

PLEASE Note: This Lease Expires 8/31/06

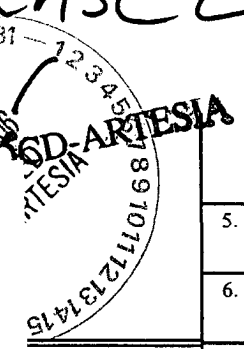
Form 10-3  
(August 1999)

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D

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.



J-06-41

OMB No. 1004-0136  
Expires November 30, 2000

APPLICATI

1a. Type of Work: ☒ DRILL ☐ REENTER

b. Type of Well: ☒ Oil Well ☐ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

2. Name of Operator  
Yates Petroleum Corporation

3a. Address 105 South Fourth Street  
Artesia, New Mexico 88210

3b. Phone No. (include area code)  
(505) 748-1471

4. Location of Well (Report location clearly and in accordance with any State requirements. \*)  
At surface 2310' FSL and 1650' FWL

At proposed prod. Zone

14. Distance in miles and direction from nearest town or post office\*  
Approximately 10 miles southwest of Malaga, New Mexico.

15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)  
1650'

16. No. of Acres in lease  
1039.31

17. Spacing Unit dedicated to this well  
SE/NW 40

18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft.  
900'

19. Proposed Depth  
5700'

20. BLM/BIA Bond No. on file  
585997 NM 2811

21. Elevations (Show whether DF, KDB, RT, GL, etc.)  
3279' GL

22. Approximate date work will start\*  
ASAP

23. Estimated duration  
45 days

24. Attachments Carlsbad Controlled Water Bank

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.
- 2. A Drilling Plan.
- 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).
- 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- 5. Operator certification.
- 6. Such other site specific information and/or plans as may be required by the authorized office.

25. Signature Name (Printed/Typed) Cy Cowan Date 7/28/2006

Regulatory Agent

Regulatory Agent Approved by (Signature) /s/ Tony J. Herrell Name (Printed/Typed) /s/ Tony J. Herrell Date AUG 25 2006

Title FIELD MANAGER Office CARLSBAD FIELD OFFICE

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, 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 United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

\*(Instructions on reverse)

C-144 ATTACHED

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

APPROVAL FOR 1 YEAR

DISTRICT I  
1625 N. French Dr., Hobbs, NM 88240

DISTRICT II  
811 South First, Artesia, NM 88210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

FORM C-102  
Revised March 17, 1999  
Instruction on back  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 96541	Pool Name Cottonwood Draw, Delaware
Property Code 35910	Property Name PUNCH "BJD" FEDERAL	Well Number 2
OGRID No. 025575	Operator Name YATES PETROLEUM CORPORATION	Elevation 3279

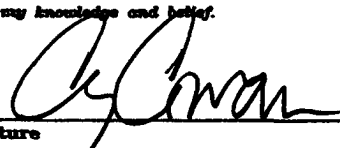

Surface Location

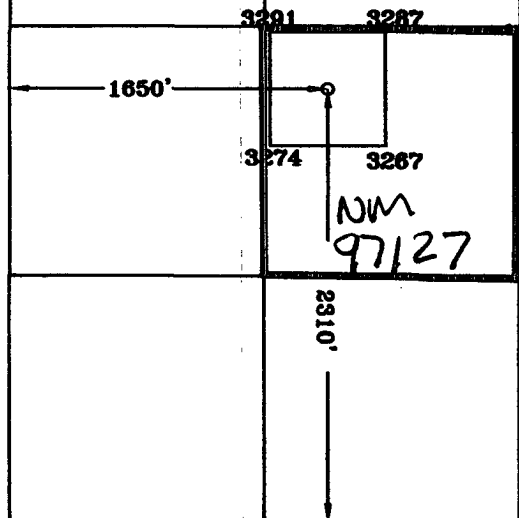
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
K	6	26S	27E		2310	SOUTH	1650	WEST	EDDY

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

				<b>OPERATOR CERTIFICATION</b> <i>I hereby certify the the information contained herein to true and complete to the best of my knowledge and belief.</i>  Signature Cy Cowan Printed Name Regulatory Agent Title July 28, 2006 Date	
				<b>SURVEYOR CERTIFICATION</b> <i>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.</i> 7/27/2006 Date Surveyed  Signature Professional Surveyor Herschel L. Jones Certificate No. Herschel L. Jones RLS 3640 PUNCH GENERAL SURVEYING COMPANY	



N.32°04'15.0"  
W.104°13'57.8"  
N.389518.6  
E.572499.5  
(NAD-83)

0 330' 660' 990' 1650' 1980' 2310' 2310' 1980' 1650' 990' 660' 330' 0'

# YATES PETROLEUM CORPORATION

Punch BJD Federal #2  
2310' FSL and 1650' FWL  
Section 6-T26S-R27E  
Eddy County, New Mexico

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

Castille	490'	Brushy Canyon	4040'
Delaware	2065'	Bone Spring	5645'
Cherry Canyon	2390'	TD	5700'

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

Water: 35  
Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 8 5/8" casing and rated for 3000 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.

## Auxiliary Equipment:

- A. 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.

4. THE PROPOSED CASING AND CEMENTING PROGRAM:

## A. Casing Program: (All New)

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./Ft</u>	<u>Grade</u>	<u>Coupling</u>	<u>Interval</u>	<u>Length</u>
14 3/4"	11 3/4"	42#	H-40	ST&C	0-400'	400'
11"	8 5/8"	24#	J-55	ST&C	0-2150'	2150'
7 7/8"	5 1/2"	15.5#	J-55	LT&C	0-5700'	5700'

Yates Petroleum Corporation requests a variance to install a rotating head on the surface casing strings when intermediate casing will be set. If a BOP system is required then we wish to install a 2M system and receive a variance to test the system to 1000# using the rig pumps. The test will be held for 30 minutes on each system component. Components to be tested include pipe rams, blind rams, and annular preventer.

Minimum Casing Design Factors: Collapse 1.125, Burst 1.0, Joint Strength 1.8

WITNESS

B. CEMENTING PROGRAM:

Surface Casing: 0-400' 300 sx 'C' (WT 14.8 YLD 1.34) + 2% CaCL2. **WITNESS**

Intermediate Casing 0-2150' 400 sx Class 'C' Lite (WT 12.5 YLD 2.05) + 2% CaCL2. **WITNESS**  
Tail in with 200 sx 'C' (WT 14.8 YLD 1.34) + 2% CaCL2.

Production Casing: 0-5700'-10560' 275 sx Interfill 'H' (WT 11.9 YLD 2.42). Tail in with 475 sx Super 'H' (WT 13.0 YLD 1.66).

5. MUD PROGRAM AND AUXILIARY EQUIPMENT:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-400'	Fresh Water/gel	9.0-9.8	32	N/C
400'-2150'	Brine	10.0	28	N/C
2150'-5700'	Fresh Water	8.5-9.8	28	<10-15cc

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. Mud will be checked hourly by rig personnel.

6. EVALUATION PROGRAM:

Samples: 30' samples from surface to 2000'. 10' samples from 2000' to TD.

Logging: Platform Express/CMR.

Coring: None.

DST's: None.

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

Anticipated BHP:

From: 0	TO: 400'	Anticipated Max.	BHP: 190	PSI
From: 400'	TO: 2150'	Anticipated Max.	BHP: 1120	PSI
From: 2150'	TO: 5700'	Anticipated Max.	BHP: 2665	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None

H2S Zones Anticipated: None Anticipated

8. ANTICIPATED STARTING DATE:

Plans are to re-enter this well as soon as possible after receiving approval. It should take approximately 30 days to re-enter the well with completion taking another 15 days.

**MULTI-POINT SURFACE USE AND OPERATIONS PLAN**  
**YATES PETROLEUM CORPORATION**

Punch BJD Federal #2  
2310' FSL and 1650' FWL  
Section 6, T26S-R27E  
Eddy 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 wellsite is located approximately 10 miles southwest of Malaga, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go south of Malaga on Highway 285 for approximately 10.7 miles to Whites City Road (CR-724). Turn west on Whites City Road and go approximately 9.9 miles. The new road will start here by up-grading an old existing road for approximately .4 of a mile then the newly constructed road will go east for approx. .2 of a mile to the southwest corner of the well location.

2. PLANNED ACCESS ROAD:

- A. The access road will be approximately .6 of a mile in length from start to finish.
- 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 existing access road will be bladed with drainage on one side. Some traffic turnouts will may be built.
- 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 no drilling activity within a one-mile radius of the wellsite.
- B. Exhibit shows existing wells within a one-mile radius of the proposed wellsite.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. There are no 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 productive of gas.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with a fresh 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:**

Dirt contractor will locate nearest pit and obtain any permits and materials needed for construction.

**7. METHODS OF HANDLING WASTE DISPOSAL:**

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. 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 land fill. Burial on site is not approved.

**8. ANCILLARY FACILITIES:**

None

**9. WELLSITE LAYOUT:**

- A. Exhibit C shows the relative location and dimensions of the well pad, the reserve pits, the location of the drilling equipment, rig orientation and access road approach.
- B. The reserve pits will be plastic lined. Yates Petroleum Corporation is in full compliance with the OCD General Plan for Drilling Pits approved on April 15, 2004.
- C. A 600' x 600' area has been staked and flagged for archaeological purposes

**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 wellsite 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 non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level after they have evaporated and dried.

**11. SURFACE OWNERSHIP:** Federal Surface, Administered by Bureau of Land Management, Carlsbad, New Mexico.

12. OTHER INFORMATION:

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

13. OPERATOR'S REPRESENTATIVE:

A. Through A.P.D. Approval:  
  
Cy Cowan, Regulatory Agent  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

B. Through Drilling Operations,  
Completions and Production:  
Pinson McWhorter,  
Operations Manager  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

14. CERTIFICATION:

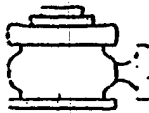
I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route, that I am familiar with the conditions which presently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and , that the work associated with the operations proposed herein will be performed by Yates Petroleum Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

6/28/06

  
Regulatory Agent

HERSCHEL L. JONES R-2 No. 3640



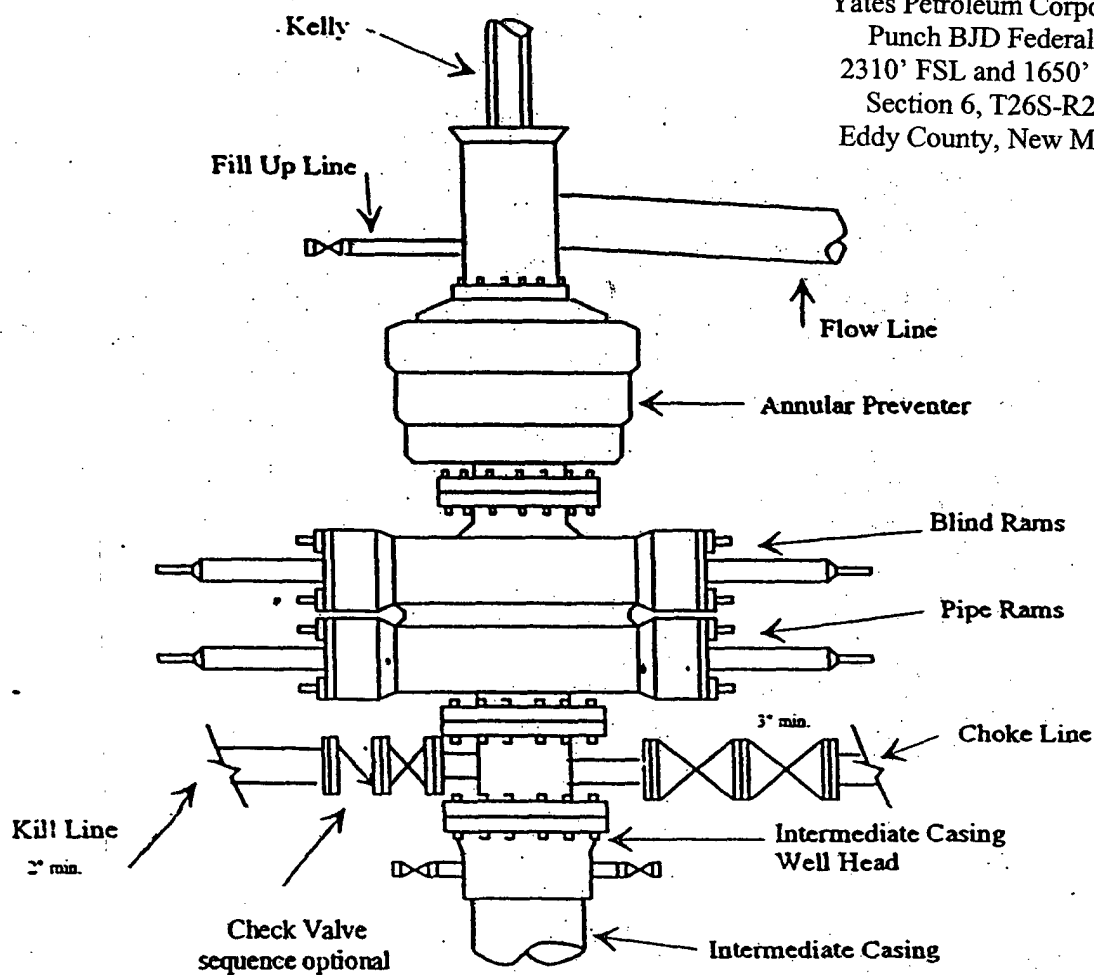


# Yates Petroleum Corporation

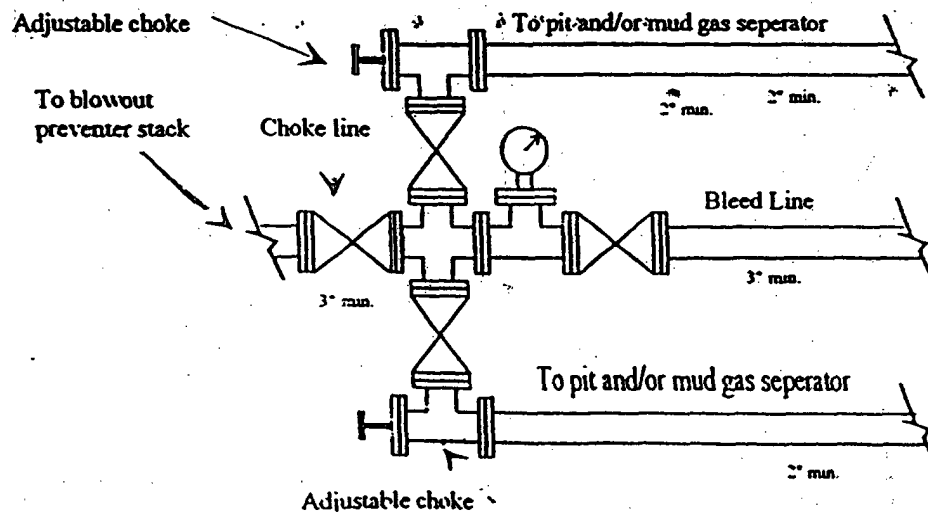
BOP-3

## Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack

Yates Petroleum Corporation  
Punch BJD Federal #2  
2310' FSL and 1650' FWL  
Section 6, T26S-R27E  
Eddy County, New Mexico



## Typical 3,000 psi choke manifold assembly with at least these minimum features



## CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Drilling Company  
Well Name & No: Punch BJD Federal  
Location: Surface 2310' FSL & 1650' FWL, Sec.06, T. 26 S., R. 27 E.  
Lease: NM 97127  
Eddy County, New Mexico

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### I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell, NM 88201, (505) 627-0272 for wells in Chaves and Roosevelt Counties; the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 11 3/4 inch; 8 5/8 inch; 5 1/2 inch.

C. BOP Tests

2. A Hydrogen Sulfide (H<sub>2</sub>S) Drilling Plan is not required for this well bore.

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.

4. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

5. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

### II. CASING:

1. The 11 3/4 inch shall be set at 400 Feet with cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 8 5/8 inch Intermediate casing is to circulate to surface.

3. The minimum required fill of cement behind the 5 1/2 inch Production casing is to place TOC at least 200 ft above the Wolfcamp formation estimated to be at 8350 ft.

### III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 13 5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

**(III Cont):**

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2 M psi. A variance to run the rotating head rated at 500 psi for the surface string is approved. Testing the 2 M BOPE to 1000 psig for 30 minutes prior to drilling below the 8 5/8 inch casing shoe is approved in accordance with the stipulations below.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the test.

- The test shall be done by a BLM representative.
- The results of the test shall be reported to the appropriate BLM office.
- 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.
- Testing must be done in safe workman-like manner. Hard line connections shall be required.
- Both low pressure and high pressure testing of BOPE is required.

**G. Gourley RFO 08/04/06**