

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 30-025-38396 |
| 4. Property Code 33444 | 5. Property Name MERLE STATE UNIT | 6. Well No. 014 |

7. Surface Location

| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| L | 13 | 10S | 34E | L | 1980 | S | 660 | W | LEA |

8. Pool Information

| | |
|----------|---|
| Wolfcamp | 0 |
|----------|---|

Additional Well Information

| | | | | |
|---|----------------------------|--|-------------------------|---|
| 9. Work Type New Well | 10. Well Type OIL | 11. Cable/Rotary | 12. Lease Type State | 13. Ground Level Elevation 4171 |
| 14. Multiple N | 15. Proposed Depth 9300 | 16. Formation Wolfcamp | 17. Contractor | 18. Spud Date 5/7/2007 |
| Depth to Ground water 45 | | Distance from nearest fresh water well > 1000 | | Distance to nearest surface water > 1000 |
| Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 miles 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 | 14.75 | 11.75 | 42 | 400 | 250 | 0 |
| Int1 | 11 | 8.625 | 32 | 4200 | 1110 | 0 |
| Prod | 7.875 | 5.5 | 17 | 9300 | 925 | 3700 |

Casing/Cement Program: Additional Comments

Yates Petroleum Corporation proposes to drill and test the Wolfcamp/intermediate formations. Approximately 400' of surface casing will be set and cement circulated. Intermediate casing will be set at 4200', cement circulated to surface. If commercial, production casing will be ran, cemented, perforated and stimulated as needed to gain production.

Proposed Blowout Prevention Program

| Type | Working Pressure | Test Pressure | Manufacturer |
|-----------|------------------|---------------|--------------|
| DoubleRam | 3000 | 3000 | |

| | | |
|---|----------------------------------|---------------------------------|
| 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 NMOCD guidelines <input type="checkbox"/> a general permit <input checked="" type="checkbox"/> or an (attached) alternative OCD-approved plan <input type="checkbox"/> . | OIL CONSERVATION DIVISION | |
| | Approved By: Paul Kautz | |
| Printed Name: Electronically filed by Shirley Pruitt | Title: Geologist | |
| Title: | Approved Date: 5/4/2007 | Expiration Date: 5/4/2008 |
| Email Address: shirleyp@ypcnm.com | | |
| Date: 5/4/2007 | Phone: 505-748-4356 | Conditions of Approval Attached |

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(505) 393-6161 Fax:(505) 393-0720

District II
 1301 W. Grand Ave., Artesia, NM 88210
 Phone:(505) 748-1283 Fax:(505) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

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Santa Fe, NM 87505

Form C-102
 Permit 52689

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|-------------------------------|---|--------------------------|
| 1. API Number 30-025-38396 | 2. Pool Code | 3. Pool Name Wolfcamp |
| 4. Property Code 33444 | 5. Property Name MERLE STATE UNIT | 6. Well No. 014 |
| 7. OGRID No. 25575 | 8. Operator Name YATES PETROLEUM CORPORATION | 9. Elevation 4171 |

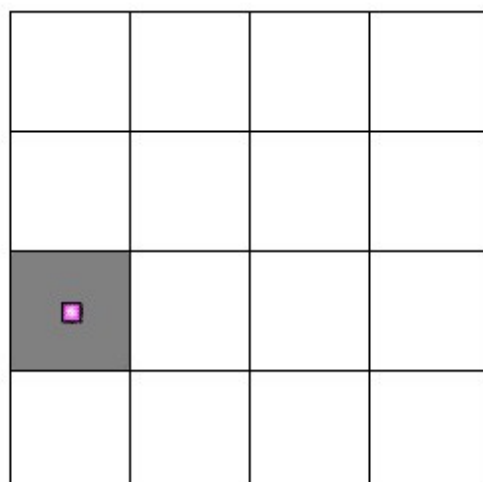
10. Surface Location

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11. Bottom Hole Location If Different From Surface

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|--|---------|---------------------|-------|------------------------|-----------|----------|---------------|----------|--------|
| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
| 12. Dedicated Acres 40.00 | | 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: Shirley Pruitt

Title:

Date: 5/4/2007

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: 4/25/2007

Certificate Number: 3640

Permit Comments

Operator: YATES PETROLEUM CORPORATION , 25575

Well: MERLE STATE UNIT #014

API: 30-025-38396

| Created By | Comment | Comment Date |
|------------|---|--------------|
| SPRUITT | MUD PROGRAM: 0-400' FW Gel; 400'-2170' FW; 2170'-4200' Red Bed Mud/Oil; 4200'-7700' Cut Brine; 7700'-9300' SW Gel/Starch. | 5/1/2007 |
| SPRUITT | BOPE PROGRAM: A 3000# BOPE will be installed on the 8.625" casing and tested daily for operational. | 5/1/2007 |
| SPRUITT | Sources at Yates Petroleum Corporation have relayed information to me that they believe there will not be sufficient H2S found from the surface to the Wolfcamp formation to meet the OCD's minimum requirements for the submission of a contingency plan per Rule 118. | 5/1/2007 |
| DMULL | Talked with Cliff May on this well. Well location with 320 ac. proration unit for the #1. Pool code 97600. He will get back with me. | 5/2/2007 |
| DMULL | Sending back for corrections. | 5/4/2007 |
| pkautz | rejected at operators request | 5/4/2007 |

Permit Conditions of Approval

Operator: YATES PETROLEUM CORPORATION , 25575

Well: MERLE STATE UNIT #014

API: 30-025-38396

| 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 |