Form 3160-3
(November 1983)
(formerly 9-331C)

SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

Form approved.
Budget Bureau No. 1004-0136
Expires August 31, 1985

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

5. LEASE DESIGNATION AND SERIAL NO.: NM-045236

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

1a. TYPE OF WORK: DRILL [X] DEEPEN [ ] PLUG BACK [ ]

b. TYPE OF WELL: OIL WELL [X] GAS WELL [ ] OTHER — SINGLE ZONE [ ] MULTIPLE ZONE [ ]

7. UNIT AGREEMENT NAME:

8. FARM OR LEASE NAME: Diamond AKI Federal

2. NAME OF OPERATOR: Yates Petroleum Corporation

9. WELL NO.: 1

3. ADDRESS OF OPERATOR: 105 South Fourth Street, Artesia, NM 88210

10. FIELD AND POOL, OR WILDCAT: S. Dagger Draw Upper Per

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
At surface: 360' FSL and 2080' FWL (SJS)
At proposed prod. zone

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA: Section 34-T20S-R24E

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: Approximately 34 miles southwest of Artesia, NM

12. COUNTY OR PARISH: Eddy

13. STATE: NM

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any): 660'

16. NO. OF ACRES IN LEASE:

17. NO. OF ACRES ASSIGNED TO THIS WELL: 320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.:

19. PROPOSED DEPTH: 8200'

20. ROTARY OR CABLE TOOLS: Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.): 3724'

22. APPROX. DATE WORK WILL START*: ASAP

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
14 3/4"	9 5/8"	36# J-55	1100'	1100 sacks (circulated)
8 3/4"	7"	23-26# J-55 & N-80	TD	As warranted. See STIPS

Yates Petroleum Corporation proposes to drill and test the Canyon and intermediate formations. Approximately 1100' of surface casing will be set and cement 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: FW gel/LCM to 1100'; FW to 5000'; cut Brine to 7200'; SW gel/Starch to TD.

BOP PROGRAM: BOP's and hydril will be installed on 9 5/8" casing and tested daily.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.

SIGNED Ken Beardemphl TITLE Landman DATE 1-9-92

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

APPROVED BY Richard L. Manus TITLE _____ DATE 5/11/92

CONDITIONS OF APPROVAL, IF ANY:

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

YATES PETROLEUM CORP.
BEFORE EXAMINER CATANACH
NMOCD CASE NO. 10519
DATE: 08/20/92
EXHIBIT NO. 3

Title 18 U.S.C. Section 1001, makes it a crime ... to any department or agency of the United States any false, fictitious or fraudulen... or within its jurisdiction.

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

OPERATORS NAME YATES PETROLEUM CORPORATION WELL NO. & NAME DIAMOND AKI FEDERAL No. 1
LOCATION 360' F S L & 2080 F W L SEC. 34, T. 20 S., R. 24 E.
LEASE NO. NM-045276 COUNTY Eddy

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.

I. SPECIAL ENVIRONMENT REQUIREMENTS

( ) Lesser Prairie Chicken (Stips attached)
( ) San Simon Swale (Stips attached)
( ) Floodplain (Stips attached)
( ) Other _____

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(✓) The BLM will monitor construction of this drill site. Notify the Carlsbad Resource Area Office, BLM at least 2 working days prior to commencing construction at (505) 887-6544.

(✓) Roads and the drill pad for this well must be surfaced with 6 inches of compacted Caliche.

( ) 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.

(✓) Other V-door west (Reserve pits to the south)
Access Road to Enter Pad at North northeast Corner of Location

III. DRILLING OPERATIONS REQUIREMENTS [Roswell Controlled Water Basin]

The Bureau of Land Management office is to be notified at (505) 887-6544, in sufficient time for a representative to witness:

(✓) 1. Spudding (✓) 2. Cement casing 9⅝ inch 7 inch ___ inch

(✓) 3. BOP tests ( ) Other

IV. CASING

(✓) 9⅝" surface casing should be set @ ±1100', in the San Andres and cement circulated to the surface. If cement does not circulate to the surface, this BLM office will be notified and a temperature survey or cement bond log will be run to verify the top of the cement. Remedial cementing will be done prior to drilling out of that string.

( ) [redacted] _____ [redacted]
_____.

(✓) Minimum required fill of cement behind the 7" production casing is to tie back at least 600' above top of Wolfcamp.

V. PRESSURE CONTROL

(✓) Before drilling below the 9 5/8" casing, the blowout preventer assembly will consist of a minimum of:

(✓) One Annular Preventer, and (✓) Two RAM-Type Preventers (✓) Other kelly Cock/Stabbing Valve

(✓) After setting the 9 5/8" casing string, and before drilling into the Wolfcamp Formation, the blowout preventers and related control equipment shall be pressure-tested as described in General Requirements. Any equipment failing to test satisfactorily will be repaired or replaced.

(✓) The test will be conducted by an independent service company.
(✓) The results of the test will be reported to the appropriate BLM office.
(✓) The Bureau of Land Management office is to be notified in sufficient time for a representative to witness the test.

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

(✓) 1. A recording pit level indicator to determine pit volume gains and losses.
( ) 2. A mud-volume measuring device for accurately determining mud volume necessary to fill the hole on trips.
(✓) 3. A flow-sensor on the flow-line to warn of any abnormal mud returns from the well.

( ) A Hydrogen Sulfide Contingency Plan will be approved by this BLM office before drilling below the _____ Formation. A copy of the plan will be posed at the drilling site.

(✓) Other; H_2S may be encountered in the Upper Pennsylvanian System.

VI. 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.

(✓) Surface Restoration: If the well is a producer, the reserve pit(s) 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 a depth of 1/2 inch) with the following seed mixture, in pounds of Pure Live Side (PLS), per acre.

(✓) A. Seed Mixture 1 (Loamy Site)
Lehmanns Lovegrass (Eragrostis lehmanniana) 1.0
Side Oats Grass (Bouteloua curtipendula) 5.0
Sand Dropseed (Sporobolus cryptandrus) 1.0

( ) B. Seed Mixture 2 (Sandy Sites)
San Dropseed (Sporobolus cryptandrus) 1.0
Sand Lovegrass (Eragrostis trichodes) 1.0
Plains Bristlegrass (Setaria magrostachya) 2.0

( ) C. Seed Mixture 3 (Shallow Sites)
Sideoats Grama (Boute curtipendula) 1.0
Lehmann's Lovegrass (Eragrostis lemmanniana) 1.0
or Boar Lovegrass (E. chloromalas)

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

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

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit will be constructed entirely in cut material and lined with a 6 mill plastic.

Mineral material extracted in the reserve pit construction may be used for development of the pad and access road as needed. Removal of any additional material on location must 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's NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of 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.

OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

1) Lined as specified above and,

2) A borrow/caliche/gravel pit can be constructed immediately adjacent to the reserve pit and it is capable of containing all reserve pit contents. The mineral material removed in the process can be used for pad and access road construction. However, a material sales contract must be purchased from BLM prior to removal of the material.

Reclamation of the reserve pit consist of bulldozing all reserve pit contents and contaminants into the borrow pit and overing with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been conducted and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously identified 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 proceed by BLM.

TRASH PIT STIPS

All trash, junk and other waste material will 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 approved.

EXHIBIT A

BLM ~~Serial~~ lease Number: NM-045276

Company Reference: Yates/Diamond AKI Fed. #1

STANDARD STIPULATIONS FOR PERMANENT RESOURCE ROADS
THE ROSWELL DISTRICT, BLM

The holder/grantee/permittee shall hereafter be identified as the holder in these stipulations. The Authorized Officer is the person who approves the Application for Permit to Drill (APD) and/or Right-of-Way (ROW).

GENERAL REQUIREMENTS

The holder shall minimize disturbance to existing fences and other improvements on public domain surface. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will make a documented good-faith effort to contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence.

Holder agrees to comply with the following stipulations:

1. ROAD WIDTH AND GRADE

The road will have a driving surface of 14 feet (all roads shall have a minimum driving surface of 12 feet, unless local conditions dictate a different width). The maximum grade is 10 percent unless the box below is checked. Maximum width of surface disturbance from construction will be 30 feet.

/__/ Those segments of road where grade is in excess of 10% for more than 300 feet shall be designed by a professional engineer.

2. CROWNING AND DITCHING

Crowning with materials on site and ditching on one side of the road on the uphill side will be required. The road cross-section will conform to the cross section diagrams in Figure 1. If conditions dictate, ditching may be required for both sides of the road; if local conditions permit, a flat-bladed road may be considered (if these conditions exist, check the appropriate box below). The crown shall have a grade of approximately 2% (i.e., 1" crown on a 12' wide road).

/✓/ Ditching will be required on both sides of the roadway as shown on the attached map or as staked in the field.

/__/ Flat-blading is authorized on segment(s) delineated on the attached map.

3. DRAINAGE

Drainage control shall be ensured over the entire road through the use of borrow ditches, outsloping, insloping, natural rolling topography, lead-off (turnout) ditches, culverts, and/or drainage dips.

A. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

SPACING INTERVAL FOR TURNOUT DITCHES

Percent slope	Spacing interval
0% - 4%	400' - 150'
4% - 6%	250' - 125'
6% - 8%	200' - 100'
8% - 10%	150' - 75'

A typical lead-off ditch has a minimum depth of 1 foot below and a berm 6 inches above natural ground level. The berm will be on the down-slope side of the lead-off ditch. The ditch end will tie into vegetation whenever possible.

For this road the spacing interval for lead-off ditches shall be at

/__/ 400 foot intervals.

/X/ 200 foot intervals.

/__/ locations staked in the field as per spacing intervals above.

/__/ locations delineated on the attached map.

B. Culvert pipes shall be used for cross drains where drainage dips or low water crossings are not feasible. The minimum culvert diameter must be 18 inches. Any culvert pipe installed shall be of sufficient diameter to pass the anticipated flow of water. Culvert location and required diameter are shown on the attached map (Further details can be obtained from the Roswell District Office or the appropriate Resource Area Office).

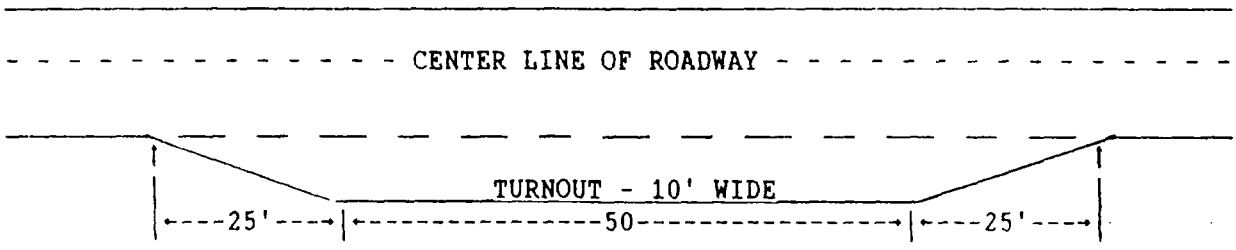
C. On road slopes exceeding 2%, drainage dips shall drain water into an adjacent lead-off ditch. Drainage dip location and spacing shall be determined by the formula:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Example: 4% slope: spacing interval = $\frac{400}{4}$ + 100 = 200 feet

4. TURNOUTS

Unless otherwise approved by the Authorized Officer, vehicle turnouts will be required. Turnouts will be located at 2000-foot intervals, or the turnouts will be intervisible, whichever is less. Turnouts will conform to the following diagram:



STANDARD TURNOUT - PLAN VIEW

5. SURFACING

Surfacing of the road or those portions identified on the attached map may, at the direction of the Authorized Officer, be required, if necessary, to maintain traffic within the right-of-way with caliche, gravel, or other surfacing material which shall be approved by the Authorized Officer. When surfacing is required, surfacing materials will be compacted to a minimum thickness of six inches with caliche material. The width of surfacing shall be no less than the driving surface. Prior to using any mineral materials from an existing or proposed Federal source, authorization must be obtained from the Authorized Officer.

6. CATTLEGUARDS

Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H-20, although AASHTO U-80 rated grids shall be required where heavy loads (exceeding H-20 loading), are anticipated (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16-foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

7. MAINTENANCE

The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, drainage installation, cattleguard maintenance, and surfacing.

8. PUBLIC ACCESS

Public access along this road will not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the Authorized Officer.

9. CULTURAL RESOURCES

Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the authorized officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the authorized officer after consulting with the holder.

10. SPECIAL STIPULATIONS:

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
CARLSBAD RESOURCE AREA HEADQUARTERS
P.O. BOX 1778
CARLSBAD, NEW MEXICO 88220

TAKE PRIDE IN AMERICA

January 15, 1992

Gentlemen:

Please find enclosed a copy of Notice to Lessees (NTL) 92-1. This NTL informs lessees and operators of the BLM-New Mexico policy and requirements for the disposal of trash and debris generated at oil and gas lease sites during the drilling, production, and reclamation phases of operation.

Please note that the effective date of this NTL is February 1, 1992.

Please contact Shannon J. Shaw (505) 887-6544 or at the letterhead address if you have any questions.

Sincerely,

Richard L. Manus

Richard L. Manus
Area Manager

Enclosure

OPERATOR'S COPY

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Notice to Lessees and Operators of Federal and Indian Oil and Gas Leases within the Jurisdiction of the New Mexico State Office (NTL 92-1 New Mexico)

Waste Disposal

This notice is to inform lessee/operators of the Bureau of Land Management policy and requirements for the disposal of trash and debris generated at oil and gas lease sites. The permanent disposal of such waste will not be permitted on Federal and Indian oil and gas leases.

I. Drilling Operations

Trash and debris generated during well drilling, completion and well workover operations may be stored in a covered container. Above ground containers are the required method of waste storage. Temporary pits shall not be used. Pit disposal of trash and debris is not acceptable. Wire cages, metal dumpsters, and rubber or fiberglass bins are examples of acceptable containers. Whichever container is used shall be covered with a screen or lid to prevent trash and debris from blowing out of the container. Trash or debris containers must be emptied when full, and the contents taken to an authorized landfill or other suitable disposal facility. Drilling reserve pits shall be kept free of trash and debris. At the conclusion of well completion operations, or plugging operation in the case of a dry hole, the trash and debris containers shall be removed from the location. Variances to the rule prohibiting such pits may be granted by the BLM Authorized Officer. If approval for a pit is granted, the pit shall be provided with a screen cover. At the conclusion of operations using such pits, the contents shall be removed and the pit filled in. In no case shall such waste be buried on location.

II. Producing Operations

Trash and debris generated during producing operations may be stored in acceptable above ground, covered containers. Examples of suitable containers are given in Part I. above. Pits are not allowed for the storage of trash and debris at production facilities. Trash and debris containers must be emptied when full, and the contents taken to an authorized landfill or other suitable disposal facility. When the production facility, or well, is to be abandoned, the trash and debris containers must be removed prior to or during site reclamation operations.

III. Compliance

The effective date of this notice is February 1, 1992. All Federal and Indian oil and gas operations must comply with the requirements of this notice by that date. Unacceptable waste disposal will be considered an act of noncompliance, and a notice of violation will be issued setting forth a reasonable time frame for corrective action. The reclamation of any pit approved in accordance with Part I. of this Notice must be witnessed by BLM. Failure to comply with this requirement is an act of noncompliance and may result in an order to exhume the pit to assure compliance with this Notice.

11/13/91
Date

Larry L. Woodard
New Mexico State Director