25. Signature <i>Debbie L. Caffall</i>	Name (Printed/ Typed) Debbie L. Caffall	Date 7/24/2008
Title Regulatory Agent		

Approved By (Signature) <i>/S/ Angel Mayes</i>	Name (Printed/ Typed) <i>/S/ Angel Mayes</i>	Date OCT 06 2008
Title Assistant Field Manager, Lands And Minerals	Office ROSWELL FIELD OFFICE	APPROVED FOR 2 YEARS

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 cc operations thereon

Conditions of approval, if any, are attached.

Title 18 U.S.C Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the Unite States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

* (Instructions on page 2) C-102 attached C-144 attached corrected 9/9/2008

DECLARED WATER BASIN

CEMENT BEHIND THE **85"**
CASING MUST BE **CIRCULATED**



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

DISTRICT I

1625 W. 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 October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30-005-64060	Pool Code 97482	Pool Name WC; Glorieta-Yeso
Property Code 37422	Property Name FUJI BMI FEDERAL	Well Number 1
OGRID No. 025575	Operator Name YATES PETROLEUM CORPORATION	Elevation 3715'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	25	12-S	27-E		1980	NORTH	660	EAST	CHAVES

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.						

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>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=818744.4 N X=545938.7 E</p> <p>LAT.=33.250668° N LONG.=104.183066° W</p> <p>LAT.=33°15'02.40" N LONG.=104°10'59.04" W</p>		<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>Debbie L. Caffall</i> 11/24/08 Signature Date Debbie L. Caffall Printed Name</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><i>Ronald J. Eidson</i> 11/18/08 Date Surveyed Signature & Seal of Professional Surveyor Professional Surveyor</p>
		<p>Certificate No. GARY EIDSON 12641 RONALD EIDSON 3239</p>

YATES PETROLEUM CORPORATION

Fuji BMI Federal #1

1980' FNL and 660' FEL

Section 25-T12S-R27E

Chaves County, New Mexico

1. The estimated tops of geologic markers are as follows:

Yates	200'	
Seven Rivers	330'	Water
Penrose	850'	Oil or Gas
Grayburg	1200'	Oil or Gas
San Andres	1480'	Oil
Glorieta	2685'	Water
Yeso	2810'	
TD	3000'	

2. The estimated depths at which anticipated water, oil or gas formations are expected to be encountered:

Water: 330' & 2685'
Oil or Gas: 850' & 1200' & 1480'.

3. Pressure Control Equipment: BOPE will be installed on the 8 5/8" casing and rated for 2000# BOP systems will be consistent with API RP 53. Pressure tests will be conducted before drilling out from under all casing strings, which are set and cemented in place. Blowout Preventor controls will be installed prior to drilling the surface plug and will remain in use until the well is completed or abandoned. Preventors will be inspected and operated at least daily to ensure good mechanical working order, and this inspection recorded on the daily drilling report. See Exhibit B.

4. Auxiliary Equipment: Kelly cock, pit level indicators, flow sensor equipment, and a sub with full opening valve to fit the drill pipe and collars will be available on the rig floor in the open position at all times for use when Kelly is not in use.

5. THE PROPOSED CASING AND CEMENTING PROGRAM:

A. Casing Program:

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./Ft</u>	<u>Grade</u>	<u>Coupling</u>	<u>Interval</u>	<u>Length</u>
12 1/2"	8 5/8"	24.0#	J-55	ST&C	0-1550	1550'
7 7/8"	5 1/2"	15.5#	J-55	LT&C	0-3000	3000'

1. Minimum Casing Design Factors: Collapse 1.125, Burst 1.0, and Tensile Strength 1.8
2. A 2,000 psi BOP will be nipped up on the 8 5/8" casing and tested to 2,000 psi .

B. CEMENTING PROGRAM:

Surface Casing: 525 sx Lite "C" (WT 12.50 YLD 2.00). Tail in with 200 sx class "C"
+ 2% CaCl₂ (YLD 1.32 WT 14.8) Cement to Surface.

Production Casing: Lead in with 125 sacks LiteCrete (WT 9.80 YLD 2.92).
Tail in with 500 sacks Pecos VILt (WT 13.00 YLD 1.41) Cement to surface.

6. MUD PROGRAM AND AUXILIARY EQUIPMENT:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-1550	FW Gel	8.4-8.6	32-36	N/C
1550' to 3000'	Cut Brine	9.4-9.6	28-28	N/C

Sufficient mud material(s) to maintain mud properties, control lost circulation and contain a blow out will be available at the well site during drilling operations. Rig personnel will check mud hourly.

7. EVALUATION PROGRAM:

Samples: Every 10' from surface casing to TD
Logging: CNL-LDT/NGT from TD to surface casing; CNL/GR TD to surface; DLL/MSFL
TD to surface casing; BCH Sonic to surface casing
Coring: None anticipated
DST's: None
Mudlogging: Yes

8. ABNORMAL CONDITIONS, BOTTOM HOLE PRESSURE, AND POTENTIAL HAZARDS:

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: None.

H2S Zones Anticipated: None Anticipated

Maximum Bottom Hole Temperature: 90 F

9. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 15 days to drill the well with completion taking another 20 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
YATES PETROLEUM CORPORATION
Fuji BMI Federal #1
1980' FNL & 660' FEL
Section 25-T12S-R27E
Chaves County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

1. EXISTING ROADS:

Exhibit A is a portion of the BLM map showing the well and roads in the vicinity of the proposed location. The proposed well site is located East of Dexter, New Mexico at the intersection of Merlinda Road and Wichita Road. The proposed route to the location is indicated in red and green on Exhibit A -1.

DIRECTIONS: East of Dexter, New Mexico, from the intersection of Merlinda Road and Wichita Road Travel East on Merlinda Road for approximately 8.5 miles to the proposed new road access prior to cattle guard. The new road will start here west of the existing fence line traveling in a northerly direction for approximately 1764.9 feet and turning westerly for approximately 199.6 feet to the southeast corner of proposed location.

2. PLANNED ACCESS ROAD:

- A. The proposed new access will be approximately 1364.9 feet more or less off lease and approximately 599.6 feet more or less on lease for a total of 1964.5 feet in length from Merlinda Road west of the existing fence line traveling in a northerly direction for approximately 1764.9 feet and turning westerly for approximately 199.6 feet to the southeast corner of proposed location. Exhibit A-2
- B. The new road will be 14 feet in width (driving surface) and will be adequately drained to control runoff and soil erosion.
- C. The new road will be bladed with drainage on both sides. Traffic turnout(s) only as needed.
- D. The route of the road is visible.
- E. Existing roads will be maintained in the same or better condition.

3. LOCATION OF EXISTING WELL:

- A. There is drilling activity within a one-mile radius of the well site.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed well site.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. There are production facilities on this lease at the present time.
- B. In the event that the well is productive, the necessary production facilities will be installed on the drilling pad. If the well is productive oil, a gas or diesel self-contained unit will be used to provide the necessary power. No power will be required if the well is a producing gas well.

Corrected 9/9/2008

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with a brine water system. The water will be obtained from commercial sources and will be hauled to the location by truck over the existing and proposed roads shown in Exhibit A.

6. SOURCE OF CONSTRUCTION MATERIALS:

The dirt contractor will be responsible for finding a source of material for construction of road and pad and will obtain any permits that may be required.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be collected in tanks until hauled to an approved disposal system.
- B. The Closed Loop System will be constructed, maintained and closed in compliance with the State of New Mexico, Energy and Natural Resources Department, Oil Conservation Division – the “Pit Rule” 19.15.17 NMAC. Form C-144 CLEZ is attached (Exhibit E).
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. All trash, junk, and other waste materials will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not approved.

8. ANCILLARY FACILITIES: NONE

9. WELLSITE LAYOUT:

- A. Exhibit C and C- 1 shows the relative location and dimensions of the well pad, the closed loop design plan, the location of the drilling equipment orientation and access road approach. (approximately 4 acres)
- B. The closed loop system will be constructed, maintained, and closed in compliance with the State of New Mexico, Energy and Natural Resources Department, Oil Conservation Division – the “Pit Rule” 19.15.17 NMAC. Form C-144 is attached – Exhibit E.
- C. A 600’ x 600’ area has been staked and flagged.

10. PLANS FOR RESTORATION:

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the well site in as aesthetically pleasing a condition as possible.
- B. Unguarded pits, if any, containing fluids will be fenced until they have dried and been leveled.
- C. If the proposed well is plugged and abandoned, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible.

Fuji BMI Federal #1
Page Three

11. SURFACE OWNERSHIP:

Federal Lands under the supervision of the BLM. Federal Minerals. Lease NM-101098 expires 8/31/2008. B.G. Hill is the Allotee – c/o Conejo Cattle Company (Calumet Ranch) P.O. Drawer 280, 1184 Merlinda Road, Dexter, NM 88230 (575) 734-2800.

12. OTHER INFORMATION:

- A. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, and historical and cultural sites.
- B. The primary surface use is for grazing.

9/9/2008

CERTIFICATION

YATES PETROLEUM CORPORATION

Fuji BMI Federal #1

1980' FNL & 660' FEL

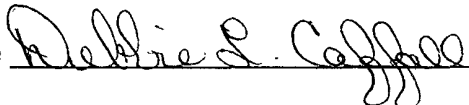
Section 25-T12S-R27E

Chaves County, New Mexico

I hereby certify that I, or someone under my direct supervision, have inspected the drill site and access route proposed herein; that I am familiar with the conditions which currently exist; that I or other company representatives have full knowledge of state and federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C. 1001 for the filing of false statements.

Executed this 24th day of July, 2008.

Name Debbie L. Caffall

Signature 

Position Title Regulatory Agent/Land Department

Address 105 South Fourth Street 88210

E-mail (optional) debbiec@ypcnm.com

Telephone 575-748-4376 or 365-5022

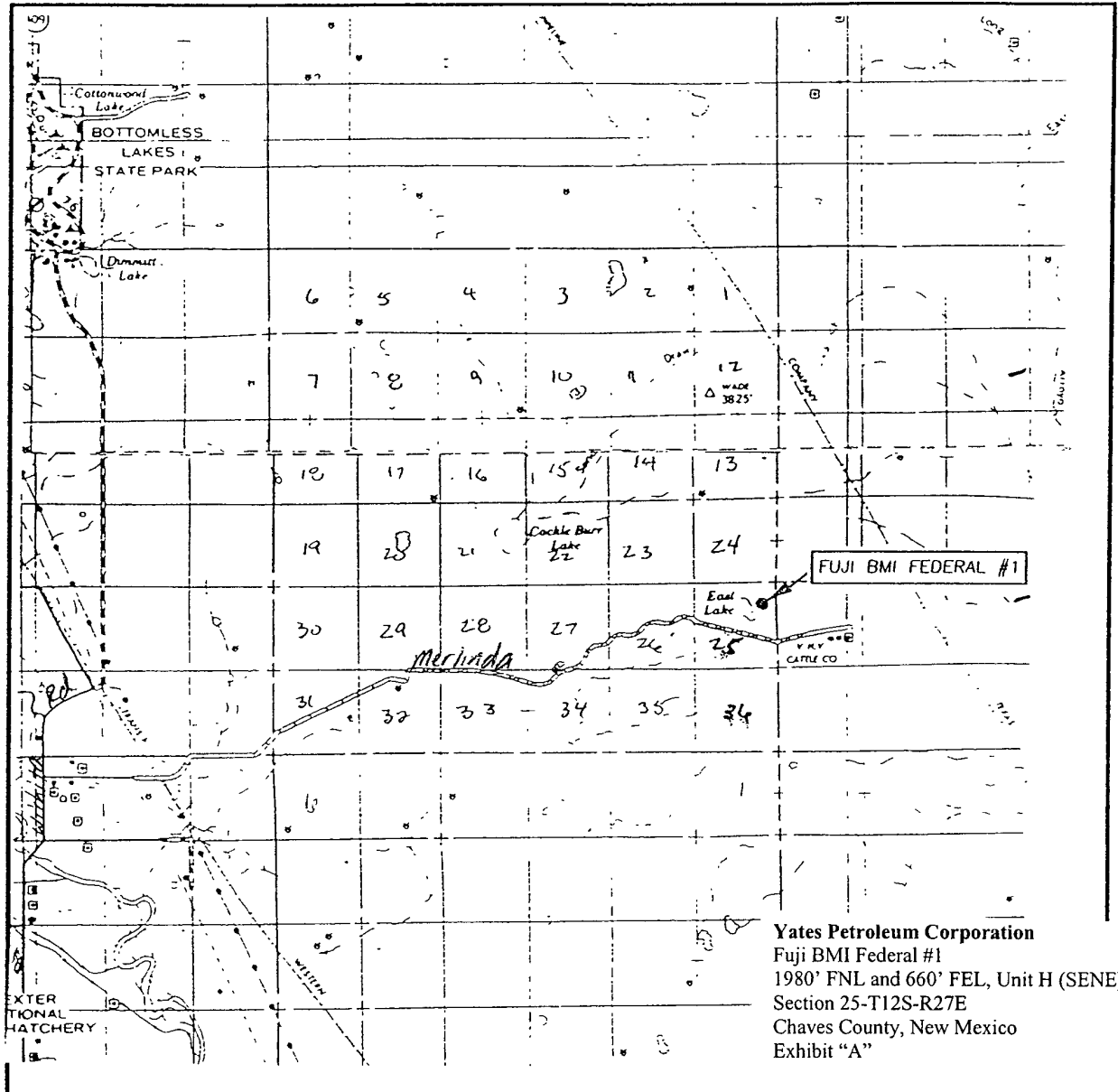
Field Representative (if not above signatory) Tim Bussell

Address (if different from above) Same

Telephone (if different from above) 575-748-4221

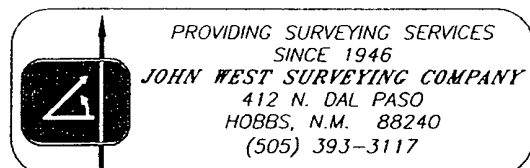
E-mail (optional) _____

VICINITY MAP



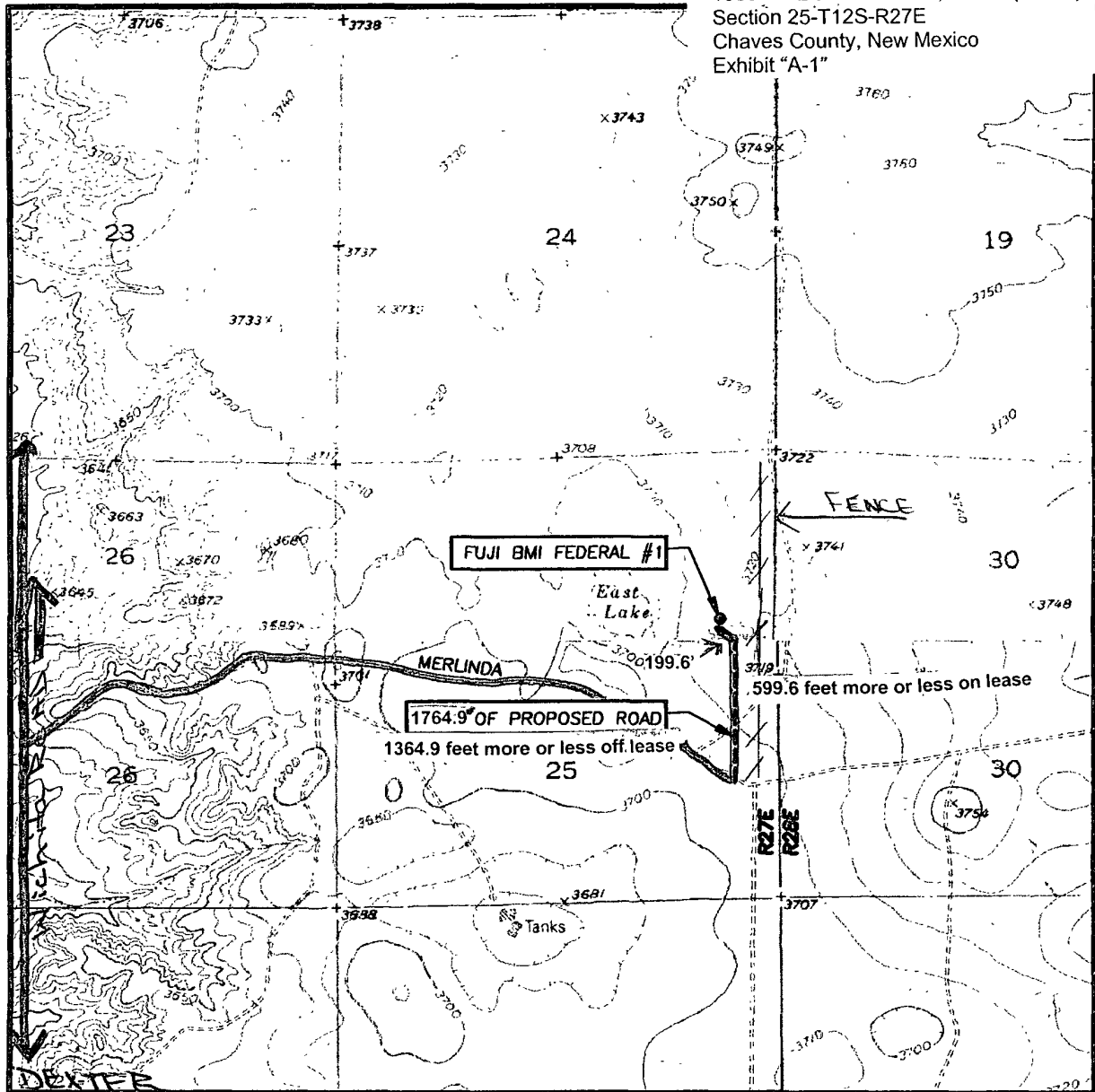
SCALE: 1" = 2 MILES

SEC. 25 TWP. 12-S RGE. 27-E
 SURVEY N.M.P.M.
 COUNTY CHAVES STATE NEW MEXICO
 DESCRIPTION 1980' FNL & 660' FEL
 ELEVATION 3715'
 OPERATOR YATES PETROLEUM CORPORATION
 LEASE FUJI BMI FEDERAL



LOCATION VERIFICATION MAP

Yates Petroleum Corporation
Fuji BMI Federal #1
1980' FNL and 660' FEL, Unit H (SENE)
Section 25-T12S-R27E
Chaves County, New Mexico
Exhibit "A-1"



SCALE: 1" = 2000'

CONTOUR INTERVAL:
WADE RANCH, N.M. - 10'
BAR C BAR RANCH, N.M. - 10'

SEC. 25 TWP. 12-S RGE. 27-E

SURVEY _____ N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

DESCRIPTION 1980' FNL & 660' FEL

ELEVATION 3715'

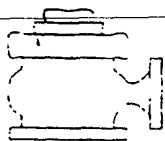
OPERATOR YATES PETROLEUM CORPORATION

LEASE FUJI BMI FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

9/9/2008

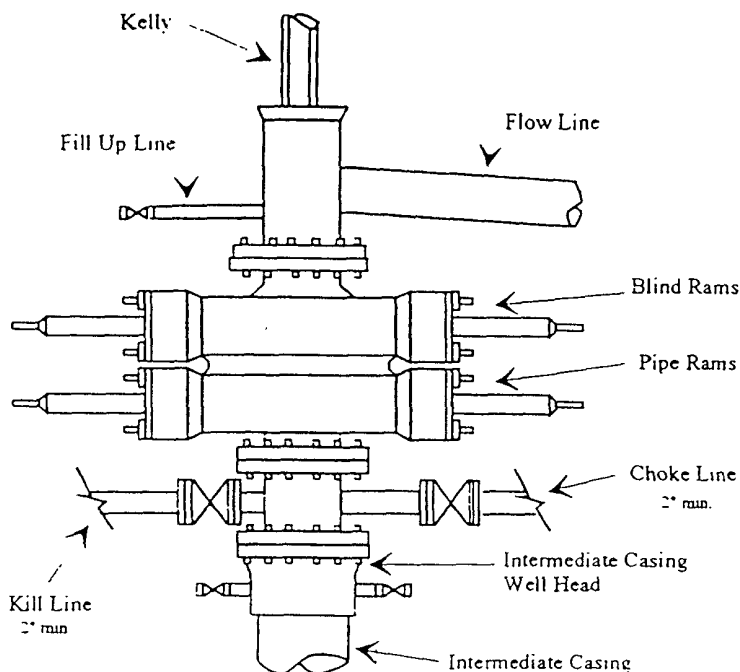
PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117



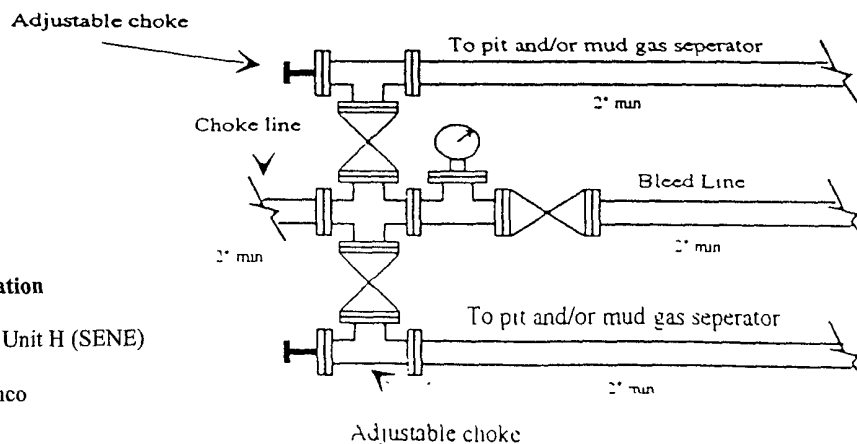
Yates Petroleum Corporation

BOP-2

Typical 2,000 psi Pressure System Schematic Double Ram Preventer Stack

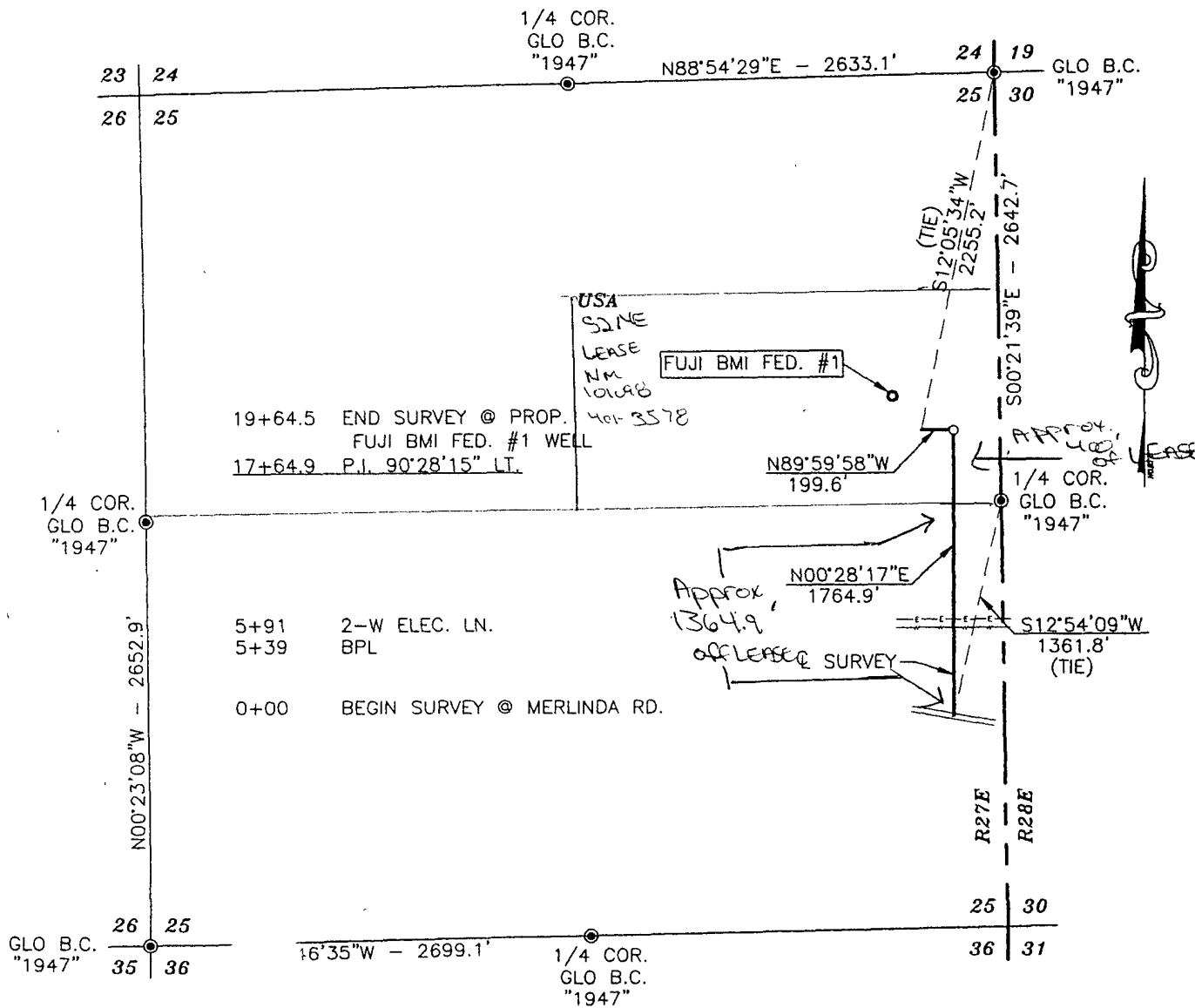


Typical 2,000 psi choke manifold assembly with at least these minimum features



Yates Petroleum Corporation
Fujr BMI Federal #1
1980' FNL and 660' FEL, Unit H (SENE)
Section 25-T12S-R27E
Chaves County, New Mexico
Exhibit "B"

SECTION 25, TOWNSHIP 12 SOUTH, RANGE 27 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO.



DESCRIPTION

A STRIP OF LAND 50.0 FEET WIDE AND 1964.5 FEET OR 0.372 MILES IN LENGTH CROSSING USA LAND IN SECTION 25, TOWNSHIP 12 SOUTH, RANGE 27 EAST, NMPM, CHAVES COUNTY, NEW MEXICO AND BEING 25.0 FEET LEFT AND 25.0 FEET RIGHT OF THE ABOVE PLATTED CENTERLINE SURVEY.

Being approximately 1364.9 feet more or less off lease and 599.6 feet more or less on lease for a total of 1964.5 feet.

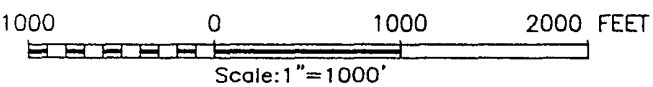
NM-121139
Fuji BMI Federal #1

NOTE: BEARINGS SHOWN HEREON ARE MERCATOR GRID AND CONFORM TO THE NEW MEXICO COORDINATE SYSTEM "NEW MEXICO EAST ZONE" NORTH AMERICAN DATUM 1983. DISTANCES ARE SURFACE VALUES.

9/9/2008

Yates Petroleum Corporation
Fuji BMI Federal #1
1980' FNL and 660' FEL, Unit H (SENE)
Section 25-T12S-R27E
Chaves County, New Mexico
Exhibit "A-2"

I HEREBY CERTIFY THAT I DIRECTED AND AM RESPONSIBLE FOR THIS SURVEY. THAT THIS SURVEY IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF, AND THAT THIS SURVEY AND PLAT MEET THE MINIMUM STANDARDS FOR SURVEYING IN NEW MEXICO.



3239

RONALD J. BLISSON, Surveyor

PROVIDING SURVEYING SERVICES SINCE 1946

JOHN WEST SURVEYING COMPANY

412 N. DAL PASO
HOBBS, N.M. 88240
(505) 393-3117

YATES PETROLEUM CORPORATION

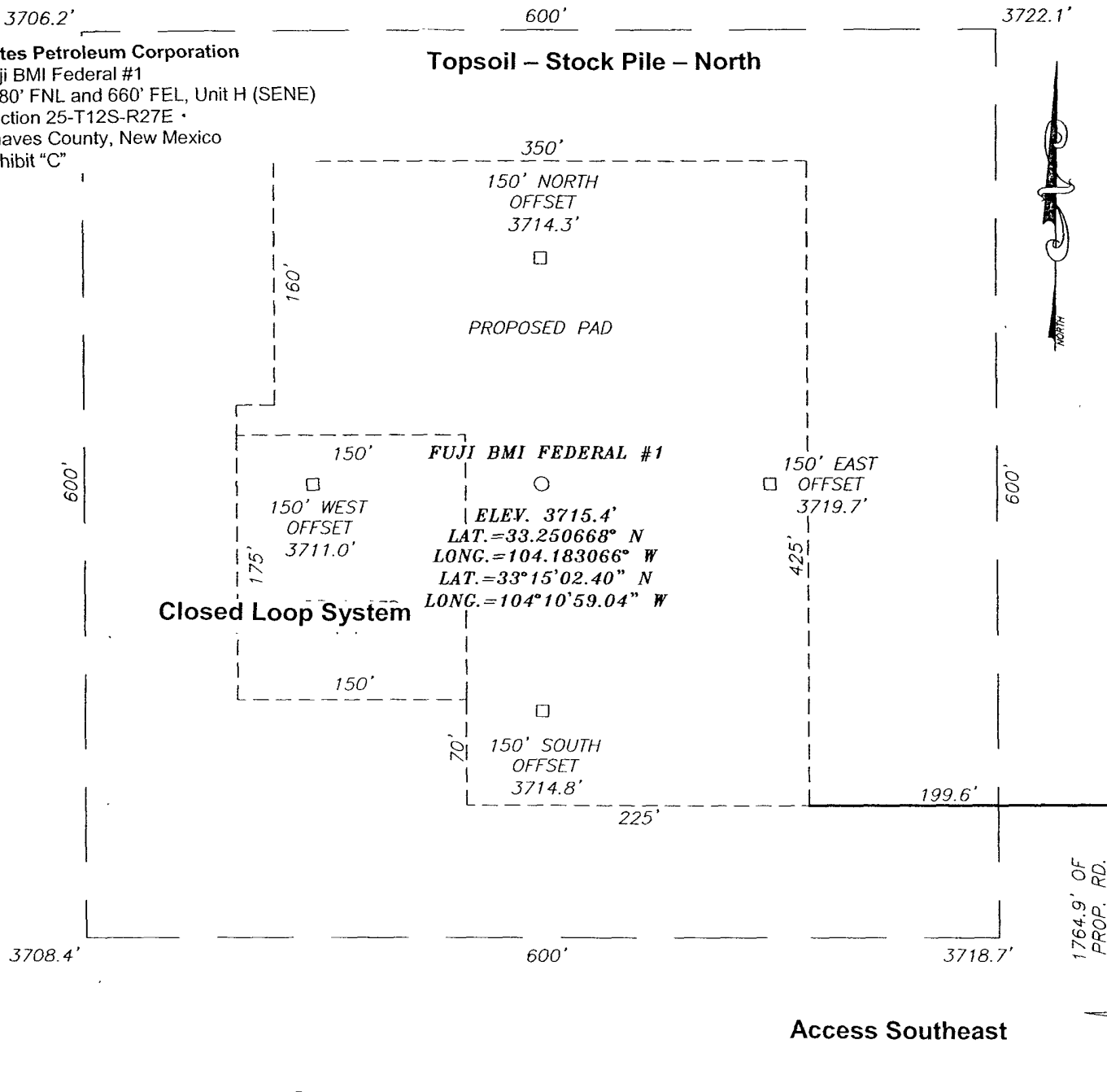
SURVEY OF A ACCESS ROAD CROSSING
SECTION 25, TOWNSHIP 12 SOUTH, RANGE 27 EAST,
N.M.P.M., CHAVES COUNTY, NEW MEXICO

Survey Date: 7/24/08	Sheet 1 of 1 Sheets
W.O. Number: 08.11.1104	Drawn By: LA
Date: 8/4/08	08111104

SECTION 25, TOWNSHIP 12 SOUTH, RANGE 27 EAST, N.M.P.M.,
CHAVES COUNTY, NEW MEXICO

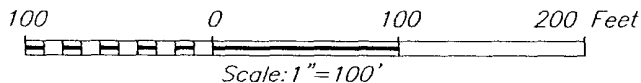
Yates Petroleum Corporation
 Fuji BMI Federal #1
 1980' FNL and 660' FEL, Unit H (SENE)
 Section 25-T12S-R27E •
 Chaves County, New Mexico
 Exhibit "C"

Topsoil – Stock Pile – North



DIRECTIONS TO LOCATION

East of Dexter, New Mexico, from the intersection of Merlinda Road and Wichita Road Travel East on Merlinda Road for approximately 8.5 miles to the proposed new road access prior to cattle guard. The new road will start here west of the existing fence line traveling in a northerly direction for approximately 1764.9 feet and turning westerly for approximately 199.6 feet to the southeast corner of proposed location.

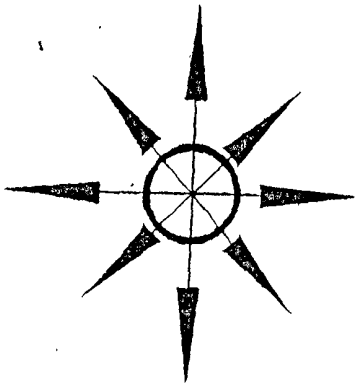


YATES PETROLEUM CORPORATION

FUJI BMI FEDERAL #1 WELL
 LOCATED 1980 FEET FROM THE NORTH LINE
 AND 660 FEET FROM THE EAST LINE OF SECTION 25,
 TOWNSHIP 12 SOUTH, RANGE 27 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

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

Survey Date: 7/2/08		Sheet 1 of 1 Sheets	
W.O. Number: 08.11.1104		Dr By: LA	Rev 1:8/12/08
Date: 7/8/08		08111104	Scale: 1"=100'

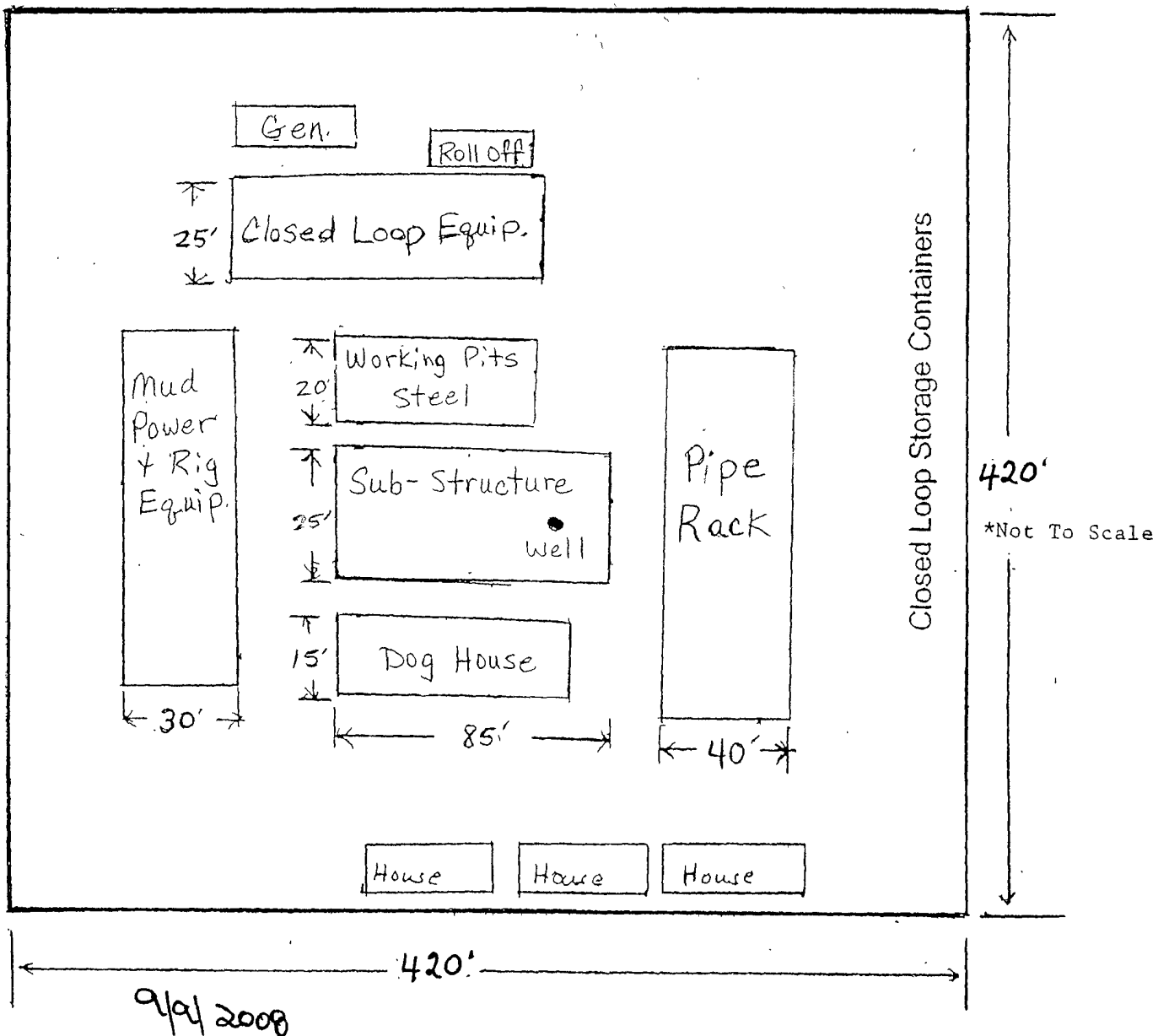


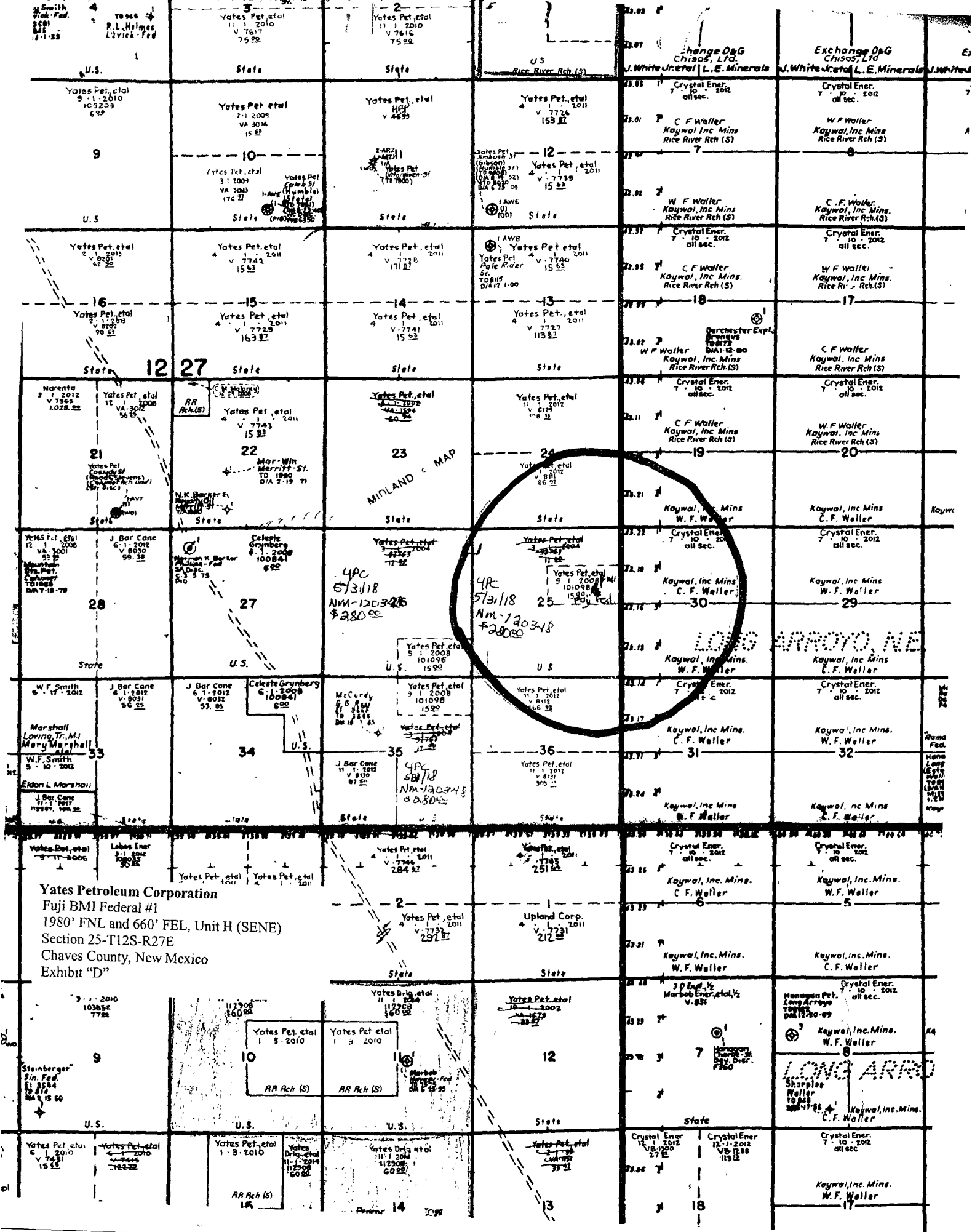
Yates Petroleum Corporation

Location Layout for Permian Basin

Closed Loop Design Plan

Yates Petroleum Corporation
Fuji BMI Federal #1
1980' FNL and 660' FEL, Unit H (SENE)
Section 25-T12S-R27E
Chaves County, New Mexico
Exhibit "C-1"





Yates Petroleum Corporation
Fuji BMI Federal #1
1980' FNL and 660' FEL, Unit H (SENE)
Section 25-T12S-R27E
Chaves County, New Mexico
Exhibit "D"

MARTIN YATES, III
1922-1985

FRANK W. YATES
1936-1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (575) 748-1471

S.P. YATES
CHAIRMAN EMERITUS

JOHN A. YATES
CHAIRMAN OF THE BOARD

FRANK YATES, JR.
PRESIDENT

PEYTON YATES
DIRECTOR

JOHN A. YATES, JR.
DIRECTOR

As per BLM instructions, Yates Petroleum Corporation is tendering the \$4,000.00 APD Processing Fee for the Fuji BMI Federal #1, APD date submitted: July 24, 2008, Section 25, Township 12 South, Range 27 East, Chaves County, New Mexico.

Please be advised we are tendering this fee under protest as we believe it contradicts language in the Energy Policy Act of 2005 signed by President Bush.

First National Bank
ARTESIA, NEW MEXICO

95-43
1122



YATES BUILDING • ARTESIA, N.M. 88210

No. 155402

JUL 24, 2008

PAY*****4000*DOLLARS*AND*00*CENTS

\$*****4,000.00

134200 BUREAU OF LAND MANAGEMENT -
TO THE ROSWELL
ORDER 2909 WEST SECOND STREET
OF ROSWELL, NM 88201-2019

Kathy H. Porter

⑈155402⑈ ⑆112200439⑆

⑈69408810⑈

DETACH BEFORE DEPOSITING CHECK

YATES PETROLEUM CORPORATION
105 SOUTH 4TH STREET ARTESIA, N.M. 88210

No. 155402

\$4,000.00

OLC/MS
RECORDING/FILING FEES
FEDERAL FILING FEE FOR APPLICATION FOR PERMIT TO DRILL
FUJI BM1 FEDERAL #1
SECTION 25, T12S-R27E
CHAVES COUNTY, NEW MEXICO

EXHIBIT A
PECOS DISTRICT, ROSWELL FIELD OFFICE
CONDITIONS OF APPROVAL

September 19, 2008

Fuji BMI Federal #1
Surface Hole: 1980' FNL & 660' FEL,
Section 25, T. 12 S., R. 27 E.
Chaves County, New Mexico, NMPM
NM-101098

GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

I. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD (Filing of a Sundry Notice is required for this 60 day extension).

II. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or Paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or Paleontological resources may result in a shutdown order by the Authorized Officer.

III. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations (access road and/or well pad). Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

IV. CONSTRUCTION

A. NOTIFICATION:

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Roswell Field Office at (505) 627-0247 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved Application for Permit to Drill and Conditions of Approval on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL:

The operator shall stockpile the topsoil of the well pad. The topsoil to be stripped to approximately 6 inches in depth. The topsoil shall be used for interim and final reclamation of the well pad. The topsoil shall be stockpiled in the north side of the well pad.

C. CLOSED LOOP SYSTEM: No reserve pit will be used.

A containment structure or earthen dike shall be constructed and maintained around all sides of the outside boundary of the well pad. The containment structure or earthen dike shall be constructed two (2) feet high (the containment structure or earthen dike can be constructed higher than the two (2) feet high minimum). The containment structure or earthen dike is required so that if oilfield waste contaminant or product contaminant were leaked, spilled, and or released upon the well pad the oilfield waste contaminant or product contaminant shall be contained on the well pad. If the well pad is constructed into a cut on a slope then the uphill side of the well pad will not require the construction of the containment structure or earthen dike, but the construction of the containment structure or dike will be required on the remaining three sides of the well pad which will extend into the uphill portion of the well pad.

D. FEDERAL MINERAL MATERIALS PIT:

If the operator elects to surface the access road and/or well pad, mineral materials extracted during construction of the reserve pit may be used for surfacing the well pad and access road and other facilities on the lease.

E. WELL PAD SURFACING:

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational need.

F. ON LEASE ACCESS ROADS:

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material may be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

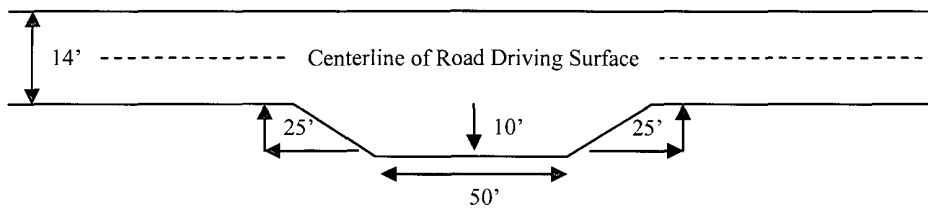
Crowning

Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Turnouts

Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:

Standard Turnout – Plan View

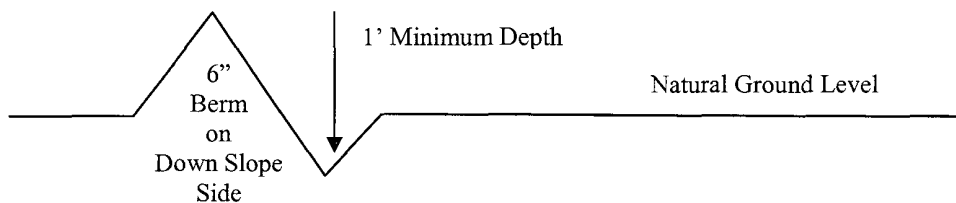


Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outsloping and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.

Cross Section Of Typical Lead-off Ditch



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula For Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4\%} + 100' = 200' \text{ lead-off ditch interval}$$

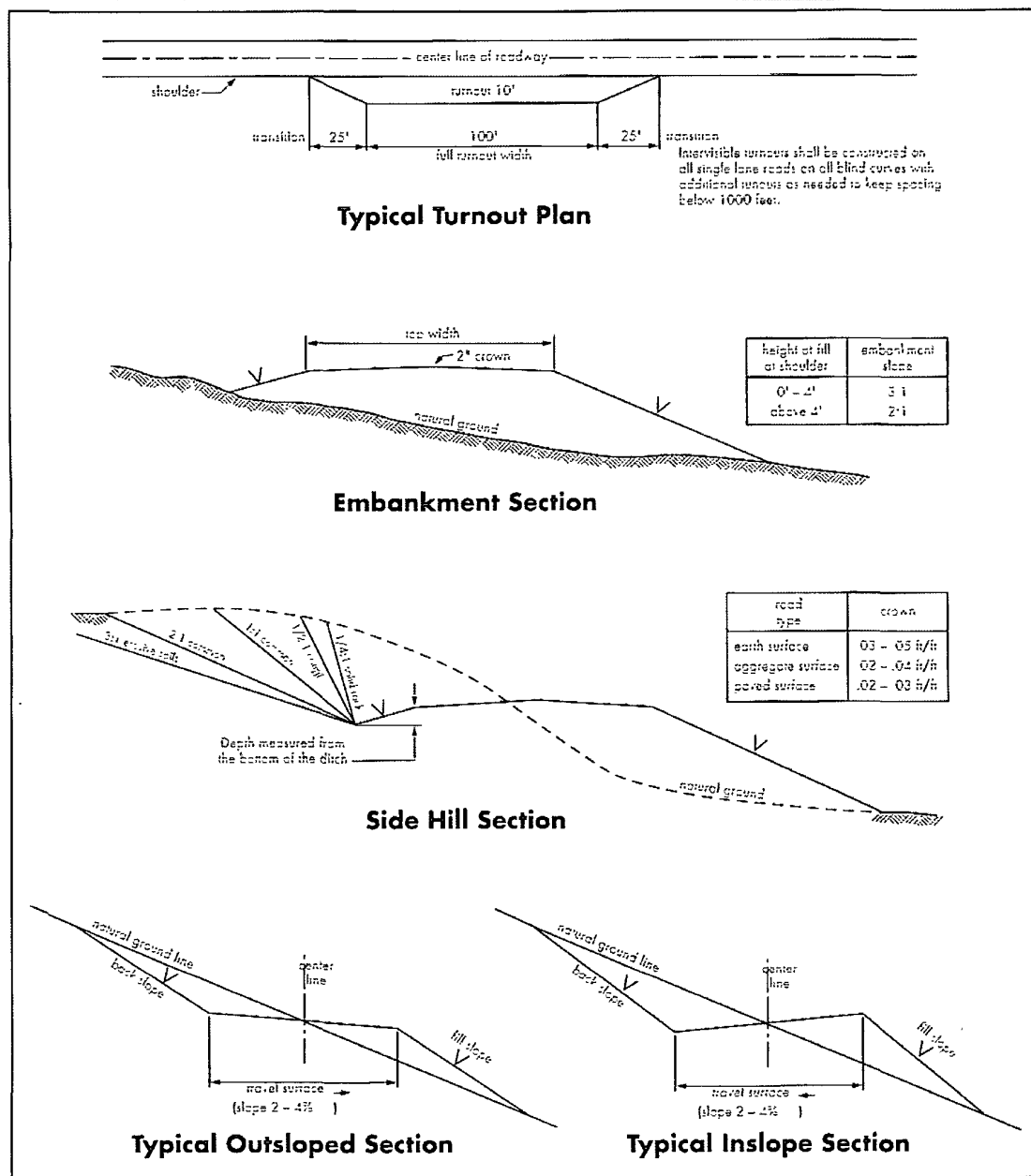
Public Access

Public access on this road shall not be restricted by the operator without specific written approval granted by the Authorized Officer.

Pipeline Protection Requirement

Precautionary measures shall be taken by the operator during construction of the access road to protect existing pipeline(s) that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (**2' X 3' X 14'**), shall be constructed over each of the existing pipeline(s). The operator shall be held responsible for any damage to the existing pipeline(s). If the either pipeline is ruptured and/or damaged the operator shall immediately cease construction operations and repair the pipeline(s). The operator shall be held liable for any unsafe construction operations that threaten human life and/or cause the destruction of equipment.

Figure 1 – Cross Sections and Plans For Typical Road Sections



V. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

- 1 Chaves and Roosevelt Counties: Call the Roswell Field Office, 2909 West Second St., Roswell, NM 88201, 24 hours at (575) 627-0205.
2. The BLM is to be notified a minimum of 24 hours in advance for a representative to witness:
 - a. Spudding well
 - b. Setting and/or Cementing of all casing strings

The BLM is to be notified a minimum of 4 hours in advance for a representative to witness:

BOPE 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.
5. The operator will accurately measure the drilling rate in ft/min to set the base of the usable water protection casing string opposite competent rock. The record of the drilling rate along with the caliper-gamma ray-neutron well log run to surface will be submitted to this office as well as all other logs run on the borehole 30 days from completion
6. Air, air-mist or fresh water and non toxic drilling mud shall be used to drill to the base of the usable water protection casing string. Any polymers used will be water based and non-toxic.

B. CASING

1. The 8 5/8 inch usable water protection casing string shall be set at approximately 1550 ft. in competent bedrock.

If not the operator is required to set casing in the next thick competent bedding (i.e. 15 to 25 ft or greater) encountered and cemented to the surface.

- a. If cement does not circulate to the surface, the Roswell Field Office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
- b. Wait on cement (WOC) time for a primary cement job will be a minimum 18 hours for a water basin or 500 pounds compression strength, whichever is greater. (This is to include the lead cement).
- c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compression strength, whichever is greater.

- d. If cement falls back, remedial action will be done prior to drilling out that string.
2. The minimum required fill of cement behind the **5-1/2** inch production casing is **sufficient to tie back 500 feet above the uppermost perforation in the pay zone**. If cement does not circulate, a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
3. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

C. PRESSURE CONTROL:

1. Before drilling below the **8-5/8** inch surface casing shoe, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve.
2. Before drilling below the **8-5/8** inch surface casing shoe, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **2000** psi.
3. The BOPE shall be installed before drilling below the **8-5/8** inch surface casing and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
 - a. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.
 - b. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.
 - c. 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.
 - d. Testing must be done in a safe workman like manner. Hard line connections shall be required.

VI. PRODUCTION

A. WELL STRUCTURES & FACILITIES

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim re-contouring and re-vegetation of the well location.

Containment Structures

The containment structure shall be constructed to hold the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted "**Juniper Green**" according to the guidelines set forth by the BLM's "Standard Environmental Colors Color Guide.

VII. INTERIM RECLAMATION & RESERVE PIT CLOSURE

A. INTERIM RECLAMATION

If the well is a producer, interim reclamation shall be conducted on the well site in accordance with the orders of the Authorized Officer. The operator shall submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

During the life of the development, all disturbed areas not needed for active support of production operations should undergo "interim" reclamation in order to minimize the environmental impacts of development on other resources and uses.

During reclamation, the removal of caliche is important to increasing the success of re-vegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, in order to operate the well or complete work over operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing re-vegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be re-vegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

The location, when closed, shall be re-contoured, all trash removed, and reseeded as follows:

PECOS DISTRICT SEED MIX FOR:

Ecological Site: Shallow Sand SD-3 and Sandy SD-3		
Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Black grama	(<i>Bouteloua eriopoda</i>)	3.00 lbs.
or Blue grama,	(<i>Bouteloua gracilis</i>)	
Sideoats grama	(<i>Bouteloua curtipendula</i>)	2.00 lbs.
Sand dropseed	(<i>Sporobolus cryptandrus</i>)	1.50 lbs.
or Mesa dropseed	(<i>S. flexuosus</i>)	
or Spike dropseed	(<i>S. contractus</i>)	
Desert or Scarlet	(<i>Sphaeralcea ambigua</i>)	1.00 lb.
Globemallow or	(<i>S. coccinea</i>)	
Croton	(<i>Croton</i> spp.)	<u>1.00 lb.</u>
TOTAL POUNDS PURE LIVE SEED (pls) PER ACRE		8.50 lbs.

Certified Weed Free Seed. If one species is not available increase all others proportionately. Use no less than 4 species, including 1 forb. No less than 8.5 pounds lbs per acre shall be applied.

VIII. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

- a. Upon abandonment of the well and/or when the access road is no longer in service, a Notice of Intent for Final Abandonment with the proposed surface restoration procedure must be submitted for approval.
- b. Upon abandonment of the well, all casing shall be cut-off at the base of the cellar or 3-feet below final restored ground level (whichever is deeper). A 4-inch pipe, 10 feet in length, shall be installed 4 feet above ground and embedded in cement. The following information shall be permanently inscribed on the dry hole marker: Well name and number, the name of the operator, the lease serial number, the surveyed location (the quarter-quarter section, section, township and range or other authorized survey designation acceptable to the authorized officer; such as metes and bounds).
- c. Surface Reclamation must be completed within 6 months of well plugging. If the operator proposes to modify the plans for surface reclamation approved on the APD, the operator must attach these modifications to the Subsequent Report of Plug and Abandon using Sundry Notices and Reports on Wells, Form 3160-5.

Exhibit B Well Location Map

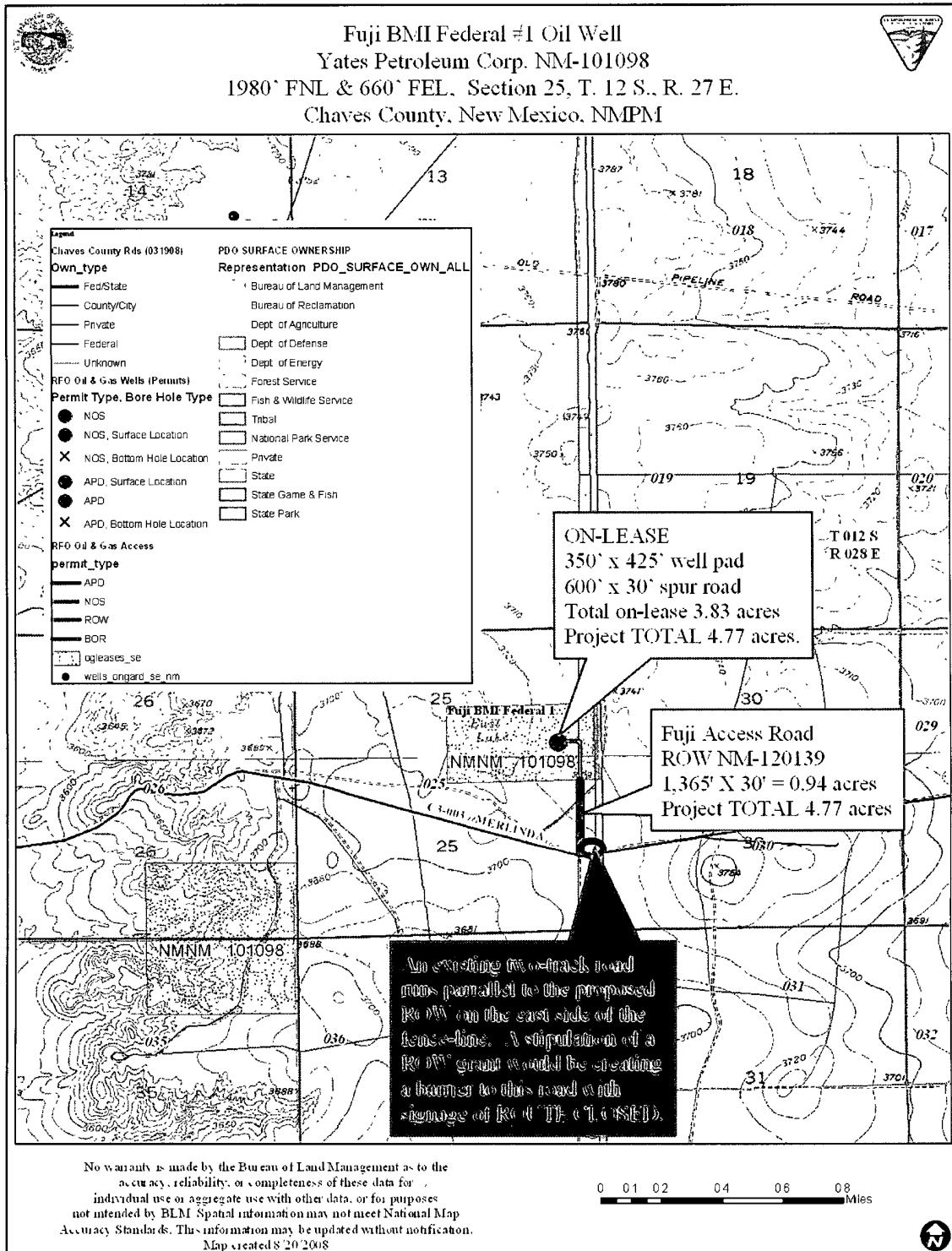


EXHIBIT C
Right-of-Way Stipulations

September 19, 2008

The holder shall construct, operate, and maintain the facilities, improvements, and structures within this right-of-way in strict conformity with the stipulations which are made part of the grant. Any relocation, additional construction, or use that is not in accord with the approved stipulations, shall not be initiated without the prior written approval of the authorized officer. A copy of the complete right-of-way grant, including all stipulations, shall be made available on the right-of-way area during construction, operation, and termination to the authorized officer. Noncompliance with the above will be grounds for an immediate temporary suspension of activities if it constitutes a threat to public health and safety or the environment.

The holder shall designate a representative(s) who shall have the authority to act upon and to implement instructions from the authorized officer. The holder's representative shall be available for communication with the authorized officer within a reasonable time when construction or other surface disturbing activities are underway.

The holder shall contact the authorized officer at least 10 days prior to the anticipated start of construction and/or any surface disturbing activities. The authorized officer may require and schedule a preconstruction conference with the holder prior to the holder's commencing construction and/or surface disturbing activities on the right-of-way. The holder and/or his representative shall attend this conference. The holder's contractor, or agents involved with construction and/or any surface disturbing activities associated with the right-of-way, shall also attend this conference to review the stipulations of the grant including the plans(s) of development.

The holder shall conduct all activities associated with the construction, operation, and termination of the right-of-way within the authorized limits of the right-of-way.

The holder shall provide for the safety of the public entering the right-of-way. This includes, but is not limited to, barricades for open trenches, flag men/women with communication systems for single-lane roads without visible turnouts, and attended gates for blasting operations.

The holder shall permit free and unrestricted public access to and upon the right-of-way for all lawful purposes except for those specific areas designated as restricted by the authorized officer to protect the public, wildlife, livestock, or facilities constructed within the right-of-way.

Construction-related traffic shall be restricted to routes approved by the authorized officer. New access roads or cross-country vehicle travel will not be permitted unless prior written approval is given by the authorized officer. Authorized roads used by the holder shall be rehabilitated or maintained when construction activities are complete as approved by the authorized officer.

No construction or routine maintenance activities shall be performed during periods when the soil is too wet to adequately support construction equipment. If such equipment creates ruts in

excess of three inches deep, the soil shall be deemed too wet to adequately support construction equipment.

The holder shall maintain the right-of-way in a safe, usable condition, as directed by the authorized officer. (A regular maintenance program shall include, but is not limited to, blading, ditching, culvert installation and surfacing).

The holder shall meet Federal, State, and local emission standards for air quality.

Any cultural and/or Paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on his behalf, on public or Federal land shall be immediately reported to the authorized officer. Holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to proper mitigation measures will be made by the authorized officer after consulting with the holder.

Construction sites shall be maintained in a sanitary condition at all times; waste materials at those sites shall be disposed of promptly at an appropriate waste disposal site. "Waste" means all discarded matter including, but not limited to, human waste, trash, garbage, refuse, oil drums, petroleum products, ashes, and equipment.

The holder(s) shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder(s) shall comply with the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, et seq.) with regard to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized under this right-of-way grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.

The holder of the Right-of-Way agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq. or the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901 et seq.) on the right-of-way (unless the release or threatened release is wholly unrelated to the right-of-way holder's activity on the right-of-way. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

Power or high-pressure clean all equipment of all mud, dirt, and plants immediately prior to moving into and off of the project area. Any gravel or fill to be used must come from weed-free

sources. Inspect gravel pits and fill sources to identify weed-free sources. No soil spoil that could potentially contain noxious weed seeds shall be transported out of the area where it is created. If seeding is required, it must be certified noxious weed free. If the applicant is required to mulch, that also must be weed free.

Any use of herbicides/pesticides shall comply with the applicable Federal and State laws. Herbicides/pesticides shall be used only in accordance with their registered uses and within limitations imposed by the Secretary of the Interior. Prior to the use of pesticides, holder shall obtain from the Authorized Officer (AO) written approval of a plan showing the type and quantity of materials to be used, pest(s) to be controlled, method of application, location of storage and disposal of containers, and any other information deemed necessary by the AO. Emergency use of pesticides shall be approved in writing by the AO prior to use.

Prior to termination of the right-of-way, the holder shall contact the authorized officer to arrange a joint inspection of the right-of-way. This inspection will be held to agree to an acceptable termination (and rehabilitation) plan. This plan shall include, but is not limited to, removal of facilities, drainage structures, or surface material, re-contouring, top soiling, or seeding. The authorized officer must approve the plan in writing prior to the holder's commencement of any termination activities.

ROW holder must construct earthen berm barriers at the mapped location to close off an existing two track road. Signage, to be provided by BLM must be installed. The berm shall:

- be constructed from compacted earth and rocks not contaminated with oil, salt or other pollutant as described in the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, *et. seq.*);
- be at least three and one-half feet (3½') high, after compaction;
- be sloped as steeply as feasible;
- be "tied" into existing large vegetation (such as mesquite, trees, etc.), boulders, slope faces or other natural obstructions, if possible.