

Barry
N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210

RECEIVED

AUG 25 2004

CDN-ARTEZIA

Expires November 30, 2000

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

| | | |
|--|--|--|
| 1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER | | 7. If Unit or CA Agreement, Name and No. |
| b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone | | 8. Lease Name and Well No. 29231 Cuadrillo AZO Federal #2 |
| 2. Name of Operator Yates Petroleum Corporation <i>25575</i> | | 9. API Well No. 30-015-342e2 |
| 3A. Address 105 South Fourth Street Artesia, New Mexico 88210 | 3b. Phone No. (include area code) (505) 748-1471 | 10. Field and Pool, or Exploratory Wildcat Chester <i>96542</i> |
| 4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 2250' FNL and 1475' FEL At proposed prod. Zone Same | | 11. Sec., T., R., M., or Blk. and Survey or Area Section 31, T20S-R23E |
| 14. Distance in miles and direction from nearest town or post office* Approximately 43 miles southwest of Artesia, New Mexico. | | 12. County or Parish Eddy County |
| 15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1475' | | 13. State NM |
| 16. No. of Acres in lease 319.76 | 17. Spacing Unit dedicated to this well N/2 | |
| 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 1300' | 19. Proposed Depth 8700' | 20. BLM/BIA Bond No. on file NM-2811 |
| 21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4371' | 22. Approximate date work will start* ASAP | 23. Estimated duration 45 days |

24. Attachments

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. |

| | | |
|---|--|----------------------------|
| 25. Signature <i>Cy Cowan</i> | Name (Printed/Typed) Cy Cowan | Date 7/29/04 |
| Regulatory Agent | | |
| Approved by (Signature) /s/ Joe G. Lara | Name (Printed/Typed) /s/ Joe G. Lara | Date AUG 24 2004 |
| Title 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)

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

Controlled Water Basin

2.95
Witness Surface Casing

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
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised March 17, 1999
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 Chester |
| Property Code | Property Name CUADRITO "AZO" FEDERAL | Well Number 2 |
| OGRID No. 025575 | Operator Name YATES PETROLEUM CORPORATION | Elevation 4371 |

Surface Location

| | | | | | | | | | |
|--------------------|---------------|-----------------|--------------|---------|-----------------------|---------------------------|-----------------------|------------------------|----------------|
| UL or lot No. G | Section 31 | Township 20S | Range 23E | Lot Idn | Feet from the 2250 | North/South line NORTH | Feet from the 1475 | East/West line EAST | County EDDY |
|--------------------|---------------|-----------------|--------------|---------|-----------------------|---------------------------|-----------------------|------------------------|----------------|

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 320 | Joint or Infill | Consolidation Code | 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

| | | | | | | | | | | | | | | | |
|----------|--|--|--|-----------|--|--|--|---|--|--|--|-------|--|--|--|
| NM-94830 | | | | 2250' | | | | 4369 4365 | | | | 1475' | | | |
| | | | | 4382 4393 | | | | N.32°31'50.7" W.104°43'36.2" N.556979.4 E.378924.1 (NAD-27) | | | | | | | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |

OPERATOR CERTIFICATION

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

Cy Cowan
Signature
Cy Cowan
Printed Name
Regulatory Agent
Title
July 27, 2004
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.

7/15/2004
Date Surveyed

Signature & Seal of Professional Surveyor
Herschel Jones
Certificate No. Herschel Jones RLS 3640
GENERAL SURVEYING COMPANY

0 330' 660' 990' 1650' 1980' 2310' 2310' 1980' 1650' 990' 660' 330' 0'

YATES PETROLEUM CORPORATION
Cuadrito "AZO" Federal #2
 2250' FNL and 1475' FEL
 Section 31-T20S-R23E
 Eddy County, New Mexico

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

| | | | |
|------------|---------|---------------|-------|
| San Andres | Surface | Strawn | 7525' |
| Glorieta | 2165' | Atoka | 7635' |
| Upper Yeso | 2315' | Upper Morrow | 8263' |
| Tubb | 3055' | Middle Morrow | 8425' |
| Lower Yeso | 3175' | Lower Morrow | 8485' |
| Abo | 3685' | Chester | 8585' |
| Wolfcamp | 5125' | TD | 8700' |
| Cisco | 6115' | | |

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

Water: 250'-350'
 Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 9 5/8" casing and rated for 3000 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)

| Hole Size | Casing Size | Wt./Ft | Grade | Coupling | Interval | Length |
|-----------|-------------|--------|-------|----------|-------------|--------|
| 14 3/4" | 9 5/8" | 36# | J-55 | ST&C | 0-1400' | 1400' |
| 8 3/4" | 5 1/2" | 17# | J-55 | LT&C | 0-100' | 100' |
| 8 3/4" | 5 1/2" | 15.5# | J-55 | LT&C | 100'-6600' | 6500' |
| 8 3/4" | 5 1/2" | 17# | J-55 | LT&C | 6600'-8300' | 1700' |
| 8 3/4" | 5 1/2" | 17# | L-80 | LT&C | 8300'-8700' | 400' |

Yates Petroleum Corporation requests a variance to install a rotating head on the surface casing strings when production casing will be set. If a BOP system is required then we wish to install a 2M system and receive a variance to test the system to 1000# using the rig pumps. The test will be held for 30 minutes on each system component. Components to be tested include pipe rams, blind rams, and annular preventer.

Minimum Casing Design Factors: Collapse 1.125, Burst 1.0, Joint Strength 1.8

B. CEMENTING PROGRAM:

Surface casing: 1000 sx Lite (YLD 1.98 WT 12.5).

Production Casing: 900 sx Lite "C" (YLD 1.98 Wt. 12.5).

5. MUD PROGRAM AND AUXILIARY EQUIPMENT:

| Interval | Type | Weight | Viscosity | Fluid Loss |
|--------------------------------|-----------------------|----------|-----------|------------|
| 0-1400' ^{1800' (JSS)} | Freshwater Air Mist | 8.4 | 28 | N/C |
| 1400'-7600' | Cut Brine | 8.4-9.0 | 28 | N/C |
| 7600'-TD | Salt Gel/Starch/4%KCL | 9.5-10.0 | 33-38 | <10cc |

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 intermediate casing.

Logging: Platform Express/HALS; possible FMI.

Coring: Rotary Sidewall Cores

DST's: As warranted.

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

Anticipated BHP:

From: 0 TO: 1400'

From: 1400' TO: TD

Anticipated Max. BHP: 625 PSI

Anticipated Max. BHP: 4525 PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None

H2S Zones Anticipated: None Anticipated

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
Cuadrito "AZO" Federal #2
2250' FNL and 1450' FEL
Section 31-T20S-R23E
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 43 miles Southwest of Artesia, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go south of Artesia on Highway 285 to Rock Daisy Road. Turn West on Rock Daisy Road and go Approximately 20 miles to CR-400 (Armstrong Road). Turn left on CR-400 and go approx. 4.9 miles. Turn left here on lease road and go approximately 0.6 of a mile. Continue going east for approx. 0.3 of a mile. Follow lease road going to the northeast for .6 of a mile toward the Cuadrito AZO Federal #1. Follow lease road going to the southeast for approx. .2 of a mile. Turn left here on the existing lease road and go .4 of a mile. The new road will start here going south.

2. PLANNED ACCESS ROAD:

- A. The proposed new access will go south for approximately 0.2 of a mile to the northeast corner of the drilling pad. The road will lie in a north to south direction. See attached map.
- 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. Some 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 no 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: Federal Surface, 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:

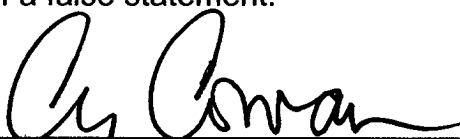
Cy Cowan, Regulatory Agent
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

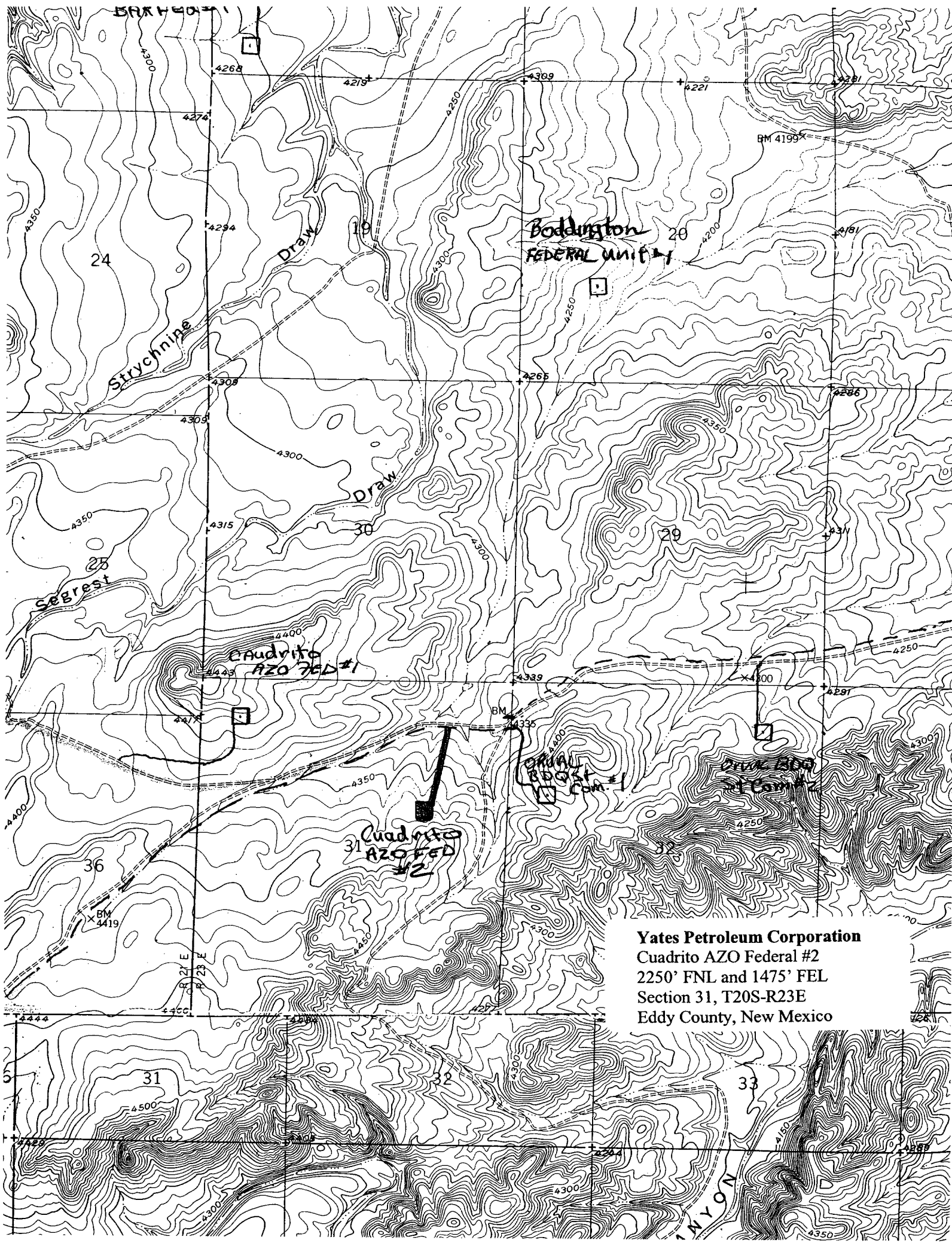
B. Through Drilling Operations,
Completions and Production:
Pinson McWhorter,
Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

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.

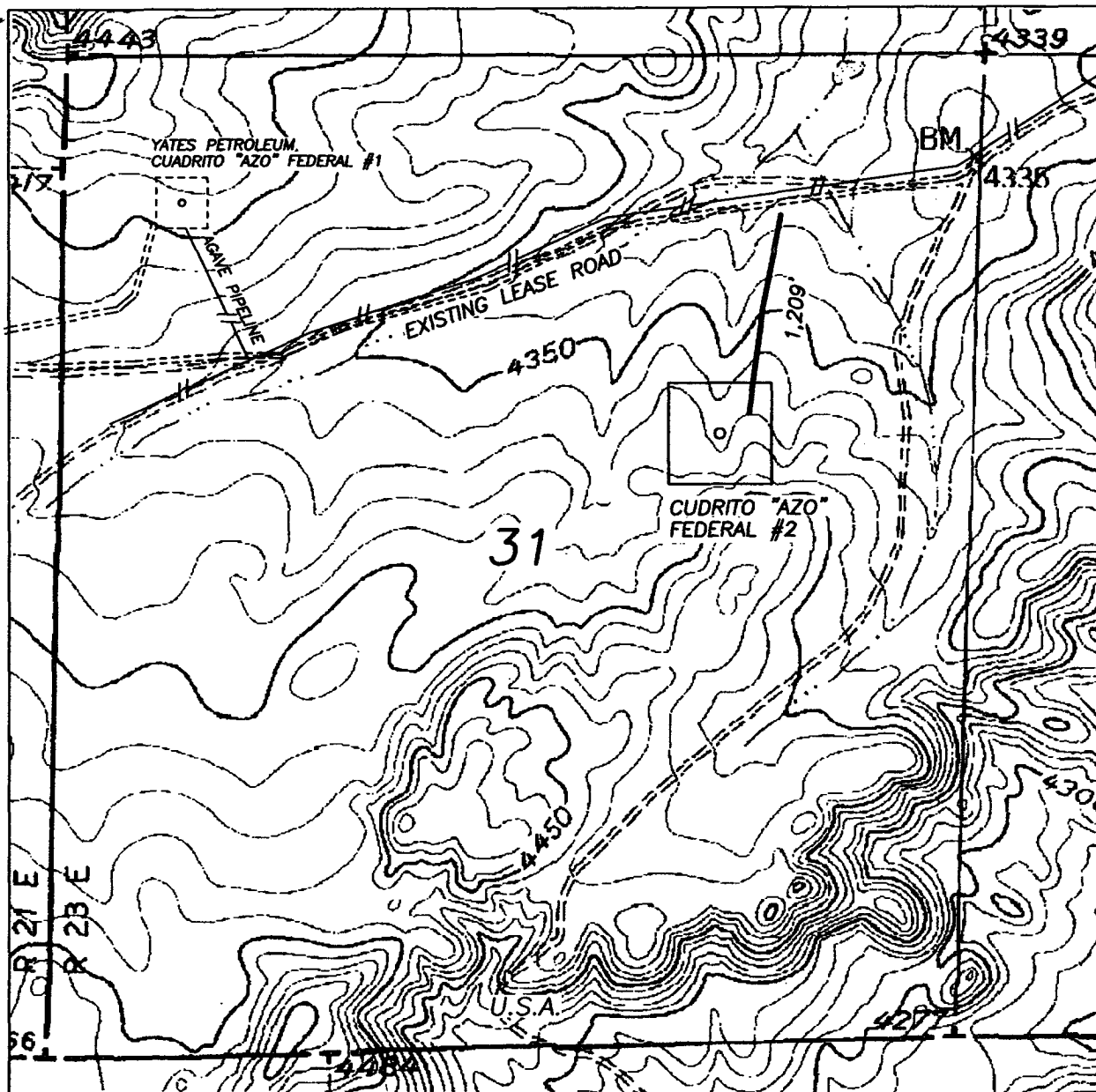
7/27/04


Regulatory Agent



Yates Petroleum Corporation
Cuadrito AZO Federal #2
2250' FNL and 1475' FEL
Section 31, T20S-R23E
Eddy County, New Mexico

SECTION 31, TOWNSHIP 20 SOUTH, RANGE 23 EAST, NMPM, EDDY COUNTY, NEW MEXICO.



1000' 0 1000' 2000'
Scale 1" = 1000'

THE PREPARATION OF THIS PLAT AND THE PERFORMANCE OF THE SURVEY UPON WHICH IT IS BASED WERE DONE UNDER MY DIRECTION AND THE PLAT ACCURATELY DEPICTS THE RESULTS OF SAID SURVEY AND MEET THE REQUIREMENTS OF THE STANDARDS FOR LAND SURVEYS IN NEW MEXICO AS ADOPTED BY THE NEW MEXICO STATE BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS.

HERSCHEL L. JONES R.L.S. No. 3640

GENERAL SURVEYING COMPANY, P.O. BOX 1928
LOVINGTON, NEW MEXICO 88260

YATES PETROLEUM CORP.

LEASE ROAD TO ACCESS THE YATES CUADRITO "AZO"
FEDERAL #2 WELL, LOCATED IN SECTION 31, TOWNSHIP 20
SOUTH, RANGE 23 EAST, NMPM, EDDY COUNTY, NEW
MEXICO.

Survey Date: 7/15/2004

Drawn By: Ed Blevins

Date: 7/18/04

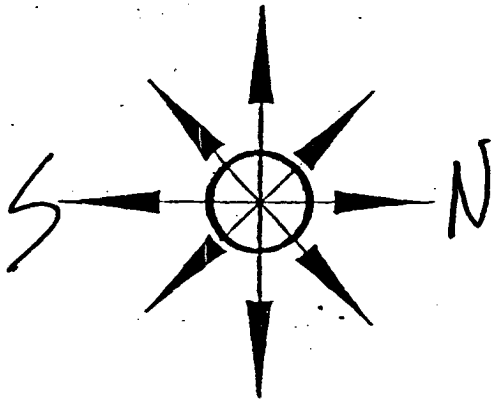
Sheet 1 of 1 Sheets

W.O. Number

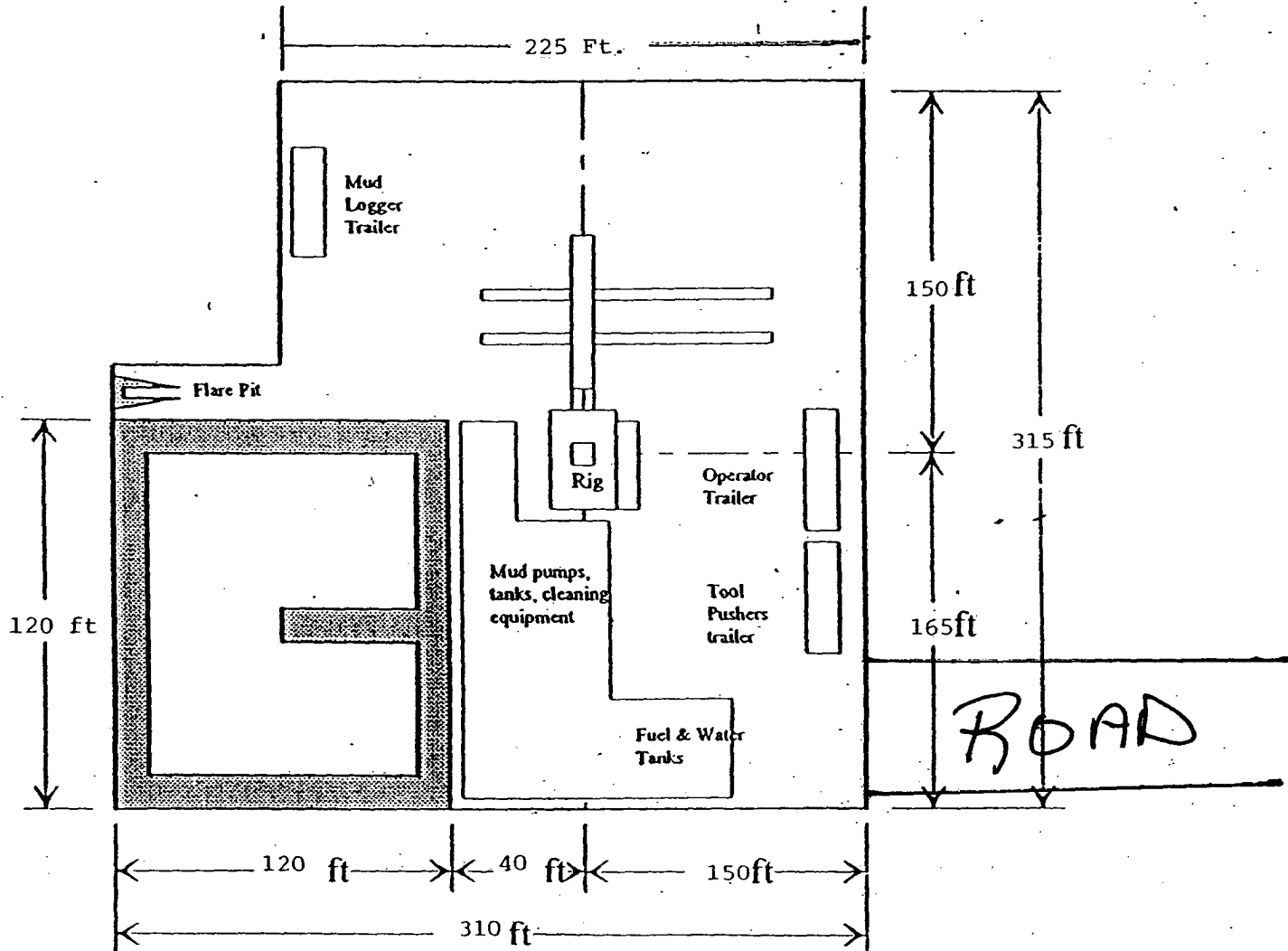
Scale 1" = 1000' ORVAL 1

Yates Petroleum Corporation
Cuadrito AZO Federal #2
2250' FNL and 1475' FEL
Section 31, T20S-R23E
Eddy County, New Mexico

Yates Petroleum Corporation
Location Layout for Permian Basin
Up to 12,000'

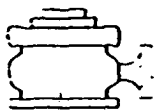


Pits South



Distance from Well
Head to Reserve Pit
will vary between rigs

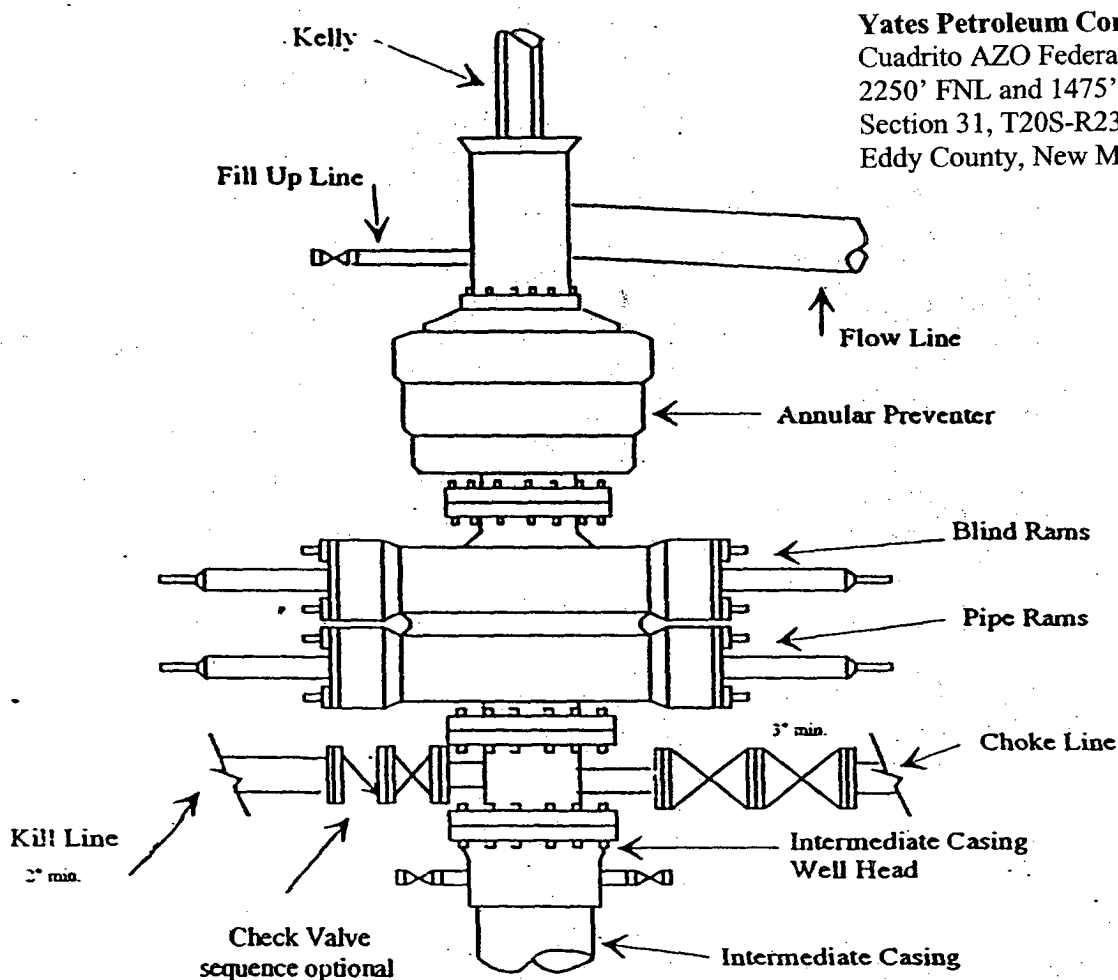
The above dimension
should be a maximum



Yates Petroleum Corporation

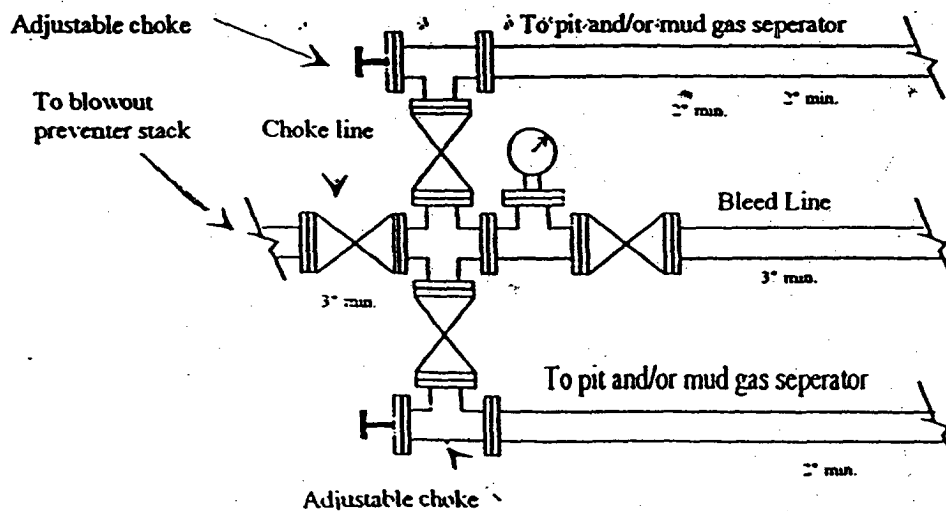
BOP-3

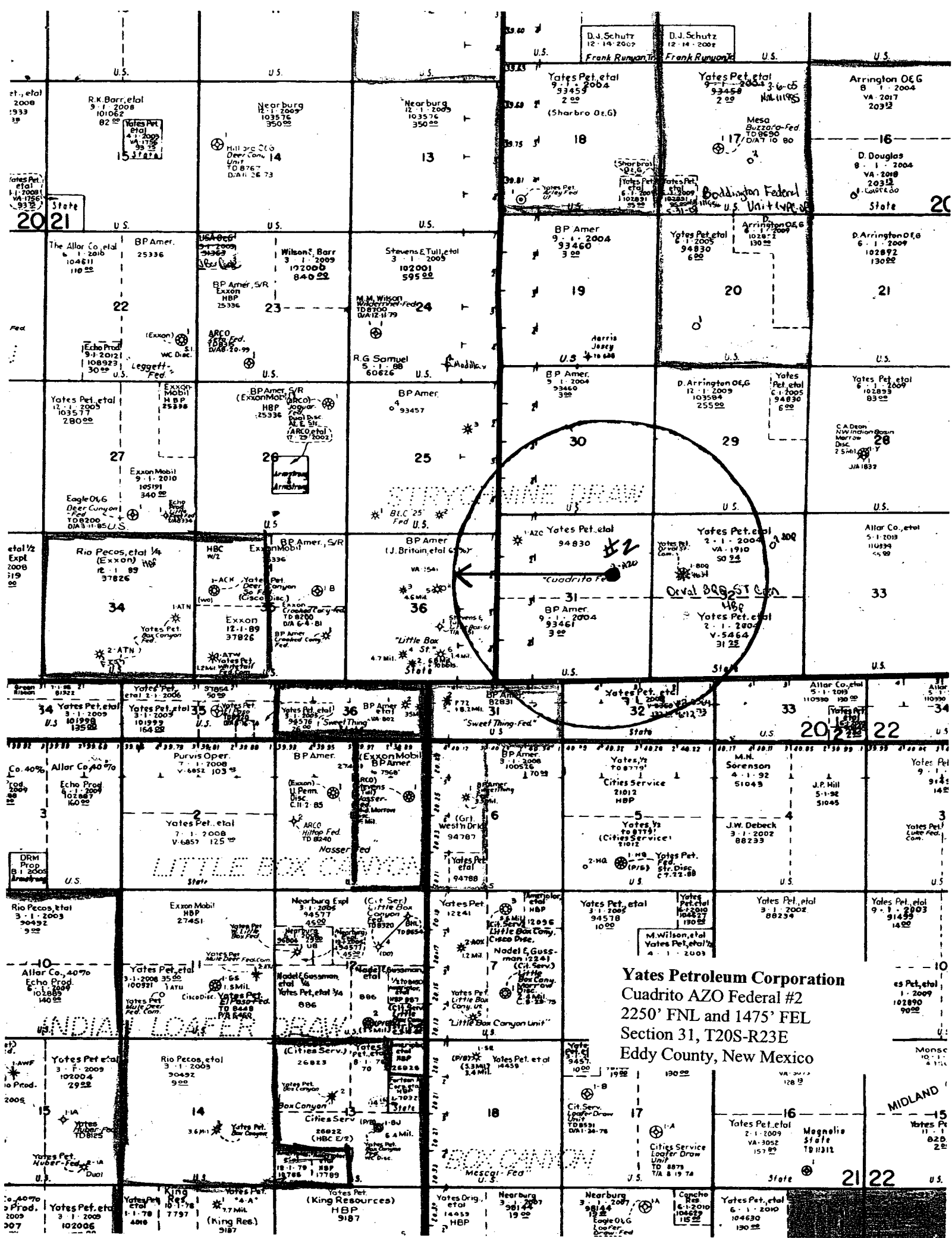
Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack



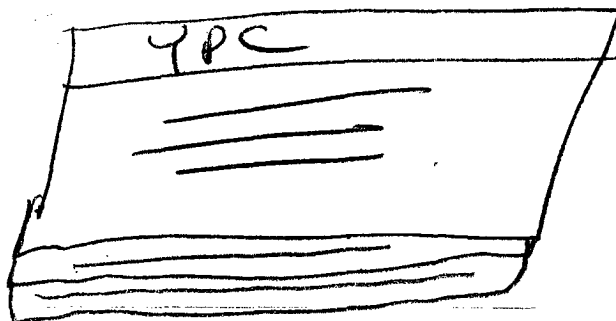
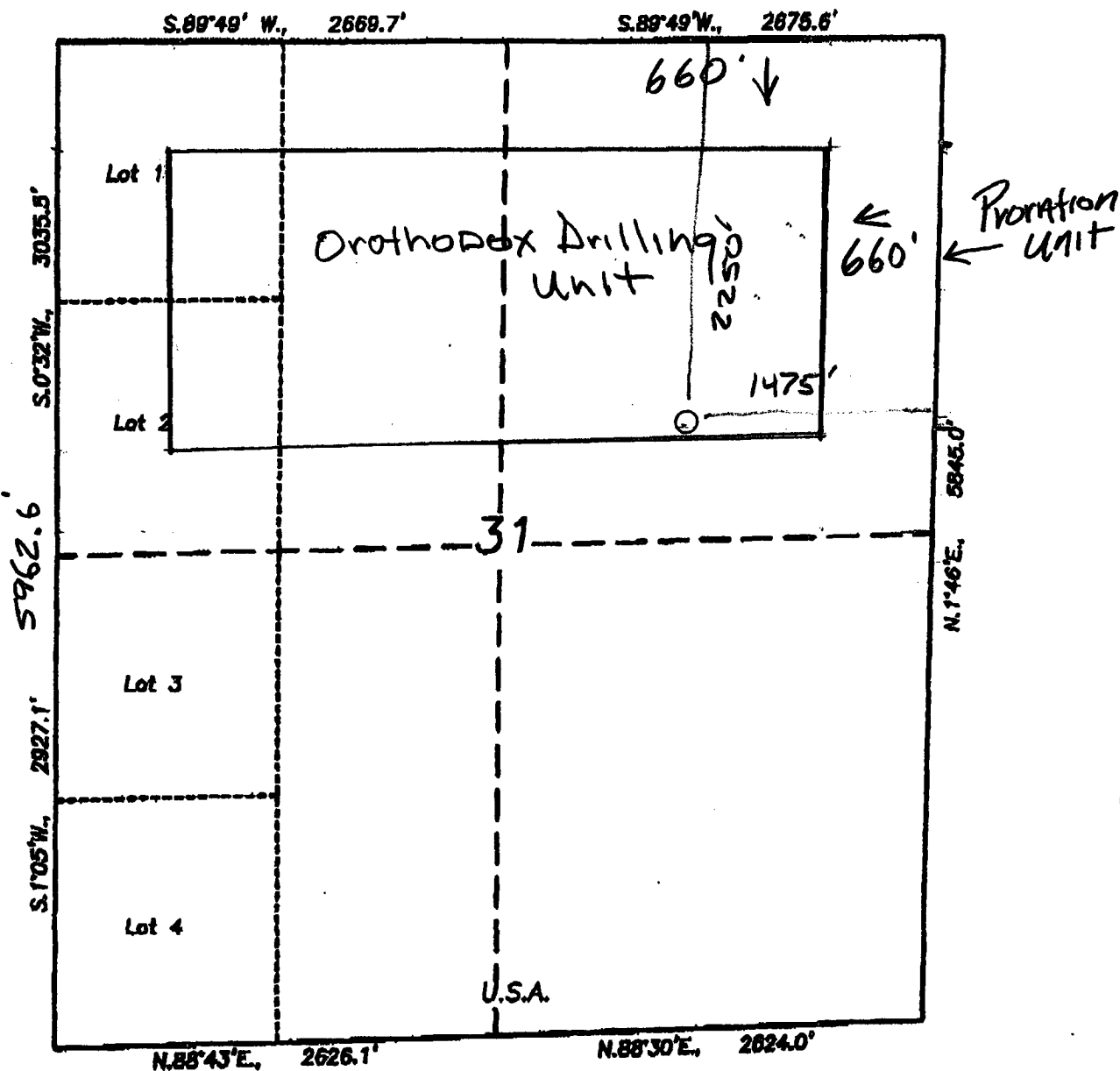
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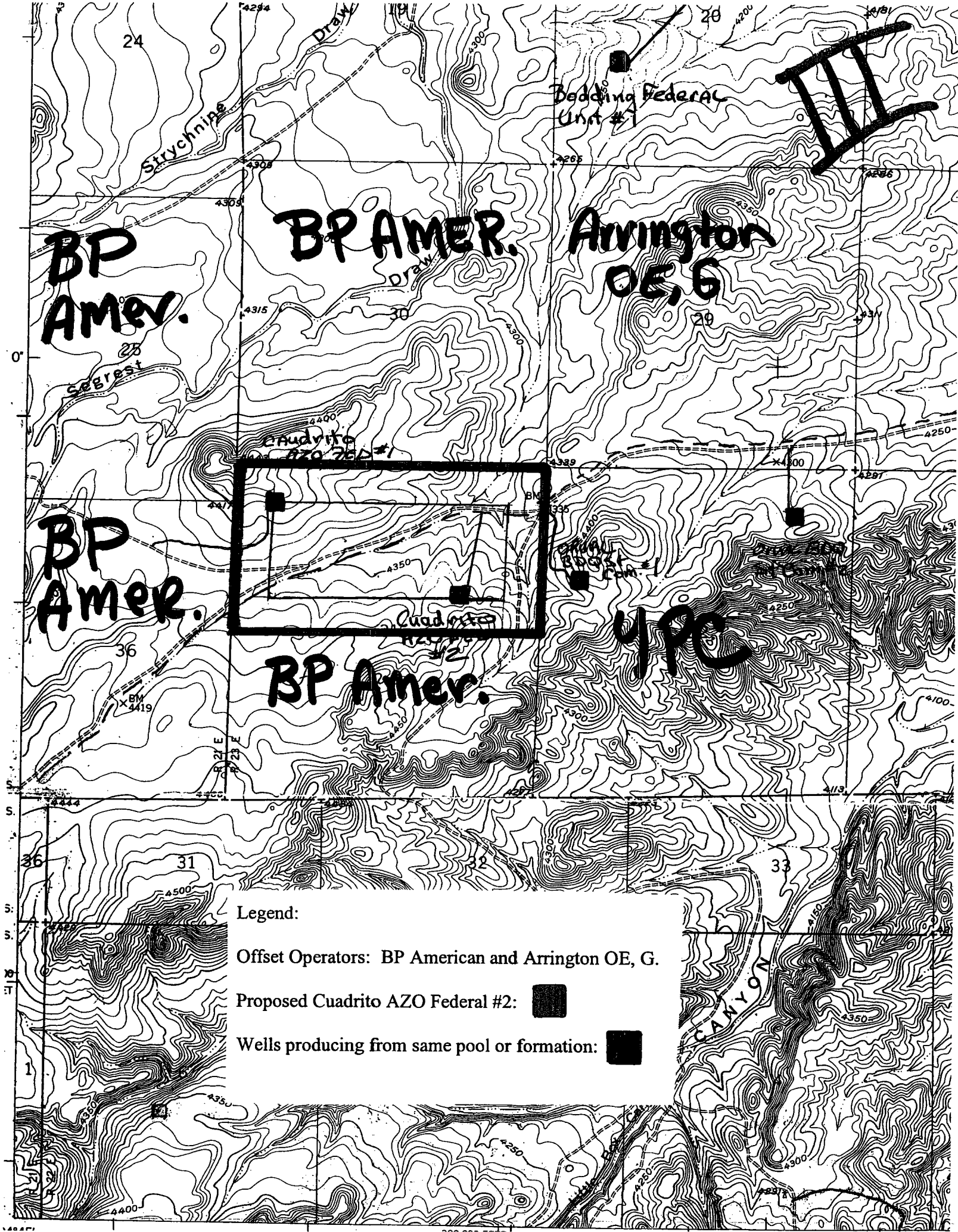
Typical 3,000 psi choke manifold assembly with at least these minimum features





SECTION 31, TOWNSHIP 20 SOUTH, RANGE 23 EAST, NMPM, EDDY COUNTY, NEW MEXICO.





Legend:

Offset Operators: BP American and Arrington OE, G.

Proposed Cuadrito AZO Federal #2:



Wells producing from same pool or formation:



MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1926 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

July 27, 2004

To: Bryan Arant
From: Cy Cowan

Re: Yates Petroleum Corporation
Cuadrito AZL Federal #2
H2S Contingency Plan

Sources at Yates Petroleum Corporation have relayed information to me that they believe there will not be enough H2S found from the surface through the Chester Formation to meet the OCD's minimum requirements for the submission of a contingency plan per Rule 118.

Thank you,

YATES PETROLEUM CORPORATION

Cy Cowan
Regulatory Agent