

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

OR'S COPY

Well file

Form 3160-3
(August 1999)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

III 18 2007
OCD-ARTESIA

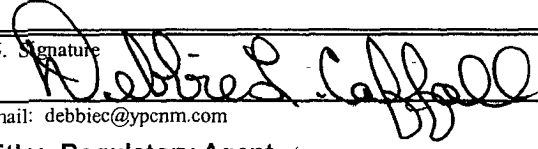
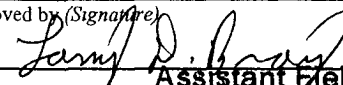
APPLICATION FOR PERMIT TO DRILL OR REENTER

0 OMB No. 1004-0136 Expires November 30, 2000
5. Lease Serial No. NM-32167
6. If Indian, Allottee or Tribe Name Not Applicable
7. If Unit or CA Agreement, Name and No. 12770
8. Lease Name and Well No. Spring Federal #5
9. API Well No. 30-005-63959
10. Field and Pool, or Exploratory Wildcat Precambrian
11. Sec., T., R., M., or Blk. and Survey or Area Section 6, T6S-R26E
12. County or Parish Chaves County
13. State NM
16. No. of Acres in lease 464.12
17. Spacing Unit dedicated to this well 166.83
19. Proposed Depth 5310'
20. BLM/BIA Bond No. on file NM-2811
22. Approximate date work will start* ASAP
23. Estimated duration 30 Days
24. Attachments ROSWELL CONTROLLED WATER BASIN

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input checked="" type="checkbox"/> 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 660' FNL and 660' FEL, Lot 1 At proposed prod. Zone same as above
14. Distance in miles and direction from nearest town or post office* Approximately thirty (30) miles northeast of Roswell, New Mexico
5. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)
8. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3731' GL

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

15. Signature  mail: debbiec@ypcnm.com	Name (Printed/Typed) Debbie Caffall / Land Department	Date 7/13/2006
Title: Regulatory Agent		
Approved by (Signature)  Title: Assistant Field Manager, Lands And Minerals	Name (Printed/Typed) LARRY D. BRAY Office: ROSWELL FIELD OFFICE	Date 08/17/06 APPROVED FOR 1 YEAR

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)

NSP -1858

DECLARED WATER BASIN

CEMENT BEHIND THE **1134**
CASING MUST BE CIRCULATED
WITNESS

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

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
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised August 15, 2000

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 96542	³ Pool Name Wildcat Precambrian
⁴ Property Code 12770	⁵ Property Name Spring Federal	⁶ Well Number 5
⁷ OGRID No. 025575	⁸ Operator Name Yates Petroleum Corporation	⁹ Elevation 3731'

¹⁰ Surface Location

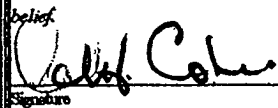
UL or lot no. 1	Section 6	Township 6S	Range 26E	Lot Idn	Feet from the 660	North/South line North	Feet from the 660	East/West line East	County Chaves
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¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
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¹² Dedicated Acres 166.83	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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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 Lot 4	Lot 3	Lot 2 NM-32167	Lot 1 660' 660'	¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  Signature Robert Asher Printed Name Regulatory Agent Title 06/22/2004 Date
				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. REFER TO ORIGINAL PLAT Date of Survey Signature and Seal of Professional Surveyor: Certificate Number

DISTRICT II
511 South First, Artesia, NM 88210

DISTRICT III
1090 Rio Brason Rd., Aztec, NM 87410

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

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 Wildcat Precambrian
Property Code	Property Name SPRING FEDERAL	Well Number 5
OGRID No. 025575	Operator Name YATES PETROLEUM CORPORATION	Elevation 3731

Surface Location

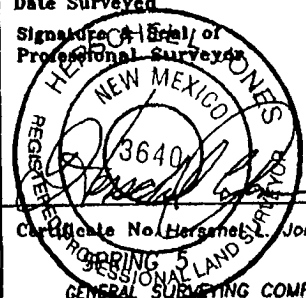
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	6	6S	26E		660	NORTH	660	EAST	CHAVES

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 166.83 120	Joint or Infill	Consolidation Code	Order No.
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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

LOT 4	LOT 3	LOT 2 NM-32167	LOT 1 3734 3729 660' 3728 3723 N.33°49'07.8" W.104°19'46.2"	OPERATOR CERTIFICATION I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief. <i>Clifton R. May</i> Signature Clifton R. May Printed Name Regulatory Agent Title 1/28/02 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 supervision, and that the same is true and correct to the best of my belief. 1/22/2002 Date Surveyed Signature & Seal of Professional Surveyor  Certificate No. H-3640 Jones RLS 3640 GENERAL SURVEYING COMPANY

CHAVES PETROLEUM CORPORATION
Spring Federal #5
660' FNL and 660' FEL
Section 6-T6S-R26E
Chaves County, New Mexico

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

San Andres	565'
Glorieta	1515'
Yeso	1615'
Tubb	3055'
Abo	3690'
Wolfcamp	4340'
Basement - Granite	5160'
TD	5310'

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

Water: 150'-200'
Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 11 3/4" casing and rated for 2000 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>
14 3/4"	11 3/4"	42#	H-40	ST&C	0-925'
11	8 5/8"	24#	J-55	ST&C	0-1500'
7 7/8"	5 1/2"	15.5#	J-55	ST&C	0-5310'

*8 5/8" will only be set if lost circulation is encountered

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

B. CEMENTING PROGRAM:

Surface Casing: 350 sx Lite "C" (YLD 2.0 WT 12.5). Tail in with 200 sx "C"
+ 2% CaCL₂ (YLD 1.32 WT 15.6).

Intermediate Casing: 250 sx Class C+2% CACL₂ (YLD 1.32 WT 14.8)

Production Casing: 500 sx Pecos Valley Lite (YLD 1.34 WT 13.0). TOC 3100'.

5. MUD PROGRAM AND AUXILIARY EQUIPMENT:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-900'	FW GEL,Paper,LCM	8.6 - 9.0	32-36	N/C
900'-3660'	Cut Brine/Brine	9.0 - 10.2	28	N/C
3660'-5310'	Salt Gel/Starch	9.3 - 10.2	32-40	<6/cc

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: 10' samples out from under surface casing.

Logging: Platform Express CNL/LDT, W/NGT TD –Surf csg; with GR/CNL up to Surf:

DLL/MS FL TD-Surf csg; BHC Sonic TD-Surf csg

Coring: Sidewalls

DST's: As warranted.

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

Anticipated BHP:

From: 0 TO: 900'

From: 900' TO: 5310'

Anticipated Max. BHP: 375 PSI

Anticipated Max. BHP: 2700 PSI

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: None.

H₂S Zones Anticipated: None Anticipated

Maximum Bottom Hole Temperature: 110 F

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 25 days to drill the well with completion taking another 20 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
YATES PETROLEUM CORPORATION
Spring Federal #5
660' FNL and 660' FEL
Section 6-T6S-R26E
Chaves 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 well site is located approximately 30 miles northeast of Roswell, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go north of Roswell on Highway 285 for approx. 21.3 miles to Cottonwood Road. Turn east and follow road approx. 13.7 miles to Roosevelt Road. Turn north and go approx. 4.4 miles. Turn east on lease road and go approximately 0.4 of a mile to location.

2. PLANNED ACCESS ROAD:

- A. We will extend the well pad north by putting the road down the north side of pad so as to enter at the NE corner. The existing road runs thru location on the north side.
- B. Existing roads will be maintained in the same or better condition as it is now.

3. LOCATION OF EXISTING WELL:

- A. There is drilling activity within a one-mile radius of the well site.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed well site.

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.

Spring Federal #5

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 landfill. 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.
- C. A 400' x 400' area has been staked and flagged.
- D. Pits are to the west due to a pipeline to the north.

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 well site 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, Roswell, 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.

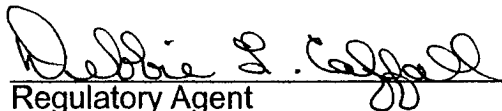
13. OPERATOR'S REPRESENTATIVE:

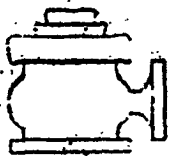
- | | |
|---|---|
| A. Through A.P.D. Approval:
Debbie L. Caffall, Regulatory Agent
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471 | B. Through Drilling, Completions & Prod.
Pinson McWhorter, Operations Manager
Yates Petroleum Corporation
105 South 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.

7/13/2006

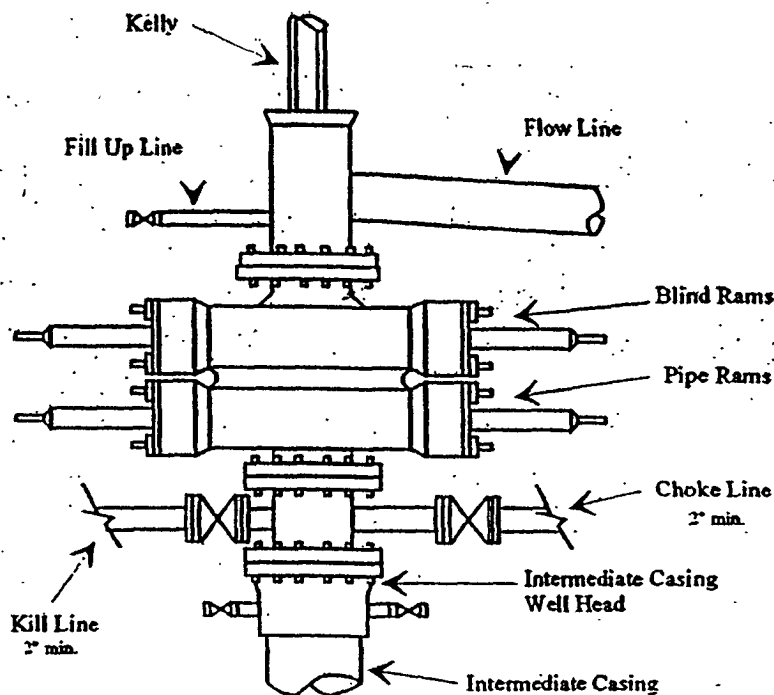

Regulatory Agent



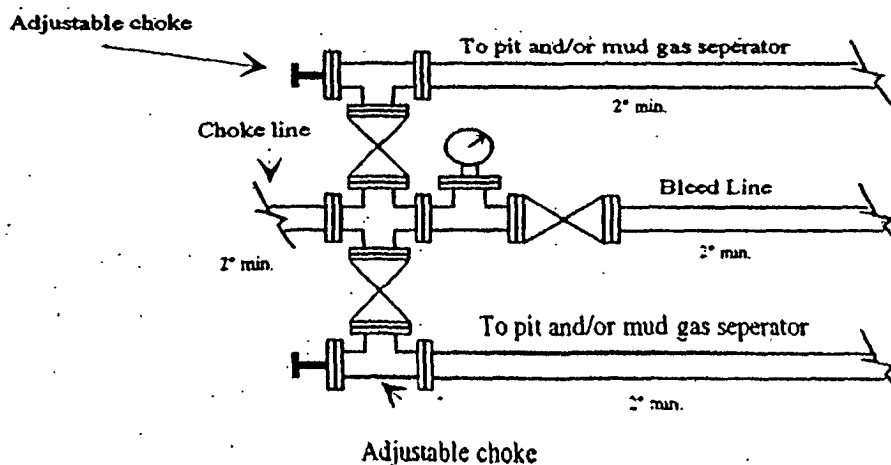
Yates Petroleum Corporation

BOP-2

Typical 2,000 psi Pressure System Schematic Double Ram Preventer Stack EXHIBIT B



Typical 2,000 psi choke manifold assembly with at least these minimum features





United States Department of the Interior
BUREAU OF LAND MANAGEMENT

Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201

IN REPLY REFER TO:
Spring Federal #5
NM-32167

Yates Petroleum Corporation shall adhere to the following;

A. The Conditions of Approval attached to the APD that was previously approved on August 25, 2005 are exclusive to this well and still in affect.

RECEIVED

AUG 28 2006

MAIL ROOM

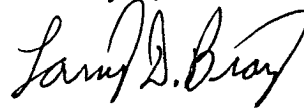
25 August 2006

Debbie,

Here are the conditions of approval that should have been attached to the Sorenson "IB" Federal #5 (lease #NMNM2359) APD approved on 08/17/06 and the Spring Federal #5 (lease #NMNM32167) APD also approved on 08/17/06. The conditions of approval start with exhibit B as exhibit A is only a map to the well site.

If you have any other questions contact me at 505-627-0250.

Thank you,

A handwritten signature in black ink, appearing to read "Larry D. Bray". The signature is fluid and cursive, with the first name "Larry" and last name "Bray" clearly distinguishable.



United States Department of the Interior
BUREAU OF LAND MANAGEMENT
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201

EXHIBIT B

WELL DRILLING REQUIREMENTS

1 of 5 pages

OPERATORS NAME: Yates Petroleum Corporation LEASE NO.: NM-32167
WELL NAME & NO: Spring Federal #5
QUARTER/QUARTER & FOOTAGE: LOT 1 - 660' FNSL & 660' FEL
LOCATION: Section 6, T. 6 S., R. 26 E., NMPM
COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

- A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).
- B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Well Drilling Requirements.

II. WELL PAD CONSTRUCTION REQUIREMENTS:

- A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627-0247.
- B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).
- C. The holder shall stockpile the topsoil from the surface of the well pad. The topsoil on the Spring Federal #5 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Southeast corner of the well pad, opposite the reserve pit.

D. Reserve Pit Requirements:

- 1. The reserve pit shall be constructed 125' X 150' on the West side of the well pad.
- 2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See Exhibit E – Surface Reclamation/Restoration Requirements.
- 3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

4. The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.
5. The reserve pit shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances will the reserve pit be cut to drain drilling muds on the well location.
6. The reserve pit shall not be located in any natural drainage.
7. The reserve pit shall be equipped to deter entry by birds, bats, other wildlife, and livestock, if the reserve pit contains any oil and/or toxic fluids.
8. Drilling muds shall be properly disposed of before the reserve pit is reclaimed. Drilling muds can be allowed to evaporate in the reserve pit or be removed and transported to an authorized disposal site. The reserve pit shall be backfilled when dry.
9. Dumping of junk or trash into the reserve pit is not allowed. Junk or trash shall be removed from within the reserve pit before the reserve pit is reclaimed. **Junk or trash shall not be buried in the reserve pit.**

E. Federal Mineral Materials Pit Requirements:

1. Caliche, gravel, or other related materials from new or existing pits on Federal mineral estate shall not be taken without prior approval from the authorized officer. Contact Jerry Dutchover at (505) 627 -0236.
2. Payment for any Federal mineral materials that will be used to surface the access road and the well pad is required prior to removal of the mineral materials.
3. Mineral Materials extracted during construction of the reserve pit may be used for development of the pad and access road as needed, for the Spring Federal #5 gas well only. Removal of any additional material on location must be purchased from BLM prior to removal of any material.
 - a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

The well pad shall be surfaced with 6 inches of compacted caliche, gravel, or other approved surfacing material. The well pad shall be surfaced prior to drilling operations. See Permanent Resource Road Requirements - EXHIBIT D - requirement #4, for road surfacing.

G. Cave Requirements:

1. If, during any construction activities any sinkholes or cave openings are discovered, all construction activities shall immediately cease. Contact Larry Bray at (505) 627-0250.
2. The BLM Authorized Officer will, within 24 hours of notification in "A" above, conduct an on-the-ground field inspection for karst. At the field inspection the authorized field inspector will authorize or suggest mitigating measures to lessen the damage to the karst environment. A verbal order to proceed or stop the operation will be issued at that time.

WELL DRILLING REQUIREMENTS

3 of 5 pages

III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING 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, in sufficient time for a representative to witness:

A. Spudding B. Cementing casing: 11¾ inch 8¾ inch 5½ 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. 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.

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

B. CASING:

1. The 11¾ inch surface casing shall be set at 925' 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 8¾ inch intermediate casing if run is with sufficient amount of cement bring it up at least 200 above shoe.

3. The minimum required fill of cement behind the 5½ inch production casing is cement shall extend upward a minimum of 500 feet above the uppermost perforation.

C. 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 11¾ 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) shall be 2000 psi.

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

- a. The results of the test shall be reported to the appropriate BLM office.
- b. 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.
- c. Testing must be done in a safe workman-like manner. Hard line connections shall be required. BOPE shall be tested before drilling into the Wolfcamp formation.

D. 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.

July 22, 2002

Yates Petroleum Corporation
c/o Holland & Hart LLP
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Telefax No. (505) 983-6043

Attention: William F. Carr

Administrative Order NSP-1858

Dear Mr. Carr:

Reference is made to the following: (i) your application dated July 1, 2002 (*pKRV0-218447161*) on behalf of the operator, Yates Petroleum Corporation ("Yates"); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe: all concerning Yates's request for the formation of the following described non-standard 166.83-acre gas spacing unit to be applicable to the Wolfcamp and Pennsylvanian formations, both of which if found to be gas productive would be subject to 320-acre spacing and governed under the provisions of Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999:

CHAVES COUNTY, NEW MEXICO
TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM
Irregular Section 6: All.

This unit is to be dedicated to Yates's proposed Spring Federal Well No. 5, to be drilled at a standard gas well location pursuant to Division Rule 104.C (2) (a), as revised, 660 feet from the South and East lines (Lot 1/Unit P) of irregular Section 6.

This application has been duly filed under the provisions of Division Rule 104.D (2), as revised.

By the authority granted me under the provisions of Division Rule 104.D (2) (b), as revised, the above-described 166.83-acre non-standard gas spacing unit for the Wolfcamp and Pennsylvanian intervals is hereby approved for Yates's proposed Spring Federal Well No. 5.

IT IS FURTHER ORDERED HOWEVER THAT an infill well in any deep gas spacing unit established by the Spring Federal Well No. 5 shall not be allowed under Division Rule 104.C (2) (b). Approval for such infill well must be obtained after notice to all off-setting operators and mineral interest owners and a hearing before a Division examiner showing that correlative rights would be adequately protected and waste would be not occur by the drilling of a second well on this small of spacing unit in an un-prorated pool.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management – Roswell