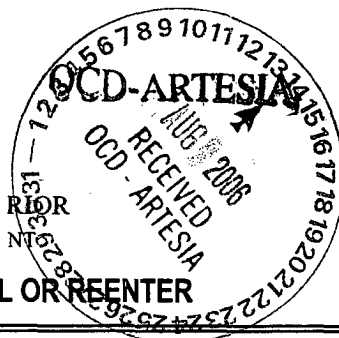


If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.



I-06-71

OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: ☒ DRILL ☐ REENTER

b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☐ Single 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 **1980'FSL and 1980' FWL, NESW, Unit K**
At proposed prod. Zone **same as above**

14. Distance in miles and direction from nearest town or post office*
Approximately 15 miles Northeast of Carlsbad, New Mexico

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)
650'

16. No. of Acres in lease
160.00

17. Spacing Unit dedicated to this well
S/2

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.
1200'

19. Proposed Depth
12,350'

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

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
3140' GL

22. Approximate date work will start*
ASAP

23. Estimated duration
30 Days

24. Attachments **Carlsbad Controlled Water Basin**

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
Title: **Regulatory Agent/Land Department**
Approved by (Signature) **/s/ James Stovall**

Name (Printed/Typed) **Cy Cowan** Date **6/16/2006**
Name (Printed/Typed) **/s/ James Stovall** Date **AUG 10 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 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**

DECLARED WATER BASIN
CEMENT BEHIND THE 13" CASING SET
AT ± 440' MUST BE CIRCULATED

WITNESS

**APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED**

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, 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 & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number	² Pool Code 73960	³ Pool Name Carlsbad, Morrow, South
⁴ Property Code	⁵ Property Name HABANERO BHO FEDERAL COM	⁶ Well Number 1
⁷ OGRID No. 25575	⁸ Operator Name YATES PETROLEUM CORPORATION	⁹ Elevation 3140

¹⁰ 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	4	23-S	27-E		1980	SOUTH	1980	WEST	EDDY

¹¹ 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

¹² Deducted Acre 320	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ 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.

¹⁶ 	¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature: <i>Cy Cowan</i> Date: 6/16/2006 Printed Name: Cy Cowan	
	¹⁸ 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 supervision, and that the same is true and correct to the best of my belief. JANUARY 30, 2006 Date of Survey: <i>DAN R. REDDY</i> Signature and Seal of Professional Surveyor: Certificate Number: 5412 DAN R. REDDY, PROFESSIONAL SURVEYOR, REG. NO. 5412	

YATES PETROLEUM CORPORATION
Habanero BHO Federal Com. #1
1980' FSL and 1980' FWL, NESW, Unit K
Section 4, T23S-R27E
Eddy County, New Mexico



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

Castile/LM/SD	345'	Atoka	10,990'
Delaware	2,120'	Morrow Clastic	11,700'
Bone Springs	5,520'	Morrow Lower	12,000'
Wolfcamp	8,900'	Mississippian	12,250'
Strawn	10,640'	TD	12,350'

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

Water: 75' – 350'
Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE 3K system will be installed on the 13 3/8" casing and rated for 2000 BOP systems will be consistent with API RP 53. BOPE 5K system will be installed on the 9 5/8" and 7" casing. 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>
17 1/2"	13 3/8"	48#	H-40	ST&C	0- 350 440'	350'
12 1/4"	9 5/8"	36#	J-55	ST&C	0-2,200'	2,200'
8 3/4"	5 1/2"	17#	J-55	LT&C	0-12,350'	12,350'

7" casing will be run at approximately 10,300' if hole conditions dictate. If 7" casing is run, then rill out with a 6 1/8" hole to TD and set 4 1/2" 11.6# HCP-110.

Minimum Casing Design Factors: Burst 1.0, Tensile 1.8, and Collapse 1.125.

B. CEMENTING PROGRAM:

Surface casing: 400 sx C (YLD 1.35 WT 14.80).

Intermediate casing: 700 sx C Lite (YLD 2.01 WT 12.50) tail in with 200 sx C w/2% CaCL2 (YLD 1.32 WT 14.80)

Production Casing: 1,700 sx C Lite (YLD 2.01 WT 12.50) tail in with 1,250 sx Super H (YLD 1.62 WT 13.60)

5. MUD PROGRAM AND AUXILIARY EQUIPMENT:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0- 350 440' JSS	Fresh Water Gel	8.4-9.2	32-36	0
350' - 2200'	Brine Water	10.0-10.10	28-29	0
2200' - 8800'	Cut Water	8.60-8.70	28-29	0
8800' - 10000'	Brine Water	10.0-10.20	28-28	0
10000' - 10300'	Polymer	10.0-10.5	33-36	10.0
10300' - 12350'	Polymer	10.50-11.0	36-50	10.0

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: None

Logging: Platform Express; CMR 2300'-5900'.

Coring: None Anticipated.

DST's: None Anticipated.

Mudlogging: On at 2300' to TD.

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

Anticipated BHP:

From: 0	TO: 350 440'	Anticipated Max. BHP:	165	PSI
From: 350 440'	TO: 2200'	Anticipated Max. BHP:	1155	PSI
From: 2200'	TO: 10300'	Anticipated Max. BHP:	5625	PSI
From: 10300'	TO: 12350'	Anticipated Max. BHP:	7065	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None

H2S Zones Anticipated: None.

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 20 days to drill the well with completion taking another 15 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
YATES PETROLEUM CORPORATION
Habanero BHO Federal Com. #1
1980' FSL and 1980' FWL, NESW, Unit K
Section 4 T23S-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 15 miles northeast of Carlsbad, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

From the intersection in Carlsbad of National Parks Hwy and the Pecos Hwy (Hwy 285) go south on the Pecos Hwy for approximately 1.2 miles to Thompson Road. Turn Right on Thompson Road and go approximately 3.1 miles. The new road will start here going east through a fence and past an old building a covered cement slab. From here follow an old two track for approximately .4 of a mile to the southwest corner of the proposed well location.

2. PLANNED ACCESS ROAD:

- A. The proposed new access will be approximately 400' going east to the southwest corner of the drilling pad. The road will lie in an east/west 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 will 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. Exhibit D shows existing wells within a one-mile radius of the proposed wellsite.

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 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.

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: James Kenny , D Ranch Star Rt. 1-478, Carlsbad, NM 88220
Federal Minerals, 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

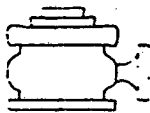
- B. Through Drilling Operations,
Completions and Production:
Pinson McWhorter,
Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

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.

06/16/2006

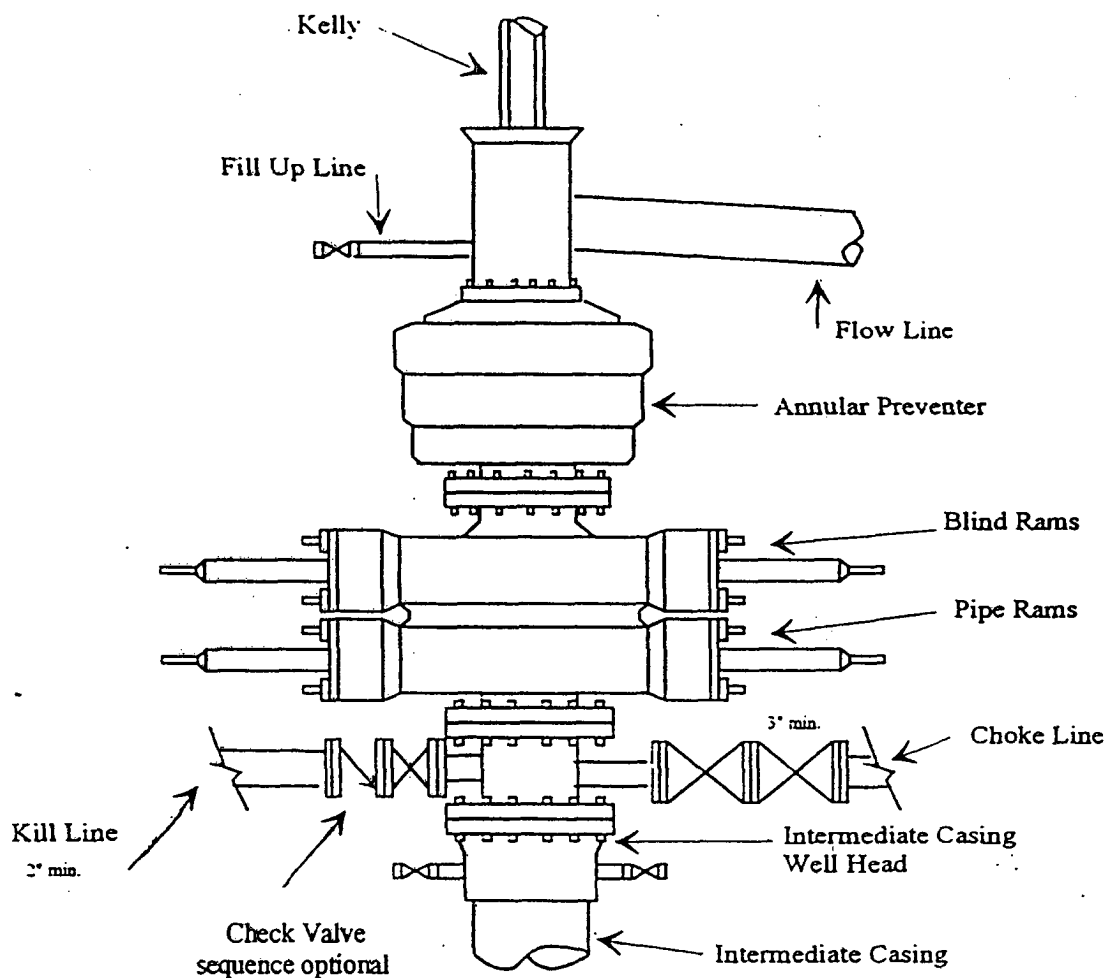

Regulatory Agent



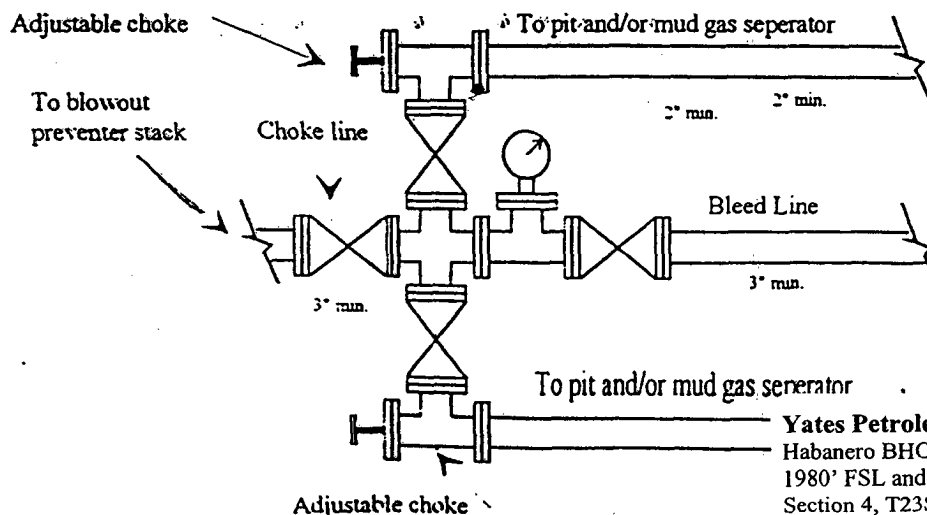
Yates Petroleum Corporation

BOP-3

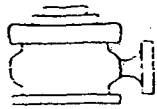
Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack



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



Yates Petroleum Corporation
Habanero BHO Federal Com. #1
1980' FSL and 1980' FWL, NESW, Unit K
Section 4, T23S-R27E
Eddy County, New Mexico
Exhibit "B"

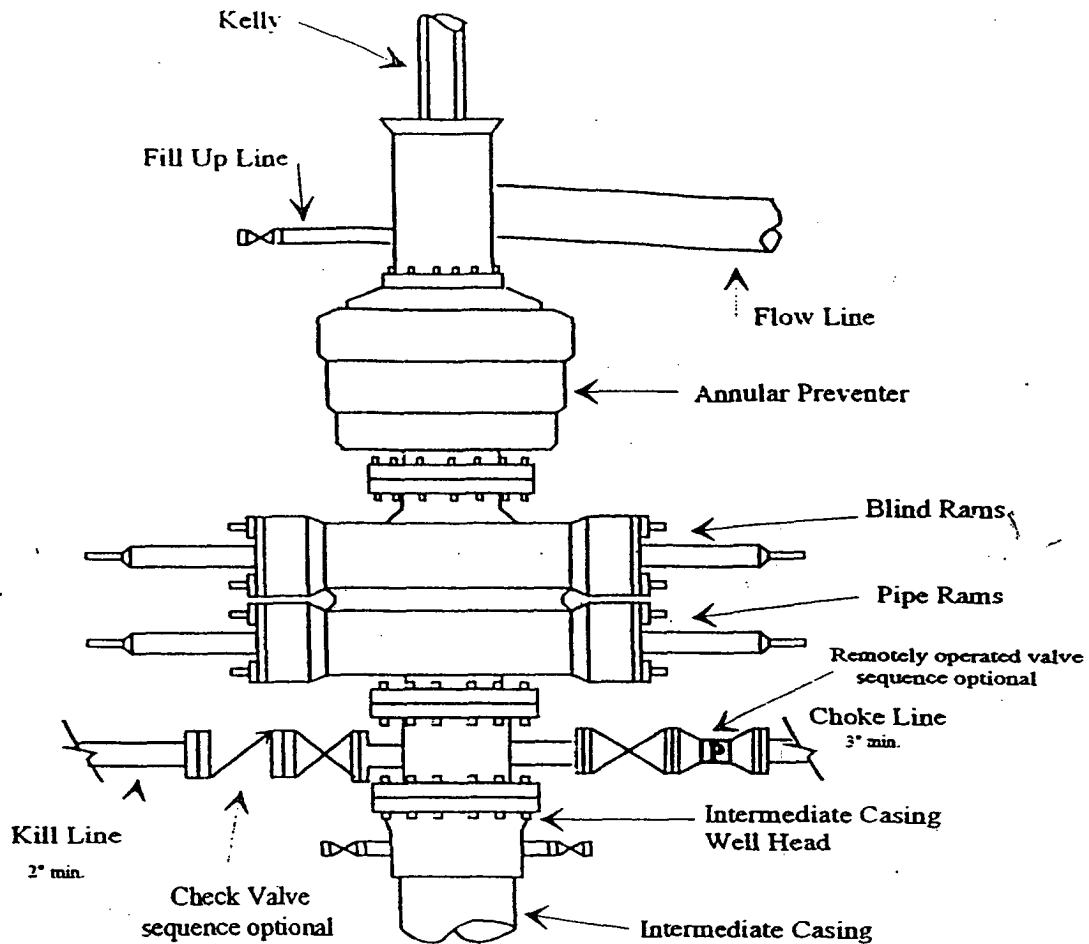


Yates Petroleum Corporation

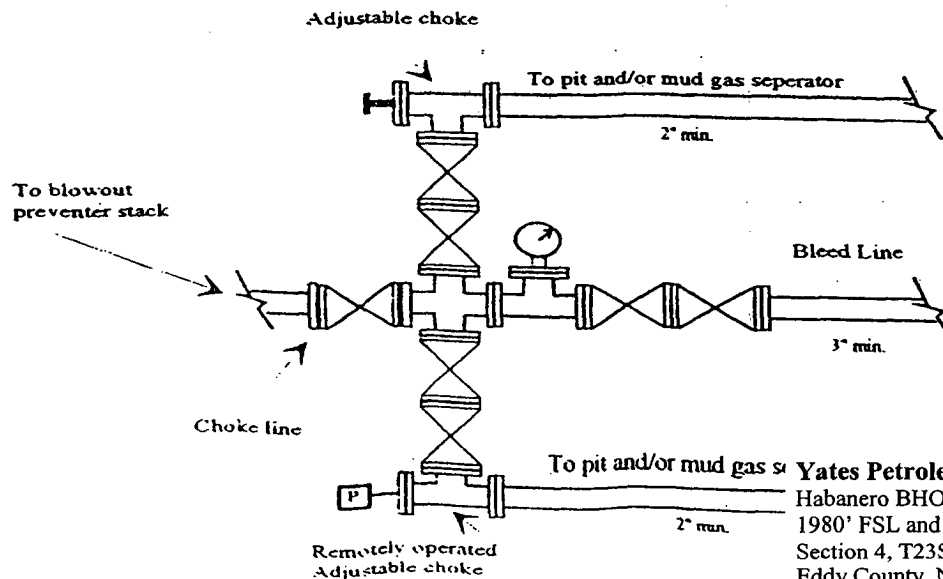
BOP-4

Typical 5,000 psi Pressure System
Schematic

Annular with Double Ram Preventer Stack



Typical 5,000 psi choke manifold assembly with at least these minimum features



Yates Petroleum Corporation
Habanero BHO Federal Com. #1
1980' FSL and 1980' FWL, NESW, Unit K
Section 4, T23S-R27E
Eddy County, New Mexico
Exhibit "B-1"

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corporation Well No. 1 – Habanero BHO Federal Com.
Location: 1980' FSL & 1980' FWL sec. 4, T. 23 S., R. 27 E.
Lease: NM-97125
.....

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at (505) 361-2822 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 13-3/8 inch 9-5/8 inch 5-1/2 inch

C. BOP tests

2. 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.

3. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

4. 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.

II. CASING:

1. 13-3/8 inch surface casing should be set **at approximately 440 feet in the Rustler Anhydrite above the top of the Salt**, below usable water and circulate cement to the surface. If cement does not circulate to the surface the BLM Carlsbad Field Office shall be notified at (505) 361-2822 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. Minimum required fill of cement behind the 9-5/8 inch intermediate casing string set **at approximately 2200 feet** is **sufficient to circulate to the surface.**

3. Minimum required fill of cement behind the 5-1/2 inch production casing is **sufficient to tie back 500 feet above uppermost perforation in the pay zone.**

III. PRESSURE CONTROL:

1. Before drilling below the 13-3/8 inch surface casing string, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve. Before drilling below the 9-5/8 inch intermediate casing string, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.

2. Before drilling below the 13-3/8 inch surface casing string, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **2000** psi. Before drilling below the 9-5/8 inch intermediate casing string, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **3000** psi.

CONDITIONS OF APPROVAL - DRILLING (CONTINUED)

Operator's Name: Yates Petroleum Corporation **Well No. 1 –** Habanero BHO Federal Com.

Location: 1980' FSL & 1980' FWL sec. 4, T. 23 S., R. 27 E.

Lease: NM-97125

.....

III. PRESSURE CONTROL:

3. After setting the 9-5/8 inch intermediate casing string and before drilling into the Wolfcamp formation, the BOPE shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

A. The Carlsbad Field Office shall be notified at (505) 361-2822 in sufficient time for a representative to witness the tests.

B. The tests shall be done by an independent service company.

C. The results of the test shall be reported to the BLM Carlsbad Field Office at 2909 West Second Street, Roswell, New Mexico 88201.

D. 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.

E. Testing must be done in a safe workman like manner. Hard line connections shall be required.

IV. DRILLING MUD:

1. 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:

A. Recording pit level indicator to indicate volume gains and losses.

B. Flow-sensor on the flow-line to warn of abnormal mud returns from the well.