

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

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

| | | |
|---|--------------------------------------|-------------------------------|
| 1. Operator Name and Address YATES PETROLEUM CORPORATION 105 S 4TH ST ARTESIA , NM 88210 | | 2. OGRID Number 25575 |
| | | 3. API Number 30-025-37920 |
| 4. Property Code 34585 | 5. Property Name FARON STATE UNIT | 6. Well No. 002 |

7. Surface Location

| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| L | 5 | 09S | 32E | L | 1650 | S | 660 | W | LEA |

8. Pool Information

| | |
|-----------------------|---|
| Wildcat Mississippian | 0 |
|-----------------------|---|

Additional Well Information

| | | | | |
|--|-----------------------------|--|-------------------------|---|
| 9. Work Type New Well | 10. Well Type GAS | 11. Cable/Rotary | 12. Lease Type State | 13. Ground Level Elevation 4397 |
| 14. Multiple N | 15. Proposed Depth 11200 | 16. Formation Mississippi Limestone | 17. Contractor | 18. Spud Date |
| Depth to Ground water 110 | | Distance from nearest fresh water well > 1000 | | Distance to nearest surface water > 1000 |
| Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 _____ mils thick Clay <input type="checkbox"/> Pit Volume: 24000 _____ bbls Drilling Method: Closed Loop System <input type="checkbox"/> Fresh Water <input checked="" type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/> | | | | |

19. Proposed Casing and Cement Program

| Type | Hole Size | Casing Type | Casing Weight/ft | Setting Depth | Sacks of Cement | Estimated TOC |
|------|-----------|-------------|------------------|---------------|-----------------|---------------|
| Surf | 17.5 | 13.375 | 48 | 400 | 450 | 0 |
| Int1 | 12.25 | 9.625 | 40 | 3550 | 1200 | 0 |
| Prod | 8.75 | 5.5 | 17 | 11200 | 1950 | 3050 |

Casing/Cement Program: Additional Comments

Yates Petroleum Corporation proposes to drill and test the Mississippian/intermediate formations. Approximately 400' of surface casing will be set and cement circulated. Intermediate casing will be set at 3550', cement circulated to surface. If commercial, production casing will be ran and cemented, perforated, and stimulated as need to gain production.

Proposed Blowout Prevention Program

| Type | Working Pressure | Test Pressure | Manufacturer |
|-----------|------------------|---------------|--------------|
| DoubleRam | 5000 | 5000 | |

| | | |
|---|----------------------------------|---------------------------------|
| I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCB guidelines <input type="checkbox"/> , a general permit <input checked="" type="checkbox"/> , or an (attached) alternative OCB-approved plan <input type="checkbox"/> . | OIL CONSERVATION DIVISION | |
| | Approved By: Paul Kautz | |
| Printed Name: Electronically filed by dusty bean | Title: Geologist | |
| Title: Regulatory Tech | Approved Date: 6/7/2006 | Expiration Date: 6/7/2007 |
| Email Address: dustyb@ypcnm.com | | |
| Date: 6/6/2006 | Phone: 505-748-4364 | Conditions of Approval Attached |

District IIDistrict IIIDistrict IV

Energy, Minerals and Natural Resources

Oil Conservation Division

1220 S. St Francis Dr.

Santa Fe, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|-------------------------------|---|---------------------------------------|
| 1. API Number 30-025-37920 | 2. Pool Code | 3. Pool Name Wildcat Mississippian |
| 4. Property Code 34585 | 5. Property Name FARON STATE UNIT | 6. Well No. 002 |
| 7. OGRID No. 25575 | 8. Operator Name YATES PETROLEUM CORPORATION | 9. Elevation 4397 |

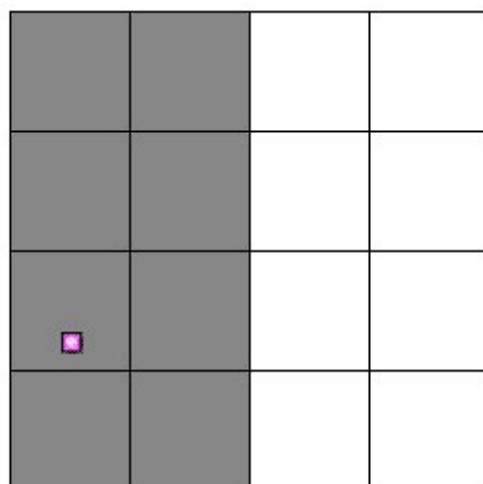
10. Surface Location

| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| L | 5 | 09S | 32E | | 1650 | S | 660 | W | LEA |

11. Bottom Hole Location If Different From Surface

| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|-------------------------------|---------|---------------------|-------|------------------------|-----------|----------|---------------|----------|--------|
| 12. Dedicated Acres 319.80 | | 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



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 or unleased mineral interest in the land including the proposed bottom hole location(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

E-Signed By: dusty bean

Title: Regulatory Tech

Date: 6/6/2006

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.

Surveyed By: Herschel Jones

Date of Survey: 5/30/2006

Certificate Number: 3640

Permit Comments

Operator: YATES PETROLEUM CORPORATION , 25575

Well: FARON STATE UNIT #002

API: 30-025-37920

| Created By | Comment | Comment Date |
|------------|---|--------------|
| dustyb | Mud Program: 0-400' Fresh Water Gel; 400'-1720' FW; 1720'-3550' Red Bed Mud/Oil; 3550'-7200' Cut Brine; 7200'-10430' SGel/Starch; 10430'-TD SW/Starch/4-6% KCL. | 6/6/2006 |
| dustyb | Sources at YPC have relayed information to me that there will not be enough H2S found from the surface to the Mississippian formation to meet the OCD's minimum requirements for the submission of a contingency plan per rule 118. | 6/6/2006 |
| dustyb | BOPE Program: A 5000# BOPE will be installed on the 9.625" casing and tested daily for operational. | 6/6/2006 |

Permit Conditions of Approval

Operator: YATES PETROLEUM CORPORATION , 25575

Well: FARON STATE UNIT #002

API: 30-025-37920

| OCD Reviewer | Condition |
|--------------|---|
| pkautz | Pit construction and closure must satisfy all requirements of your approved plan, O.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines |
| pkautz | prior to any pit construction notify Gary Wink at 505-393-6161 ext 114 |