



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

**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO.  
AFE DATE

06-003-0  
1/4/2005

AFEND (rev 6/98)

|  |   |   |
|--|---|---|
| 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       |   |

AFE STATUS:

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

|            |   |              |               |
|------------|---|--------------|---------------|
| LEASE NAME | Hoyt State Unit #1                        | PROJ'D DEPTH | 12,800'       |
| COUNTY     | Lea                                       | STATE        | New Mexico    |
| FIELD      |   | HORIZON      | Mississippian |
| LOCATION   | Section 15 T10S-R35E, 1,650' S & 1,650' E |              |               |

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

PROGNOSIS: New well drilled to 12,800' to test multiple zones.

INTANGIBLE DRILLING COSTS:

DRY HOLE      COMP'D WELL

|                                 |  |           |           |
|---------------------------------|--|-----------|-----------|
| 920-100                         | Staking, Permit & Legal Fees                                   | 4,000     | 4,000     |
| 920-110                         | Location, Right-of-Way   | 75,000    | 75,000    |
| 920-120                         | Drilling, Footage  |           |           |
| 920-130                         | Drilling, Daywork & fuel 50 days @ \$18,000/day + \$45,000 mob | 1,000,000 | 1,000,000 |
| 920-140                         | Drilling Water, Fasline Rental                                 | 30,000    | 30,000    |
| 920-150                         | Drilling Mud & Additives                                       | 100,000   | 100,000   |
| 920-160                         | Mud Logging Unit, Sample Bags                                  | 27,000    | 27,000    |
| 920-170                         | Cementing - Surface Casing                                     | 50,000    | 50,000    |
| 920-180                         | Drill Stem Testing, OHT  | 7,500     | 7,500     |
| 920-190                         | Electric Logs & Tape Copies                                    | 60,000    | 60,000    |
| 920-200                         | Tools & Equip. Rntl., Trkg. & Welding                          | 125,000   | 125,000   |
| 920-205                         | Control of Well-Insurance                                      | 9,000     | 9,000     |
| 920-210                         | Supervision & Overhead   | 45,000    | 45,000    |
| 920-230                         | Coring, Tools & Service  |           |           |
| 920-240                         | Bits, Tool & Supplies Purchase                                 | 65,000    | 65,000    |
| 920-350                         | Cementing - Production Casing                                  |           | 95,000    |
| 920-410                         | Completion Unit - Swabbing                                     |           | 100,000   |
| 920-420                         | Water for Completion   |           | 20,000    |
| 920-430                         | Mud & Additives for Completion                                 |           |           |
| 920-440                         | Cementing - Completion   |           |           |
| 920-450                         | Elec. Logs, Testing, Etc. - Completion                         |           | 70,000    |
| 920-460                         | Tools & Equip. Rental, Etc. - Completion                       |           | 80,000    |
| 920-470                         | Stimulation for Completion                                     |           | 150,000   |
| 920-480                         | Supervision & O/H - Completion                                 |           | 19,000    |
| 920-490                         | Additional LOC Charges - Completion                            | 160,000   | 160,000   |
| 920-510                         | Bits, Tools & Supplies - Completion                            |           | 3,000     |
| 920-500                         | Contingency for Completion                                     | 100,000   | 150,000   |
| TOTAL INTANGIBLE DRILLING COSTS |  | 1,857,500 | 2,444,500 |

TANGIBLE EQUIPMENT COSTS:

|                                |                                     |         |         |
|--------------------------------|-------------------------------------|---------|---------|
| 930-010                        | Christmas Tree & Wellhead           | 5,000   | 25,000  |
| 930-020                        | Casing 13 3/8" @ 400'               | 13,800  | 13,800  |
|                                | 9 5/8" @ 4,300'                     | 116,000 | 116,000 |
|                                | 5 1/2" @ 12,800'                    |         | 197,000 |
| 930-030                        | Tubing 2 7/8" @ 12,600'             |         | 74,000  |
| 930-040                        | Packer & Special Equipment          |         |         |
| 940-010                        | Pumping Equipment                   |         |         |
| 940-020                        | Storage Facilities                  |         | 20,000  |
| 940-030                        | Separation Equip., Flowlines, Misc. |         | 50,000  |
| 940-040                        | Trucking & Construction Costs       |         | 30,000  |
| TOTAL TANGIBLE EQUIPMENT COSTS |                                     | 134,800 | 525,800 |

|             |           |           |
|-------------|-----------|-----------|
| TOTAL COSTS | 1,992,300 | 2,970,300 |
|-------------|-----------|-----------|

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

|             |                 |                     |  |
|-------------|-----------------|---------------------|--|
| Prepared By | Jeremiah Mullen | Operations Approval |  |
|-------------|-----------------|---------------------|--|

|    |      |
|----|------|
| BY | DATE |
|----|------|

|    |      |
|----|------|
| BY | DATE |
|----|------|

|    |      |
|----|------|
| BY | DATE |
|----|------|

|    |      |
|----|------|
| BY | DATE |
|----|------|

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13638 Exhibit No. 2  
Submitted by:  
YATES PETROLEUM CORPORATION  
Hearing Date: February 2, 2006