

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Form C-101
Permit 1557

APPLICATION FOR PERMIT TO DRILL

| | | |
|---|---|----------------------------|
| Operator Name and Address YATES PETROLEUM CORPORATION 105 South Fourth St. Artesia, NM 88210 | | OGRID Number 25575 |
| | | API Number 30-005-63687 |
| Property Code 26800 | Property Name HARD AS NAILS AMD STATE COM. | Well No. 005 |

Surface Location

| UL or Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|-----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| C | 27 | 09S | 26E | C | 660 | N | 1980 | W | Chaves |

Proposed Pools

| |
|---------------------|
| Wildcat Precambrian |
|---------------------|

| | | | | |
|-----------------------|------------------------|---------------------------------------|---------------------|--------------------------------|
| Work Type New Well | Well Type GAS | Cable/Rotary | Lease Type State | Ground Level Elevation 3778 |
| Multiple N | Proposed Depth 6365 | Formation Undesignated Precambrian | Contractor | Spud Date 09/24/2004 |

Proposed Casing and Cement Program

| Type | Hole Size | Casing Size | Casing Weight/ft | Setting Depth | Sacks of Cement | Estimated TOC |
|------|-----------|-------------|------------------|---------------|-----------------|---------------|
| Surf | 12.25 | 8.625 | 24 | 1100 | 450 | 0 |
| Prod | 7.875 | 5.5 | 15.5 | 6365 | 500 | 3900 |

Casing/Cement Program: Additional Comments

Yates Petroleum Corporation proposes to drill and test the Precambrian and intermediate formations. Approximately 1100' of surface casing will be set and cemented circulated to shut off gravel and cavings. If commercial, production casing will be run and cemented, will perforate and stimulate as needed for production. MUD PROGRAM: 0-1100' FW Gel/Paper/LCM; 1100-4300' Brine; 4300-6365' Starch/Salt Gel/4-6% KCL. BOPE PROGRAM: A 2000# BOPE will be installed on the 8 5/8" casing and tested daily.

Proposed Blowout Prevention Program

| Type | Working Pressure | Test Pressure | Manufacturer |
|------------|------------------|---------------|--------------|
| Double Ram | 2000 | 2000 | |

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Electronically Signed By: Debbie Caffall

Title: Regulatory Technician

Date: 09/22/2004

Phone: 505-748-4364

OIL CONSERVATION DIVISION

Electronically Approved By: Bryan Arrant

Title: Geologist

Approval Date: 09/27/2004

Expiration Date: 09/27/2005

Conditions of Approval:

There are conditions. See Attached.