



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
 ROSWELL FIELD OFFICE
 2909 West Second Street
 Roswell, New Mexico 88201-2019

IN REPLY REFER
 NMNM111025X
 3180 (06300)

MAR 01 2004

Yates Petroleum Corporation
 Attention: George Freeman
 105 S. Fourth Street
 Artesia, NM 88210-2118

Gentlemen:

Your application of February 10, 2004, filed with the BLM requests the designation of the North Dagger Draw Upper Penn Unit area, embracing 5612.95 acres, more or less, Eddy County, New Mexico, as logically subject to secondary recovery operations under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 43 CFR 3180, the land requested as outlined on your plat marked Exhibit A, Yates Petroleum Corporation, North Dagger Draw Upper Penn Unit, Eddy County, New Mexico, is hereby designated as a logical unit area and has been assigned No. NMNM111025X. This designation is valid for a period from one year from the date of this letter.

Waterflooding will be limited to the following interval: That interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as the top of the Canyon Carbonate formation found at a depth of 7,680 feet, to a lower limit of the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/PEF and GR/DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" #1 well (located 600 feet FNL and 660 feet FWL of Section 21, T. 19 S., R. 25 E., Eddy County, New Mexico)

Your basis for allocation of unitized substances and your proposed form of unit agreement are acceptable. Corrections that need to be made to the enclosed Exhibits A and B are marked in red. On Exhibit B please list Federal tracts together, State tracts together, and Fee tracts together, do not mix the tracts. The Federal tracts should be listed first. Some of the tracts will have to be re-numbered to follow the numerical sequence.

If conditions are such that modification of said standard form is deemed necessary, two copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

In the absence of any type of land requiring special provisions or any objections not now apparent, a duly executed agreement identical with said form, modified as outline above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

BEFORE THE OIL CONSERVATION DIVISION
 Santa Fe, New Mexico
 Case Nos. 13227/13228 Exhibit No. 7
 Submitted by:
Yates Petroleum Corporation
 Hearing Date: March 4, 2004

When the executed agreement is transmitted to the BLM for final approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the reprint of the aforementioned form. You will also need to submit an initial Plan of Operations and a list of wells showing the old well names and numbers and the new well names and numbers.

Inasmuch as this unit agreement involves State and Fee lands, we are sending a copy of the letter to the Commissioner of Public Lands and the NMOCD. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the state.

Sincerely,



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Larry D. Bray
Assistant Field Manager,
Lands and Minerals

Enclosures

Items as listed on Exhibit B when it is corrected
 Susan Venter
 12/20/04

EXHIBIT "A"
YATES PETROLEUM CORPORATION
NORTH DAGGER DRAW
UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

Show Acreage

Federal Land
 State Land
 Fee Land

All Leases are Held by Production

Scale: 2.5 inches = 1 mile



