



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

| | | |
|--------------------------------------------------|-----------------------------------------|-------------------------------------------------|
| AFE Type: | Well Objective: | Well Type: |
| <input checked="" type="checkbox"/> New Drilling | <input type="checkbox"/> Oil | <input checked="" type="checkbox"/> Development |
| <input type="checkbox"/> Recompletion | <input checked="" type="checkbox"/> Gas | <input type="checkbox"/> Exploratory |
| <input type="checkbox"/> Re-entry | <input type="checkbox"/> Injector | |

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| AFE NO. | 05-067-0 |
| AFE DATE | 2/8/2005 |

AFEND (rev 8/98)

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|----------------------------------------------|--|
| AFE STATUS: | |
| <input checked="" type="checkbox"/> Original | |
| <input type="checkbox"/> Revised | |
| <input type="checkbox"/> Final | |
| <input type="checkbox"/> Supplemental | |

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|------------|------------------------------------------|--------------|---------------|
| LEASE NAME | Chesney State Unit #1 | PROJ'D DEPTH | 13,100' |
| COUNTY | Lea | STATE | New Mexico |
| FIELD | | HORIZON | Mississippian |
| LOCATION | Section 26, T11S-R35E, 1,650' N & 990' W | | |

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| DIVISION CODE | 100 | DIVISION NAME | Oil & Gas Division |
| DISTRICT CODE | | DISTRICT NAME | |
| BRANCH CODE | | BRANCH NAME | |

PROGNOSIS: New well drilled to 13,100' to test the Morrow and Atoka formations.

| INTANGIBLE DRILLING COSTS: | | DRY HOLE | COMP'D WELL |
|---------------------------------|-----------------------------------------------------------------|-----------|-------------|
| 920-100 | Staking, Permit & Legal Fees | 3,000 | 3,000 |
| 920-110 | Location, Right-of-Way | 50,000 | 50,000 |
| 920-120 | Drilling, Footage | | |
| 920-130 | Drilling, Daywork & fuel 57 days @ \$12,000/day + \$45K for mob | 773,000 | 773,000 |
| 920-140 | Drilling Water, Fasline Rental | 45,000 | 45,000 |
| 920-150 | Drilling Mud & Additives | 85,000 | 85,000 |
| 920-160 | Mud Logging Unit, Sample Bags | 30,000 | 30,000 |
| 920-170 | Cementing - Surface Casing | 40,000 | 40,000 |
| 920-180 | Drill Stem Testing, OHT | | |
| 920-190 | Electric Logs & Tape Copies | 50,000 | 50,000 |
| 920-200 | Tools & Equip. Rntl., Trkg. & Welding | 80,000 | 80,000 |
| 920-205 | Control of Well-Insurance | 9,000 | 9,000 |
| 920-210 | Supervision & Overhead | 50,000 | 50,000 |
| 920-230 | Coring, Tools & Service | | |
| 920-240 | Bits, Tool & Supplies Purchase | 65,000 | 65,000 |
| 920-350 | Cementing - Production Casing | | 75,000 |
| 920-410 | Completion Unit - Swabbing | | 40,000 |
| 920-420 | Water for Completion | | 15,000 |
| 920-430 | Mud & Additives for Completion | | |
| 920-440 | Cementing - Completion | | |
| 920-450 | Elec. Logs, Testing, Etc. - Completion | | 25,000 |
| 920-460 | Tools & Equip. Rental, Etc. - Completion | | 40,000 |
| 920-470 | Stimulation for Completion | | 80,000 |
| 920-480 | Supervision & O/H - Completion | | 7,500 |
| 920-490 | Additional LOC Charges - Completion | 140,000 | 140,000 |
| 920-510 | Bits, Tools & Supplies - Completion | | 1,500 |
| 920-500 | Contingency for Completion | 100,000 | 150,000 |
| TOTAL INTANGIBLE DRILLING COSTS | | 1,520,000 | 1,854,000 |

| TANGIBLE EQUIPMENT COSTS: | | | |
|--------------------------------|-------------------------------------|---------|---------|
| 930-010 | Christmas Tree & Wellhead | 5,000 | 25,000 |
| 930-020 | Casing 13 3/8" @ 400' | 13,000 | 13,000 |
| | 9 5/8" @ 4,350' | 111,000 | 111,000 |
| | 5 1/2" @ 13,100' | | 178,000 |
| 930-030 | Tubing 2 7/8" @ 12,900' | | 73,000 |
| 930-040 | Packer & Special Equipment | | |
| 940-010 | Pumping Equipment | | |
| 940-020 | Storage Facilities | | 20,000 |
| 940-030 | Separation Equip., Flowlines, Misc. | | 60,000 |
| 940-040 | Trucking & Construction Costs | | 20,000 |
| TOTAL TANGIBLE EQUIPMENT COSTS | | 129,000 | 500,000 |

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| TOTAL COSTS | 1,649,000 | 2,354,000 |
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IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

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| Prepared By | Jeremiah Mullen | Operations Approval | |
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BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13434 Exhibit No. 2
Submitted by:
Yates Petroleum Corporation
Hearing Date: March 3, 2005