

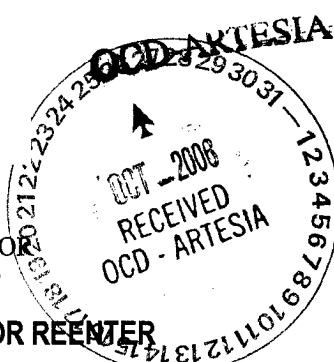
4/K

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

L-06-34

Form 3160-3
(August 1999)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT



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-105213
b. Type of Well: <input type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other SWD <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. Jester SWD # 36114
3b. Phone No. (include area code) (505) 748-1471		9. API Well No. 30-015-35217
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 990' FNL and 1650' FWL At proposed prod. Zone Same		10. Field and Pool, or Exploratory SWD j Delaware
14. Distance in miles and direction from nearest town or post office* Approximately 37 miles east of Malga, New Mexico.		11. Sec., T., R., M., or Blk, and Survey or Area Section 12, T24S-R29E
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 990'	16. No. of Acres in lease 320.00	17. Spacing Unit dedicated to this well N/A
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. .5 of mile	19. Proposed Depth 4300'	20. BLM/BIA Bond No. on file NM-2811
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3110' GL	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 	Name (Printed/Typed) Cy Cowan	Date 9/26/2006
Regulatory Agent		
Regulatory Agent		
Approved by (Signature) 	Name (Printed/Typed) J. James Stovall	Date OCT 24 2006
FACTING 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.

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) C-144 attached

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

SUBJECT TO LIKE
APPROVAL BY STATE

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

YATES PETROLEUM CORPORATION

Jester SWD #4

990' FNL & 1650' FWL

Section 12-T24S-R29E

Eddy County, New Mexico

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

Rustler	350'
Top of Salt	520'
Base of Salt	3085'
Bell Canyon	3280'
TD	4300'

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

Water: Approx 18'

Oil or Gas: N/A

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:

Hole Size	Casing Size	Wt./Ft	Grade	Coupling	Interval	Length
17 1/2" WITNESS	13 3/8"	48#	H-40	ST&C	0-500'	500'
12 1/4"	9 5/8"	36#	J-55	ST&C	0-3200'	3200'
8 3/4"	7"	23#	J-55	LT&C	0-4300'	4300'

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

B. CEMENTING PROGRAM:

Surface casing: 225 sx 'C' Lite (WT 12.6 YLD 1.98) tail in with 200 sx 'C' (WT 14.8 YLD 1.36) + 2% CaCl₂

Intermediate Casing: 800 sx Lite 'C' (WT 12.4 YLD 2.18) tail in with 200 sx 'C' (WT 14.8 YLD 1.31) + 2% CaCl₂.

Production Casing: 300 sx Lite Crete (WT 9.9 YLD 2.78) tail in with 325sx Pecos VILt (WT 13.0 YLD 1.41).

Mud Program and Auxiliary Equipment:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-500'	Fresh Water	8.6-9.2	32-34	N/C
500'-3200'	Brine	10-10.2	28	N/C
3200'-4300'	Cut Brine	8.8	28	N/C

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: 30' samples to 3000'; 10 samples from 3000' to TD.

Logging: Platform HALS.

Coring: None Anticipated.

DST's: None Anticipated.

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

From: 0	TO: 500'	Anticipated Max.	BHP: 240	PSI
From: 500'	TO: 3200'	Anticipated Max.	BHP: 1700	PSI
From: 3200'	TO: 4300'	Anticipated Max.	BHP: 1965	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H2S Zones Anticipated: None

Maximum Bottom Hole Temperature: 176 F

8. ANTICIPATED STARTING DATE:

Plans are to drill this SWD well as soon as possible after receiving approval. It should take approximately 35 days to complete operations.

Mud Program and Auxiliary Equipment:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-500'	Fresh Water	8.6-9.2	32-34	N/C
500'-3200'	Brine	10-10.2	28	N/C
3200'-4300'	Cut Brine	8.8	28	N/C

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: 30' samples to 3000'; 10 samples from 3000' to TD.

Logging: Platform HALS.

Coring: None Anticipated.

DST's: None Anticipated.

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

Anticipated BHP:

From: 0	TO: 500'	Anticipated Max.	BHP: 240	PSI
From: 500'	TO: 3200'	Anticipated Max.	BHP: 1700	PSI
From: 3200'	TO: 4300'	Anticipated Max.	BHP: 1965	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H2S Zones Anticipated: None

Maximum Bottom Hole Temperature: 176 F

8. ANTICIPATED STARTING DATE:

Plans are to drill this SWD well as soon as possible after receiving approval. It should take approximately 35 days to complete operations.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN
Yates Petroleum Corporation
Jester SWD #4
990' FNL & 1650' FWL
Section. 12-T24S-R29E
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 37 miles east of Malga, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go east of Carlsbad on Highway 62-180 to State Road 31. Turn south on 31 and go to Highway 128 (Jal Highway). Turn left on HWY 128 and go approximately 4 miles to Rawhide Road (CR-793) Mississippi Potash Mine Shaft #5 is here. Turn south here on CR-793 and go approx. 3.4 miles. Follow County road to the left and go east for approx. .2 of a mile. Turn south on county road and follow it for approx. 3.5 miles. At this point there will be a tank on the left and a lease road with powerlines going west. Turn west on this lease road and go approx. 1.2 miles. The new road will start here going to the north for approx. .2 of a mile to the southeast corner of the well location.

2. PLANNED ACCESS ROAD.

- A. The proposed new access will be approximately 0.2 in total length of a mile going north to the southeast corner of the drilling pad. The road will lie in a south to north direction.
- 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. Traffic turnouts may 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. The exhibit shows existing wells within a one-mile radius of the proposed

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.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with a fresh water system. The fresh 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 closest 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 and will face to the east. 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

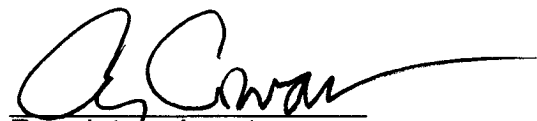
- B. Through Drilling Operations,
Completions and Production:

Pinson McWhorter, Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

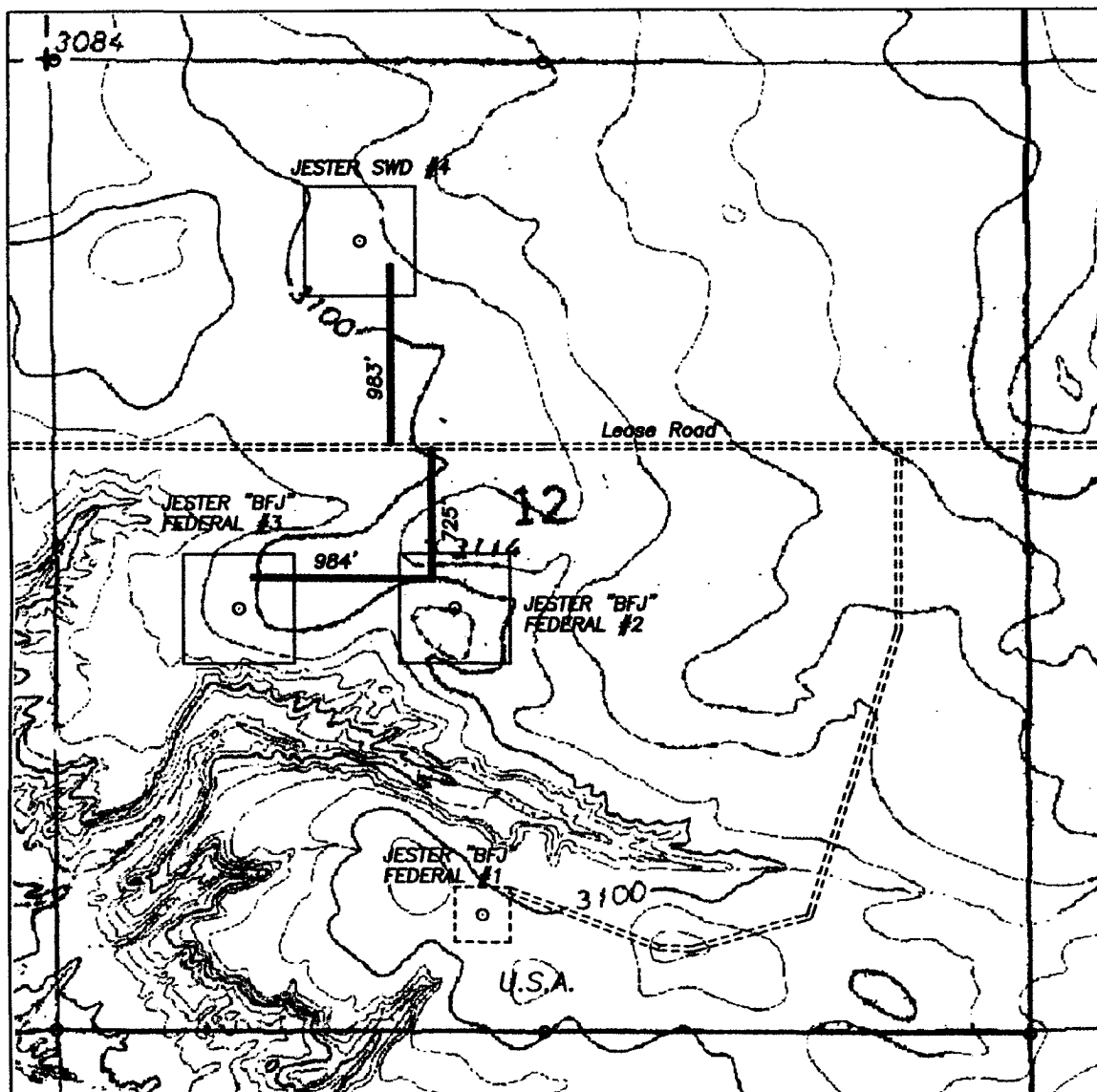
14. CERTIFICATION:

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.

9/29/06


Regulatory Agent

SECTION 12, TOWNSHIP 24 SOUTH, RANGE 29 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 SURVEYING.

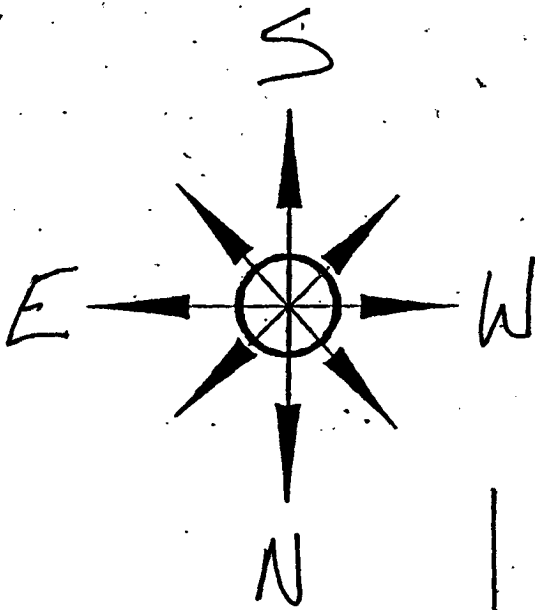
3640
HERSCHEL L. JONES R.L.S. No. 3640
REGISTERED PROFESSIONAL SURVEYOR

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

YATES PETROLEUM CORP.

LEASE ROAD TO ACCESS THE YATES JESTER "BFJ" FEDERAL #2 & 3 WELLS AND THE JESTER SWD #4 WELL, LOCATED IN SECTION 12, TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM, EDDY COUNTY, NEW MEXICO.

Survey Date: 8/31/2006	Sheet 1 of 1 Sheets
Drawn By: Ed Blavins	W.O. Number
Date: 9/04/06	Scale 1" = 1000' JESTER



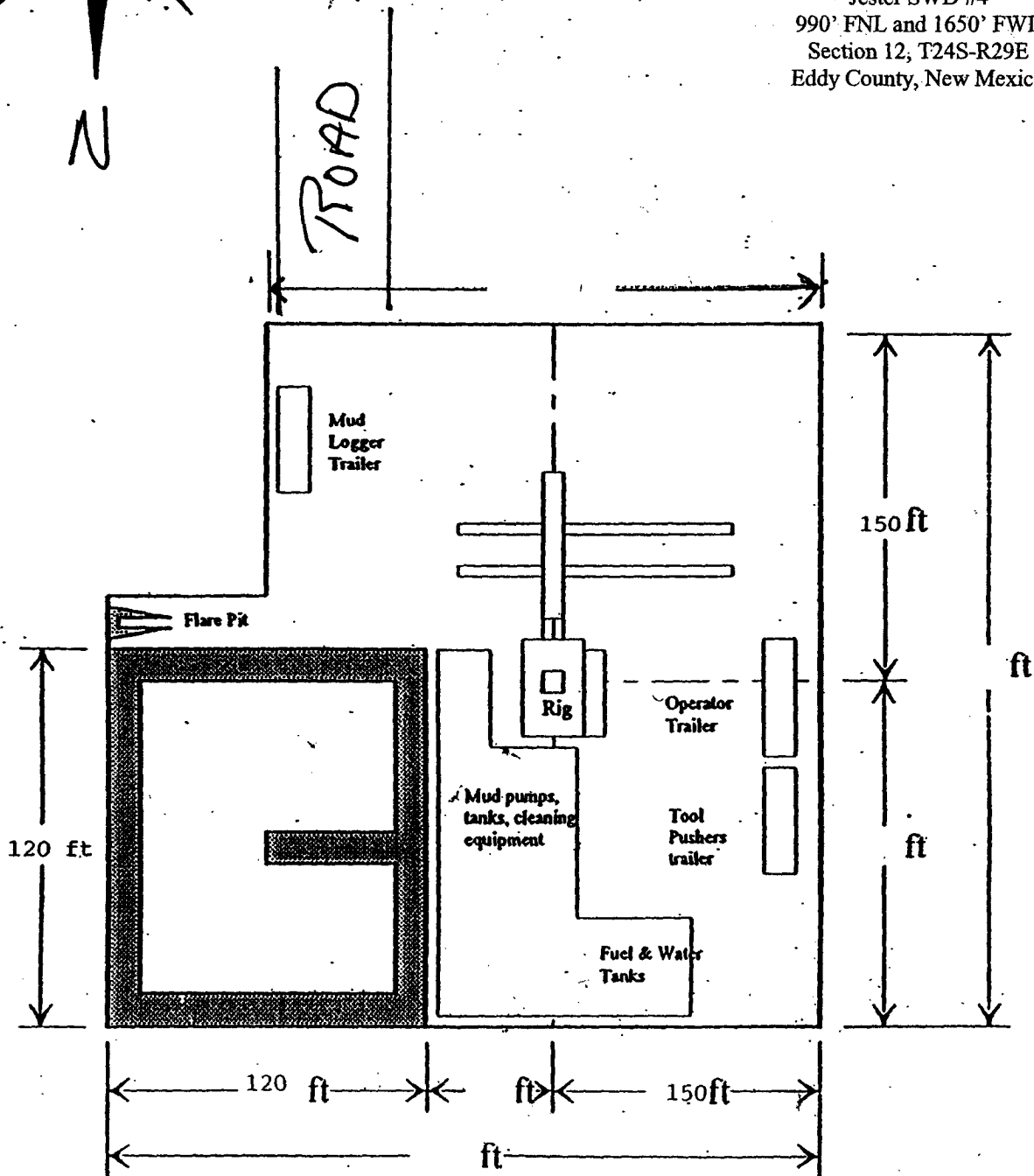
Yates Petroleum Corporation

Location Layout for Permian Basin
Up to 12,000'

PB - LI

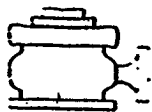
PITS EAST

Yates Petroleum Corporation
Jester SWD #4
990' FNL and 1650' FWL
Section 12, T24S-R29E
Eddy County, New Mexico



Distance from Well
Head to Reserve Pit
will vary between rigs

The above dimension
should be a maximum



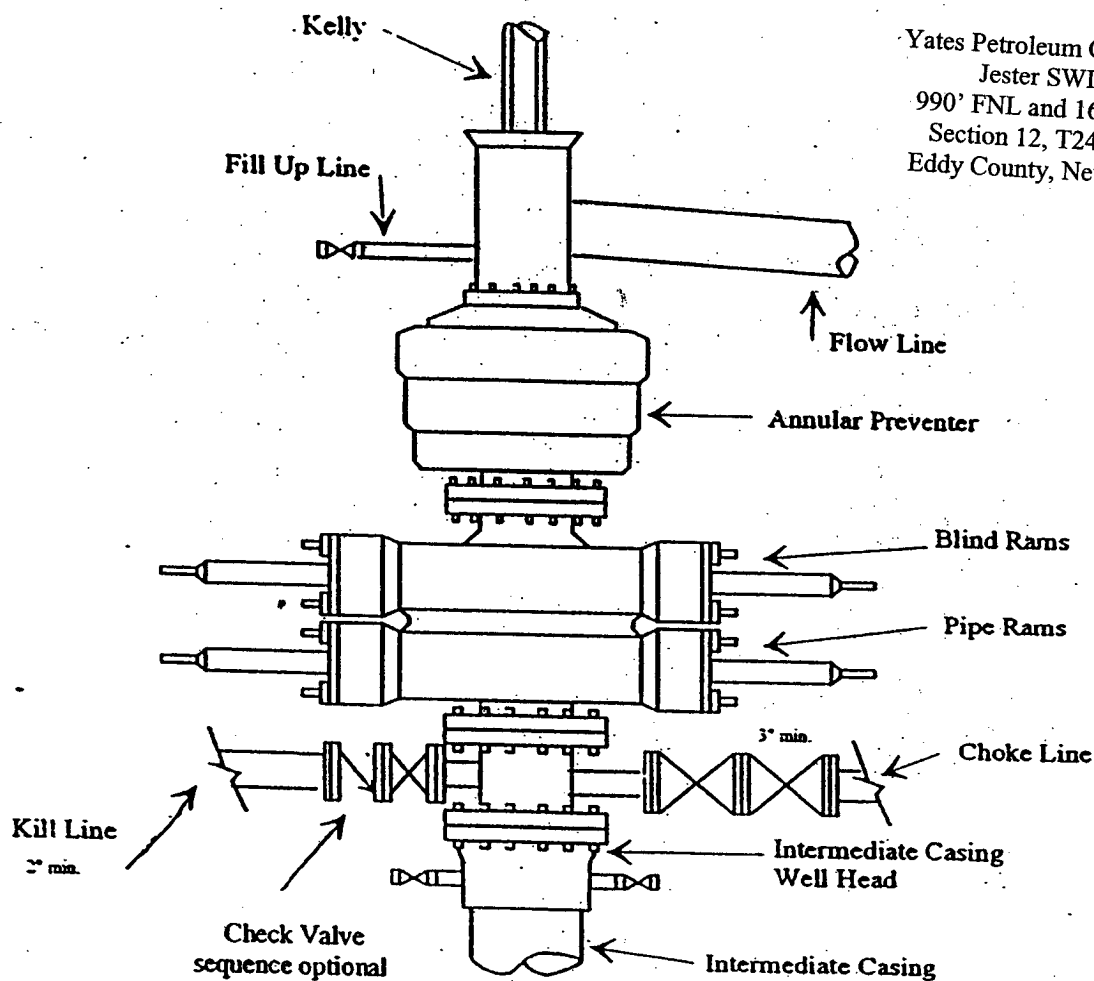
Yates Petroleum Corporation

BOP-3

Typical 3,000 psi Pressure System

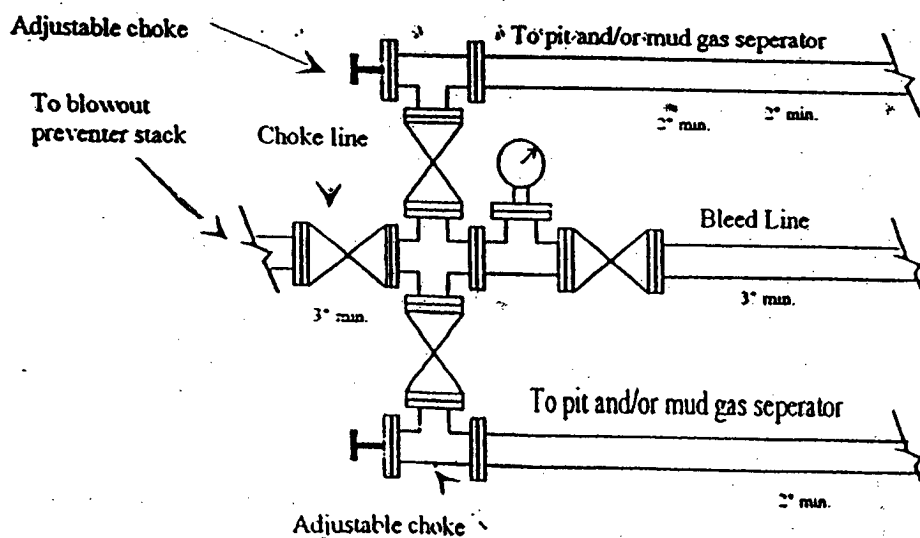
Schematic

Annular with Double Ram Preventer Stack



Yates Petroleum Corporation
Jester SWD #4
990' FNL and 1650' FWL
Section 12, T24S-R29E
Eddy County, New Mexico

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



SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name: Yates Petroleum Corporation Well Name & #: Jester SWD #4
Location 990 F N L & 1650 F W L; Sec. 12, T. 24 S., R. 29 E.
Lease #: NM-105213 County: Eddy State: New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

I. SPECIAL ENVIRONMENT REQUIREMENTS

- () Lesser Prairie Chicken (stips attached) () Flood plain (stips attached)
() San Simon Swale (stips attached) () Other

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(x) The BLM will monitor construction of this drill site. Notify the (x) Carlsbad Field Office at (505) 234-5972 () Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

(x) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche upon completion of well and it is determined to be a producer.

() All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____ inches in depth. Approximately _____ cubic yards of topsoil material will be stockpiled for reclamation.

() Other.

III. WELL COMPLETION REQUIREMENTS

() A Communitization Agreement covering the acreage dedicated to the well must be filed for approval with the BLM. The effective date of the agreement must be prior to any sales.

(x) Surface Restoration: If the well is a producer, the reserve pit(s) will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at depth of 1/2 inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre. If broadcasting, the seeding rate must be doubled.

() A. Seed Mixture 1 (Loamy Sites)

Side Oats Grama (*Bouteloua curtipendula*) 5.0
Sand Dropseed (*Sporobolus cryptandrus*) 1.0
Plains lovegrass (*Eragrostis intermedia*) 0.5

(x) B. Seed Mixture 2 (Sandy Sites)

Sand Dropseed (*Sporobolus crptandrus*) 1.0
Sand Lovegrass (*Eragrostis trichodes*) 1.0
Plains Bristlegrass (*Setaria magrostachya*) 2.0

() C. Seed Mixture 3 (Shallow Sites)

Side oats Grama (*Bouteloua curtipendula*) 5.0
Green Spangletop (*Leptochloa dubia*) 2.0
Plains Bristlegrass (*Setaria magrostachya*) 1.0

() D. Seed Mixture 4 (Gypsum Sites)

Alkali Sacaton (*Sporobolus airoides*) 1.0
Four-Wing Saltbush (*Atriplex canescens*) 5.0

() OTHER SEE ATTACHED SEED MIXTURE

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

() Other

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit shall be constructed entirely in cut material and lined with 6-mil plastic.

Mineral material extracted from within the boundary of the APD during construction of the well pad and reserve pits and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

- (1) Lined as specified above and
- (2) A temporary or emergency pit may be constructed immediately adjacent to the reserve pit as long as the pit remains within the APD boundary. Mineral material removed from this pit may be used for the construction of this well pad only and its immediate access road, as long as that portion of the access road the material is used on remains on-lease. Removal of any material from the APD boundary for use on other well locations or roads must first be purchased from BLM.

Reclamation of the reserve pit consists of bulldozing all reserve pit contents and contaminants into the borrow pit and covering with a minimum of 3 feet of clean soil material. The entire area must be re-contoured, all trash removed, and reseeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to process by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall 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 permitted.