

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

FEB 09 2006

U.S. ARMY

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OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

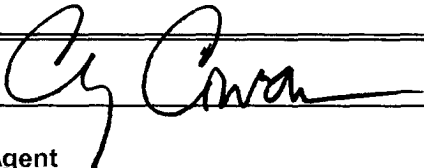
1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-96210	
b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name	
2. Name of Operator Yates Petroleum Corporation		7. If Unit or CA Agreement, Name and No.	
3A. Address 105 South Fourth Street Artesia, New Mexico 88210		8. Lease Name and Well No. Magellan Federal Unit #1	
3b. Phone No. (include area code) (505) 748-1471		9. API Well No. 30-015-34603	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1650' FSL and 660' FEL At proposed prod. Zone Same		10. Field and Pool, or Exploratory Draw: Morrow, New Mexico	
14. Distance in miles and direction from nearest town or post office* Approximately 21 miles south of Carlsbad, New Mexico.		11. Sec., T., R., M., or Blk., and Survey or Area Section 5, T25S-R27E	
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of Acres in lease 636.70	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. .7 of mile	19. Proposed Depth 12500'	20. BLM/BIA Bond No. on file NM-2811	
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3337' GL	22. Approximate date work will start* ASAP	23. Estimated duration 45 days	

Witness Surface Casing

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. | 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 	Name (Printed/Typed) Cy Cowan	Date 1/12/2006
Regulatory Agent		
Regulatory Agent		
Approved by (Signature) /s/ Joe G. Lara	Name (Printed/Typed) /s/ Joe G. Lara	Date FEB 08 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 SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED


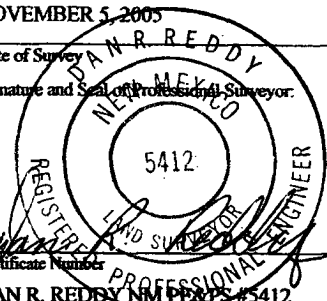
APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1717 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

Please note: This lease has an
Expiration Date of: 2/28/06. Thank you.

NM-96210		LAT N32.15644 LON W 104.20613	<div style="text-align: right; margin-bottom: 10px;"> 660' </div> <div style="text-align: center;">  </div> <div style="text-align: left; margin-top: 10px;"> 1650' </div>
<div style="text-align: right; margin-bottom: 10px;"> 18 </div> <h2 style="text-align: right; margin: 0;">SURVEYOR CERTIFICATION</h2> <p style="text-align: right; margin: 0;">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.</p> <p style="text-align: right; margin: 0;">NOVEMBER 5, 2005</p> <p style="text-align: right; margin: 0;">Date of Survey</p> <p style="text-align: right; margin: 0;">Signature and Seal of Professional Surveyor.</p> <div style="text-align: right; margin: 10px 0;">  </div> <p style="text-align: right; margin: 0;">Certificate Number</p> <p style="text-align: right; margin: 0;">DAN R. REDDY NM PE&PS #5412</p>			

YATES PETROLEUM CORPORATION

Magellan Federal Unit #1

1650' FSL and 660' FWL

Section 5, T25S-R27E

Eddy County, New Mexico

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

Castille	410'	Atoka	11200'
Delaware	2278'	Morrow	11850'
Bone Spring	5772'	Lower Morrow	12250'
Wolfcamp	8990'	TD	12500'
Strawn	10900'		

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

Water: 19'
Oil or Gas: All potential zones.

3. Pressure Control Equipment: BOPE will be installed on the 9 5/8" casing and rated for 5000 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	WITNESS
17 1/2"	13 3/8"	48#	H-40	ST+C	0-400'	400'	
12 1/4"	9 5/8"	36#	J-55	ST+C	0-2350'	2350'	
8 3/4"	7"	26#	J-55	LT+C	0-900'	900'	
8 3/4"	7"	23#	J-55	LT+C	900'-5000'	4100'	
8 3/4"	7"	26#	J-55	LT+C	5000'-7100'	2100'	
8 3/4"	7"	26#	L-80	LT+C	7100'-9100'	2000'	
6 1/8"	4 1/2"	11.6#	HPC-110	LT+C	0-12500'	12500'	

Yates Petroleum Corporation requests a variance to install a rotating head on the surface casing strings when intermediate 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: 400 sx Class "C" + 2% CaCl₂ (YLD 1.32 WT 14.8).
 1st intermediate Casing: 800 sx Lite (YLD 2.05 WT 12.0) tail in w/ 200 sx Class "C"
 + 2% CaCl₂ (YLD 1.32 WT 14.8).
 2nd intermediate Casing: 1400 sx Lite "C" (YLD 2.0 WT 12.5) tail in with 200 sx Class 'C'
 + 2% CaCl₂ (YLD 1.32 WT 14.8)
 Production Casing 700 sx PV Lite (YLD 1.34 WT 13.0).

5. Mud Program and Auxiliary Equipment:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-400'	FW/Spud Mud	8.4-9.7	32-34	N/C
400'-2350	Brine	10.0	28	N/C
2350'-9100'	Fresh Water	8.5-9.9	28	N/C
9100'-11200'	Brine	10-10.5	28	N/C
11200'-TD	Salt Gel/Starch/4-6% KCL	10.5-10.7	36-40	<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 from intermediate casing to TD.
 Logging: Platform Express; FMI
 Coring: None anticipated.
 DST's: None anticipated.

7. Abnormal Conditions, Bottom hole pressure and potential hazards:

Anticipated BHP:

From: 0	To: 400'	Anticipated Max. BHP	190 PSI.
From: 400'	To: 2350'	Anticipated Max. BHP	1225 PSI.
From: 2350'	To: 9100'	Anticipated Max. BHP	4685 PSI.
From: 9100'	To: TD	Anticipated Max. BHP	6955 PSI.

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H₂S Zones Anticipated: Not Anticipated.

Maximum Bottom Hole Temperature: 187F.

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 30 days to drill the well with completion taking another 15 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
YATES PETROLEUM CORPORATION
Magellan Federal Unit #1
1650' FSL and 660' FWL
Section 5, T25S-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 21 miles northeast of Carlsbad, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go west of Malaga, New Mexico on Black River Road (CR-720) for approximately 2.5 miles to Roadrunner Road (CR-774). Turn left on Roadrunner Road and go approx. 6.1 miles. Turn right here on lease road and go .8 of a mile. Turn left here and follow lease road for approx. .9 of a mile to a fence that runs north and south with a cattleguard in it. Please note this road going west goes to the Padron BGM State Com. #1 well location. Just before the fence on the east side of it turn north on a trail road and go approx. .3 of a mile. The new access road will start here going west for approximately .6 of a mile to the southeast corner of the Magellan Federal Unit #1 well location.

2. PLANNED ACCESS ROAD

The new access road will be approximately .9 of a mile in length from the point of origin to the southeast corner of the well pad.

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:
The dirt contractor will locate closest pit and will obtain any permits and materials for 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 the 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.

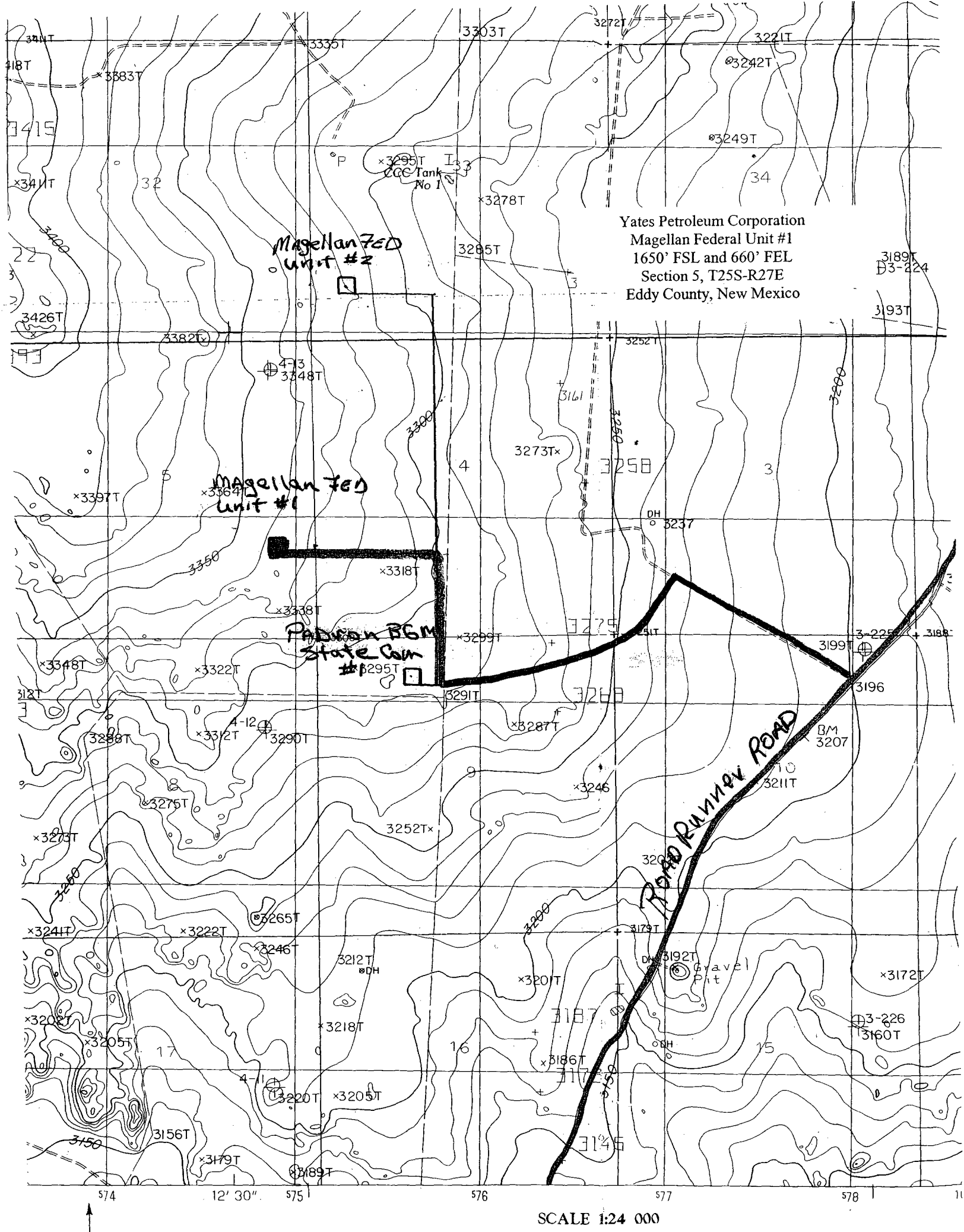
Through Drilling Operations,
Completions and Production:
Pinson Mc Whorter, Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

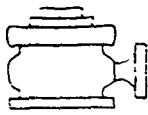
14. CERTIFICATION:

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.

1/12/06


Regulatory Agent

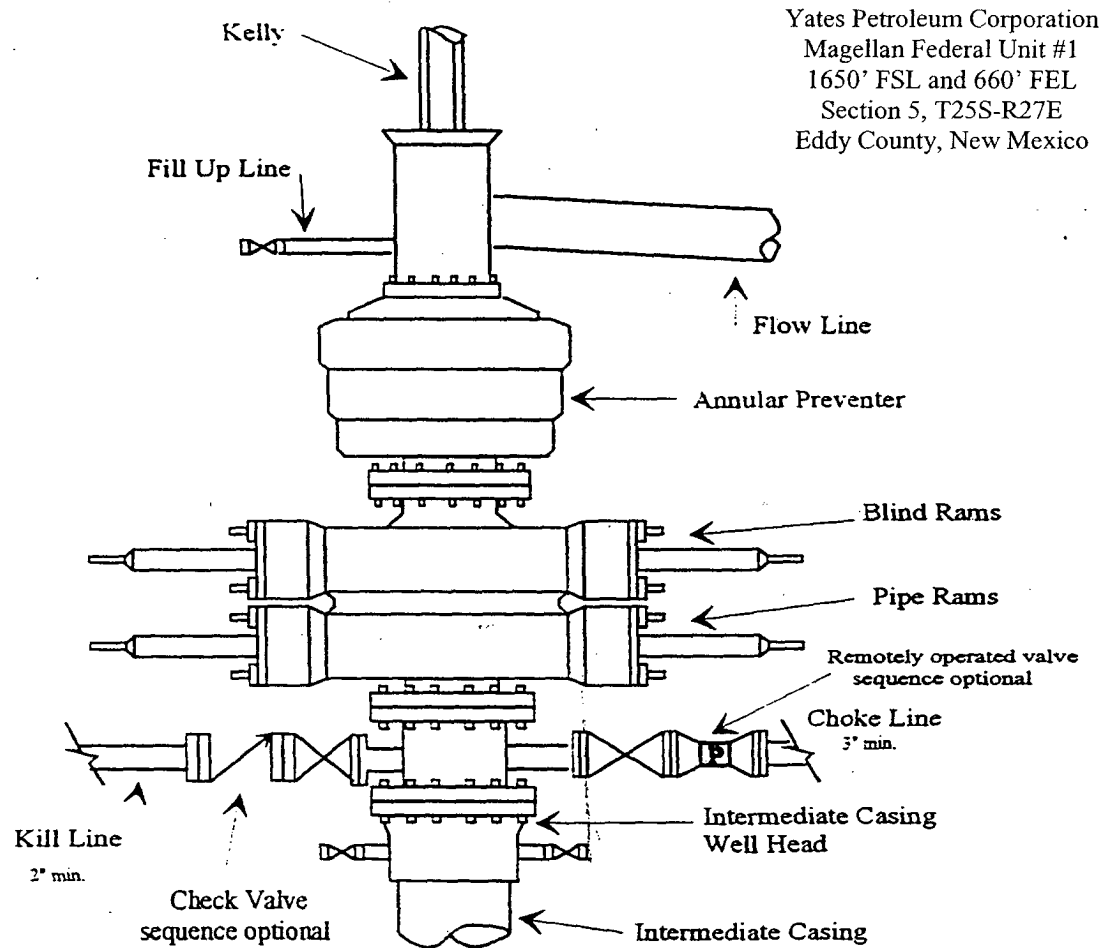




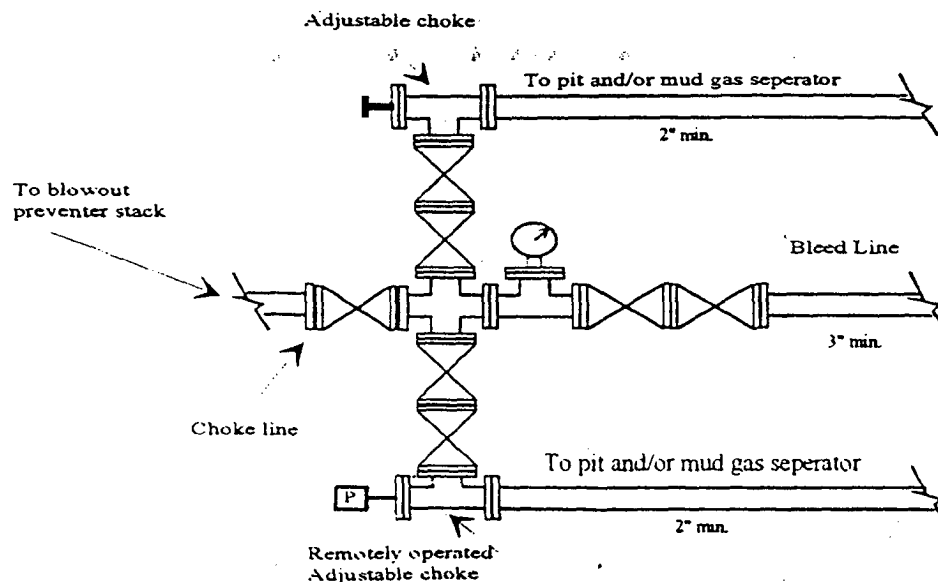
Yates Petroleum Corporation

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



CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corporation
Well Name & No. Magellan Federal Unit #1
Location: 1650' FSL, 660' FEL, Section 5, T. 25 S., R. 27 E., Eddy County, New Mexico
Lease: NM-96210

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

A. Well spud

B. Cementing casing: 13-3/8 inch 9-5/8 inch 7 inch 4-1/2 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. 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.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at approximately 400 feet 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 9-5/8 inch first intermediate casing is to be circulated to the surface.

3. The minimum required fill of cement behind the 7 inch intermediate casing is to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval. *attempt to circulate to surface* (JK)

4. The minimum required fill of cement behind the 4-1/2 inch production casing is to tie into the 7 inch casing set at 9100'.

III. 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 9-5/8 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 5000 psi.

Operator may install a rotating head on the surface casing string or a 2000 psi system to drill the first intermediate section. Testing to 1000 psi with rig pumps is approved.

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

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- 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.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

IV. 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:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

1/25/2006

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1/25/2006

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