ATS-07-115

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

OCD-ARTESIA

RECEIVED 2006 OCD - ARTESIA

Form 3160-3
(August 1999)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

0
OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.: NM-105213

6. If Indian, Allottee or Tribe Name:

1a. Type of Work: [X] DRILL [ ] REENTER

7. If Unit or CA Agreement, Name and No.:

b. Type of Well: [ ] Oil Well [ ] Gas Well [X] Other SWD [ ] Single Zone [ ] Multiple Zone

8. Lease Name and Well No.: Jester BFJ Federal #3

2. Name of Operator: Yates Petroleum Corporation

CARLSBAD CONTROLLED WATER BASIN

9. API Well No.: 30-015-35285

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

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

10. Field and Pool, or Exploratory: Pierce Crossing; Bone Spring East

4. Location of Well *(Report location clearly and in accordance with any State requirements.*)*

At surface: 2310' FNL and 990' FWL

At proposed prod. Zone: Same

11. Sec., T., R., M., or Blk. and Survey or Area: Section 12, T24S-R29E

14. Distance in miles and direction from nearest town or post office*: Approximately 36 miles east of Malga, New Mexico.

12. County or Parish: Eddy County

13. State: NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any): 990 feet

16. No. of Acres in lease: 320.00

17. Spacing Unit dedicated to this well: SW/NW

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.: .3 of mile

19. Proposed Depth: 9300'

20. BLM/BIA Bond No. on file: NMB000434

21. Elevations (Show whether DF, KDB, RT, GL, etc.): 3088' GL

22. Approximate date work will start*: ASAP

23. Estimated duration: 45 days

24. Attachments

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: Cy Cowan — Name *(Printed/Typed)*: Cy Cowan — Date: 11/13/2006

Regulatory Agent

Regulatory Agent

Approved by *(Signature)*: /s/ James A. Amos — Name *(Printed/Typed)*: — Date: DEC 13 2006

Title: ACTING 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.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001and 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

SEE ATTACHED FOR CONDITIONS OF APPROVAL

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	Pool Name
	96473	Pierce Crossing Bone Spring, East

Property Code	Property Name	Well Number
35031	JESTER "BFJ" FEDERAL	3

OGRID No.	Operator Name	Elevation
025575	YATES PETROLEUM CORPORATION	3088

Surface Location

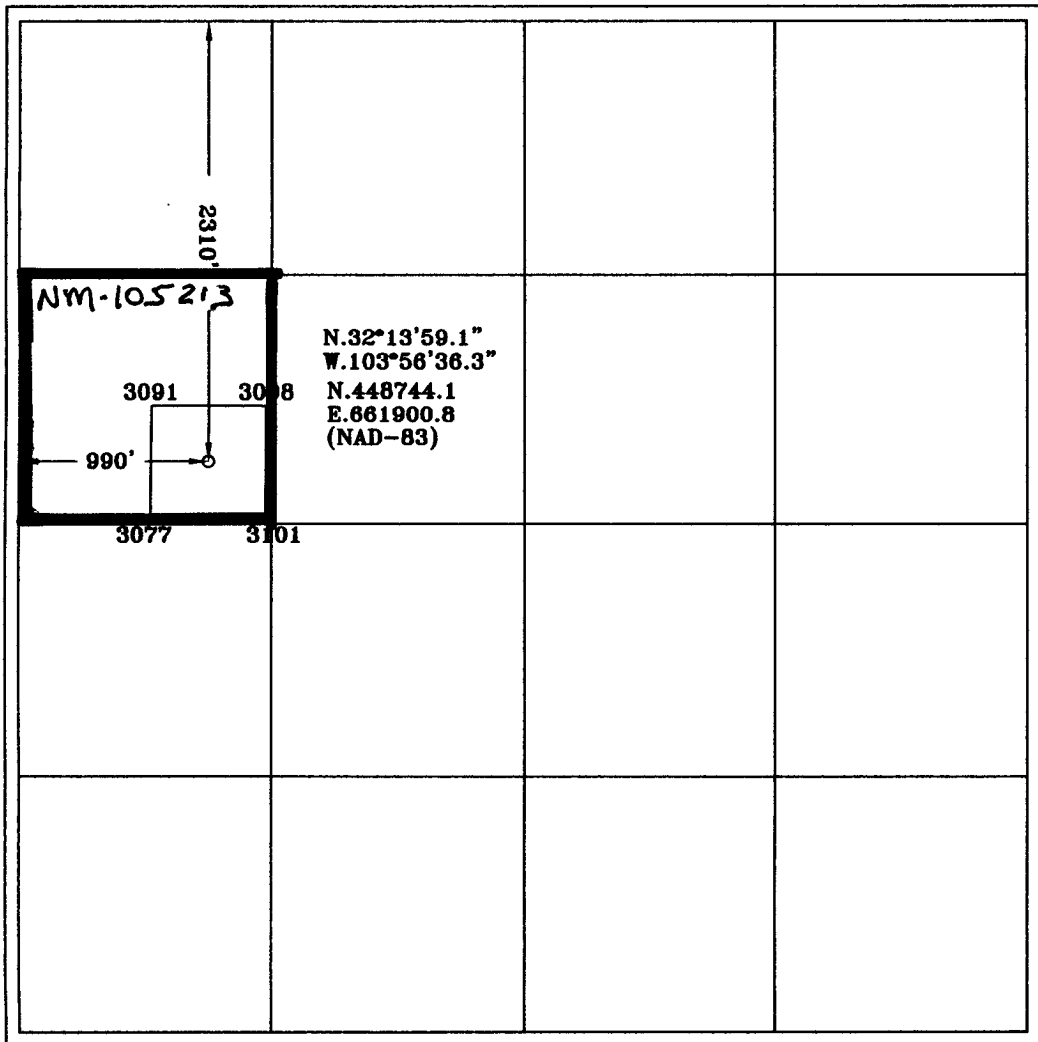
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	12	24S	29E		2310	NORTH	990	WEST	EDDY

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	Joint or Infill	Consolidation Code	Order No.
40			

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



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

OPERATOR CERTIFICATION

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Cy Cowan
Printed Name

Regulatory Agent
Title

November 10, 2006
Date

SURVEYOR CERTIFICATION

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 supervison, and that the same is true and correct to the best of my belief.

10/23/2006
Date Surveyed

Signature & Seal of Professional Surveyor

HERSCHEL L. JONES
NEW MEXICO
3640
REGISTERED PROFESSIONAL LAND SURVEYOR
JESTER 3
GENERAL SURVEYING COMPANY

Certificate No. Herschel L. Jones RLS 3640

YATES PETROLEUM CORPORATION
Jester BFJ Federal #3
2310' FNL & 990' FWL
Section 12, T24S-R29E
Eddy County, New Mexico

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

Rustler	330'	Brushy Canyon	5360'
Top of Salt	450'	Brushy Canyon Marker	6700'
Base of Salt	3015'	Bone Spring	6970'
Bell Canyon	3220'	TD	9300'
Cherry Canyon	4090'		

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

   Water: Approx 18'

   Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 13 3/8" 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)

Hole Size	Casing Size	Wt./Ft	Grade	Coupling	Interval	Length
17 1/2"	13 3/8"	48#	H-40	ST&C	0-500'	500'
11"	8 5/8"	32#	J-55	ST&C	0-100'	100'
11"	8 5/8"	24#	J-55	ST&C	100'-2200'	2100'
11"	8 5/8"	32#	J-55	ST&C	2200'-3200'	1000'
7 7/8"	5 1/2"	17#	J-55	LT&C	0-600'	600'
7 7/8"	5 1/2"	15.5#	J-55	LT&C	600'-6300'	5700'
7 7/8"	5 1/2"	17#	J-55	LT&C	6300'-9300'	3000'

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

B. CEMENTING PROGRAM:

Surface casing: 225 sx 'C' Lite (YLD 1.98 WT 12.6); Tail in w/ 200 sx Class "C" + 2% CaCl2 (YLD 1.36 WT 14.8).

Intermediate Casing: 625 sx 'C' Lite (YLD 2.18 WT 12.4); Tail in w/ 200 sx "C" + 2% CaCl2 (YLD 1.31 WT. 14.8)

Production Casing: Stage I: 750 sx Pecos VILt (YLD 1.41 WT 13.0).
Stage II: 725 sx Lite Crete (YLD 2.78 WT 9.9); Tail in w/ 100 sx Pecos VILt (YLD 1.41 WT 13.0)

5. Mud Program and Auxiliary Equipment:

Interval	Type	Weight	Viscosity	Fluid Loss
0-500'	Fresh Water	8.6-9.2	32-34	N/C
500'-3200'	Brine	10.0-10.2	28	N/C
3200'-8000'	Cut Brine	8.8	28	N/C
8000'-9200'	Cut Brine	8.8-9.2	28	N/C
9200'-9300'	Cut Brine	8.9-9.1	28-30	<15-20cc

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 surface to 3000'; 10' samples 3000'-TD.
Logging: Platform HALS; CMR.
Coring: None Anticipated.
DST's: As warranted.

7. Abnormal Conditions, Bottom hole pressure and potential hazards:
Anticipated BHP:

From:	O	TO:	500'	Anticipated Max.	BHP:	240	PSI
From:	500'	TO:	3200'	Anticipated Max.	BHP:	1700	PSI
From:	3200'	TO:	9300'	Anticipated Max.	BHP:	4400	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H2S Zones Anticipated: None

Maximum Bottom Hole Temperature: 168 F

8. ANTICIPATED STARTING DATE:

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

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
Yates Petroleum Corporation
Jester BFJ Federal #3
2310' FNL & 990' FWL
Section, 12-T24S-R29E
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 36 miles east of Malga, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go east of Carlsbad on Highway 62-180 to State Road 31. Turn south on 31 and go to Highway 128 (Jal Highway). Turn left on HWY 128 and go approximately 4 miles to Rawhide Road (CR-793) Mississippi Potash Mine Shaft #5 is here. Turn south here on CR-793 and go approx. 3.4 miles. Follow County road to the left and go east for approx. .2 of a mile. Turn south on county road and follow it for approx. 3.5 miles. At this point there will be a tank on the left and a lease road with power lines going west. Turn west on this lease road and go approx. 1.8 miles. The new road will start here going to the south for approximately 300 feet southeast corner of the well location.

2. PLANNED ACCESS ROAD.

A. The proposed new access will be approximately 300 feet in total length going south the southeast corner of the drilling pad. The road will lie in a southerly direction.
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 one side. Traffic turnouts 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 drilling activity within a one-mile radius of the wellsite.
B. The exhibit shows existing wells within a one-mile radius of the proposed

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 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 fresh 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 closest 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 and will face to the north. 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.

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 the 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.

11/10/06

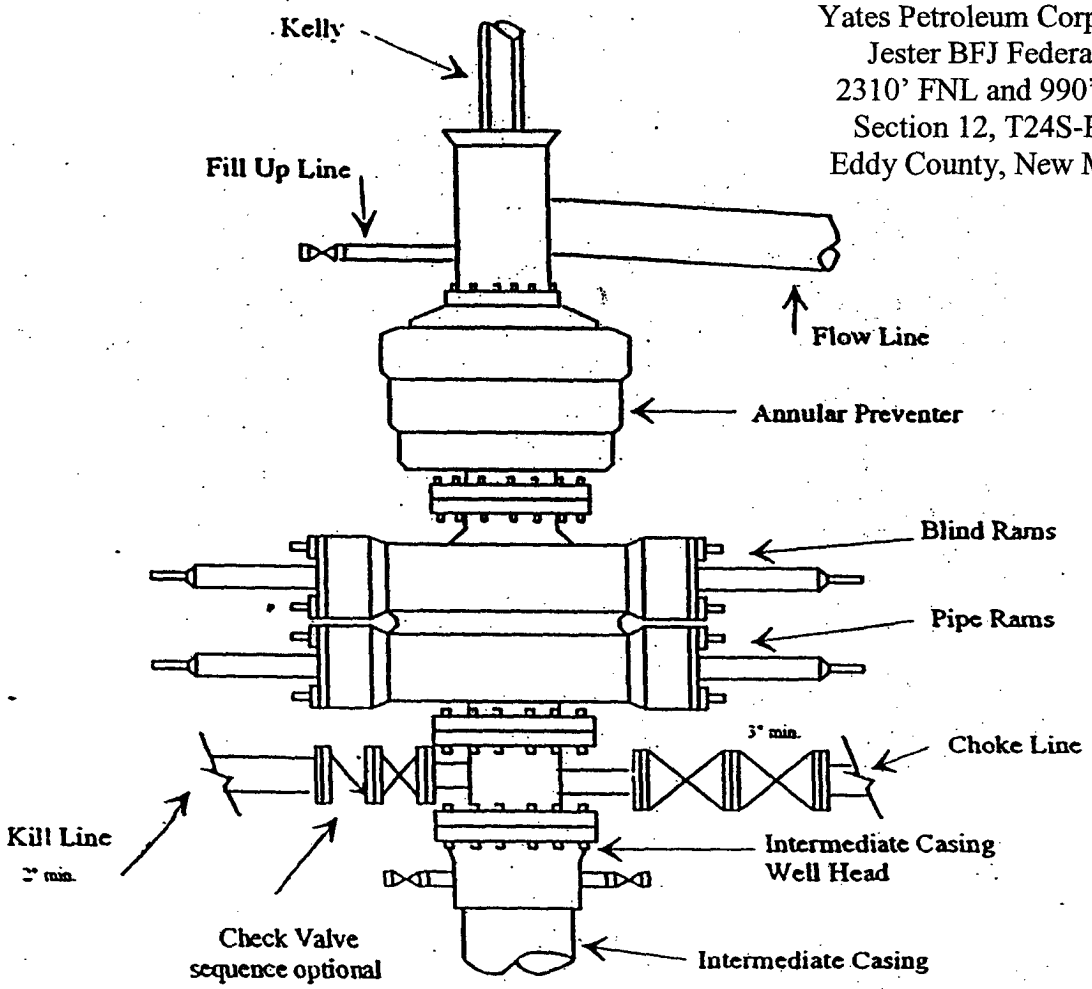
Regulatory Agent

Yates Petroleum Corporation

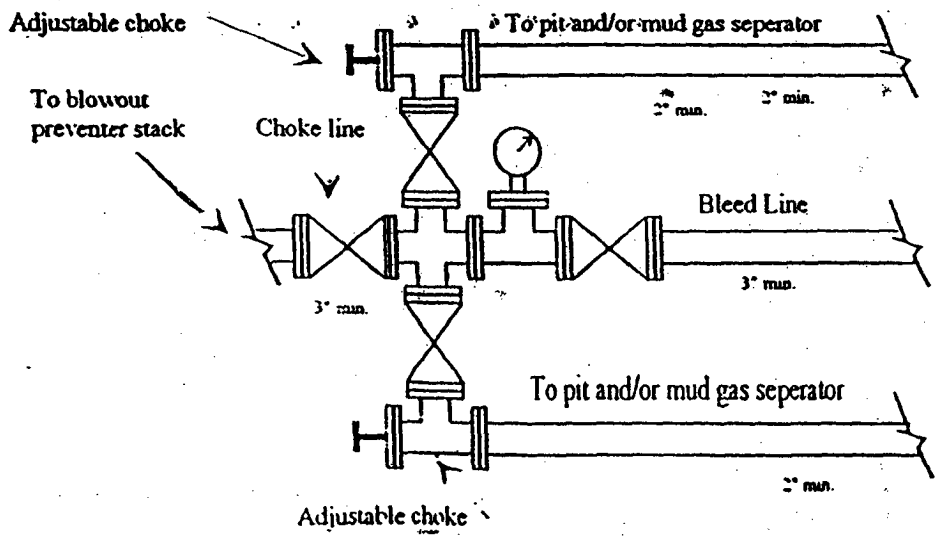
BOP-3

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

Yates Petroleum Corporation
Jester BFJ Federal #3
2310' FNL and 990' FWL
Section 12, T24S-R29E
Eddy County, New Mexico



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



SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: Yates Petroleum Corporation Well Name & #: Jester BFJ Fed. #3
Location 2310 F N L & 990 F W L; Sec. 12, T. 24 S., R. 29 E.
Lease #: NM-105213 County: Eddy State: New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

I. SPECIAL ENVIRONMENT REQUIREMENTS

( ) Lesser Prairie Chicken (stips attached)
( ) San Simon Swale (stips attached)
( ) Flood plain (stips attached)
(x) Other **See attached Archaeological, Visual Resources, and Cave/Karst conditions of approval.**

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(x) The BLM will monitor construction of this drill site. Notify the (x) Carlsbad Field Office at (505) 234-5972 ( ) Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

(x) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche upon completion of well and it is determined to be a producer.

( ) All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____inches in depth. Approximately _____cubic yards of topsoil material will be stockpiled for reclamation.

(x) Other. **V-Door South (Pit to the East). Closed loop system required.**

III. WELL COMPLETION REQUIREMENTS

( ) A Communitization Agreement covering the acreage dedicated to the well must be filed for approval with the BLM. The effective date of the agreement must be prior to any sales.

(x) Surface Restoration: If the well is a producer, the cuttings pit will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at depth of ½ inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre. If broadcasting, the seeding rate must be doubled.

( ) A. Seed Mixture 1 (Loamy Sites)
Side Oats Grama (*Bouteloua curtipendula*) 5.0
Sand Dropseed (*Sporobolus cryptandrus*) 1.0
Plains lovegrass (*Eragrostis intermedia*) 0.5

(x) B. Seed Mixture 2 (Sandy Sites)
Sand Dropseed (*Sporobolus crptandrus)* 1.0
Sand Lovegrass (*Eragostis trichodes*) 1.0
Plains Bristlegrass (*Setaria magrostachya*) 2.0

( ) C. Seed Mixture 3 (Shallow Sites)
Side oats Grama (*Bouteloua curtipendula)* 5.0
Green Spangletop (*Leptochloa dubia*) 2.0
Plains Bristlegrass (*Setaria magrostachya*) 1.0

( ) D. Seed Mixture 4 (Gypsum Sites)
Alkali Sacaton (*Sporobolus airoides*) 1.0
Four-Wing Saltbush (*Atriplex canescens*) 5.0

( ) OTHER SEE ATTACHED SEED MIXTURE

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

( ) Other

CUTTINGS PIT CONSTRUCTION STANDARDS

The cuttings pit shall be constructed entirely in cut material and lined with 20-mil plastic.
Mineral material extracted from within the boundary of the APD during construction of the well pad and cuttings pit and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.
The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to process by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall 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 permitted.

Conditions of Approval
Cave and Karst

Cave/Karst Surface Mitigation
The following stipulations will be applied to minimize impacts during construction, drilling and production.

Berming:
Any tank batteries will be constructed and bermed large enough to contain any spills that may occur.

Bermed areas will be lined with rip-stop padding to prevent tears or punctures in liners and lined with a permanent 20 mil plastic liner.

Closed Mud System with Buried Cuttings Pit:
All fluids will be in steel tanks and hauled off. A 70X100 foot cuttings pit will be utilized for this location. The cuttings pit will be lined with 4 oz. felt and a layer of 20 mil. plastic. Upon completion of the well all excess fluids will be vacuumed off the cuttings pit and allowed to dry. The pit liner will then be folded over the cuttings, covered with a 20 mil plastic cover and then covered with at least three feet of top soil.

Closed Mud System with Cuttings Pit and Cuttings Removed:
A closed mud system or steel tanks will be utilized to drill the well. All fluids and cuttings will be hauled off site for disposal.

Closed Mud System Using Steel Tanks with All Fluids and Cuttings Hauled Off.

Cave/Karst Subsurface Mitigation
The following stipulations will be applied to protect cave/karst and ground water concerns:

Rotary Drilling with Fresh Water:
Rotary drilling techniques in cave or karst areas will include the use of fresh water as a circulating medium in zones where caves or karst features are expected. See geologist report for depth.

Florescene Dye (Acid Yellow 73):
Sixteen ounces of Yellow Green (Acid Yellow 73) Florescene dye will be added to the drilling fluid during the drilling of the first 750 feet of the well.

Florescene Dye Orange (Eosin Y):
Sixteen ounces of Orange (Eosin Y) Florescene dye will be added to the drilling fluid during the drilling of the first 2,500 feet of the well.

Directional Drilling:
Kick off for directional drilling will occur at least 100 feet below the bottom of the cave occurrence zone as identified in the geologic report.

Casing:
All casing will meet or exceed National Association of Corrosion Engineers specifications pertaining to the geology of the location and be run to American Petroleum Institute and BLM standards.

Cementing:
All casing strings will be cemented to the surface.

Lost Circulation:
ALL lost circulation zones from the surface to the base of the cave occurrence zone will be logged and reported.

Regardless of the type of drilling machinery used, if a bit drops of four feet or more and circulation losses greater then 75 percent occur simultaneously while drilling in any cave-bearing zone, drilling operations will immediately stop and the BLM will be notified by the operator. The BLM will assess the consequences of the situation and work with operator on corrective actions to resolve the problem.

Delayed Blasting:
Any blasting will be a phased and time delayed.

Abandonment Cementing:
Upon well abandonment the well bore will be cemented completely from 100 feet below the bottom of the cave bearing zone to the surface.

Pressure Tests:
Annual pressure tests will be performed by the Operator on all casing annuli. If the test results indicated a casing failure, remedial actions approved by the BLM will be undertaken to correct the problem.

Differential Shut-off Systems:
A leak detection system and differential shut off systems will be installed for pipelines and tanks used in production or drilling.

Record Keeping:
The Operator will track customary drilling activities, including the rate of penetration, pump pressure, weight on bit, bit drops, percent of mud returns, and presence of absence of cuttings returning to the surface. As part of customary record keeping, each detectable void or sudden increase in the rate of penetration not attributable to a change in the formation type should be documented and evaluated as it is encountered.

VISUAL RESOURCES STIPULATIONS

The proposed project is located within a Class Three Visual Resource Area. The project will be built in a manner to minimize visibility. The proposed project will be a linear feature for the life of the project, impacting visual resources.

Surface Mitigation

The following stipulations will apply to minimize impacts during construction, drilling and production.

1. The proposed construction will be limited to the approved pad size.
2. All above ground facilities, structures, appurtenances, and pipelines will be low profile (less than 10 feet in height).
3. All above ground facilities, structures, appurtenances, and pipelines will be painted with the non-reflective (flat) paint color Shale Green.
4. Any existing tanks will be replaced with a low profile tank and painted the same color as the proposed tanks.
5. Upon completion of the well and installation of the production facilities (if the well is a producer) the pad will be reclaimed back to a size necessary for production operations only. The edges will be recontoured and the extra caliche and pad material will be hauled off-site. After one year, the BLM may require reclamation.
6. The reclaimed area will be grid rolled and reseeded.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: **Yates Petroleum Corp.**
Well Name & No. **Jester BFJ Federal # 3**
Location: **2310' FNL, 990' FWL, SEC 12, T24S, R29E, Eddy County, NM**
Lease: **NM-105213**

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at 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: 13 3/8 inch 8 5/8 inch 5 1/2 inch

C. BOP tests

2. A Hydrogen Sulfide (H2S) Drilling Plan should be activated prior to drilling into the N/A Formation. A copy of the plan shall be posted at the drilling site.

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.

6. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

7. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. The 13 3/8 inch surface casing shall be set **Above the salt, 25 feet into the Rustler Anhydrite @ Approximately 500 feet**, below usable water and 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 **circulate cement to the surface. This casing string will be set Below the salt @ approximately 3200 feet.**

4. The minimum required fill of cement behind the 5-1/2 inch production casing is **cement shall extend upward a minimum of 200 feet above the base of the intermediate casing string.**
5. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

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 3/8** 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.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling the surface and intermediate casing shall be 2000 psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the **8 5/8** inch casing shall be **3000** psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
- A variance to test the **13 3/8 inch casing, BOP and BOPE** to the reduced pressure of **800** psi with the rig pumps is approved.
- The tests shall be done by an independent service company.
- 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 a safe workman-like manner. Hard line connections shall be required.
- BOPE must be tested prior to drilling into the **Wolfcamp** Formation by an independent service company.

IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the **Wolfcamp** Formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

1. Recording pit level indicator to indicate volume gains and losses.
2. Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
3. Flow-sensor on the flow line to warn of abnormal mud returns from the well.

Engineering may be contacted at 505-706-2779 for variances if necessary.

Fwright 12/04/06