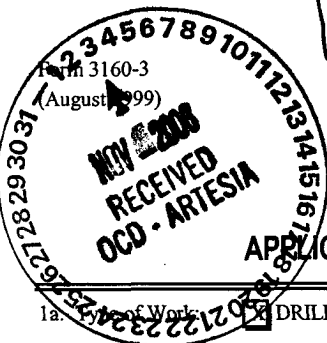


K-06-55  
8/23/06



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

OCD-ARTESIA  
RESUBMITTAL

0  
OMB No. 1004-0136  
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: ☒ DRILL

☐ REENTER

b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

2. Name of Operator

Yates Petroleum Corporation CARLSBAD CONTROLLED WATER BASIN

3A. Address 105 South Fourth Street

Artesia, New Mexico 88210

3b. Phone No. (include area code)

(505) 748-1471

5. Lease Serial No.

NM-76944

6. If Indian, Allottee or Tribe Name

7. If Unit or CA Agreement, Name and No.

8. Lease Name and Well No.

Pan Am Pardue ALZ Federal Com. #3

9. API Well No.

30-015-35223

10. Field and Pool, or Exploratory

Indian Basin - Upper Penn Assoc

11. Sec., T., R., M., or Blk. and Survey or Area

Section 27, T21S-R24E

12. County or Parish

Eddy County

13. State

NM

1. Location of proposed location clearly and in accordance with any State requirements. \*)

SUBJECT TO STATE

603' FNL and 545' FWL Surface Location

At proposed prod. Zone

1980' FSL and 660' FWL Bottom Hole Location

14. Distance in miles and direction from nearest town or post office\*

Approximately 31 miles northwest of Carlsbad, New Mexico.

15. Distance from proposed\*

location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)

603'

16. No. of Acres in lease

240

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.

20'

19. Proposed Depth

8650'

20. BLM/BIA Bond No. on file

585997 NM0811

21. Elevations (Show whether DF, KDB, RT, GL, etc.)

3621' 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.

2. A Drilling Plan.

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.

4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).

5. Operator certification.

6. Such other site specific information and/or plans as may be required by the authorized office.

25. Signature

*Cy Cowan*

Name (Printed/Typed)

Cy Cowan

Date

8/22/2006

Regulatory Agent

Regulatory Agent

Approved by (Signature)

/s/ James Stovall

Name (Printed/Typed)

/s/ James Stovall

Date

NOV 01 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 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)

Previously Approved

C-144 attached

SEE ATTACHED FOR  
CONDITIONS OF APPROVAL

APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS  
AND SPECIAL STIPULATIONS  
ATTACHED

MARTIN YATES, III  
1912-1985

FRANK W. YATES  
1936-1986



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

S.P. YATES  
CHAIRMAN EMERITUS

JOHN A. YATES  
CHAIRMAN OF THE BOARD

PEYTON YATES  
PRESIDENT

FRANK YATES, JR.  
EXECUTIVE VICE PRESIDENT

JOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

October 5, 2006

Bureau of Land Management  
Carlsbad, New Mexico

VIA FAX and HAND CARRY

Re: Pan Am Pardue ALZ Federal Com. #3  
603' FNL and 545' FWL Surface Location  
1980' FSL and 660' FWL Bottom Hole Location  
Section 27, T21S-R24E  
Eddy County, New Mexico

Please be advised that Yates Petroleum Corporation has a general agreement with Stacy Biebelle and Skip Shafer the private surface owners of the captioned lands for access to the well location. When approval is given by Yates Management to start construction operations in preparation for drilling this well the final monetary negotiations will be made with the surface owners.

Thank you.

Cy Cowan  
Regulatory Agent

District I  
1825 N. French Dr. Hobbs, NM 88240

District II  
877 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 & Natural Resources

OIL CONSERVATION DIVISION

2040 South Pacheco  
Santa Fe, N M 87505

K-06-55  
8/23/06 Form C-102

Revised March 17, 1999  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

|                     |   |   |
|---------------------|---|---|
| API Number          | Pool Code<br>25575                              | Pool Name<br>Indian Basin, Upper Penn Assoc |
| Property Code       | Property Name<br>PAN AM PARDUE ALZ FEDERAL COM. | Well Number<br>3                            |
| OGRID No.<br>025575 | Operation Name<br>YATES PETROLEUM CORPORATION   | Elevation<br>3621                           |

Surface Location

|                    |               |                  |               |          |                      |                           |                      |                        |                |
|--------------------|---------------|------------------|---------------|----------|----------------------|---------------------------|----------------------|------------------------|----------------|
| UL or Lot No.<br>D | Section<br>27 | Township<br>21-S | Range<br>24-E | Lot Idn. | Feet from the<br>603 | North/South line<br>NORTH | Feet from the<br>545 | East/West line<br>WEST | County<br>EDDY |
|--------------------|---------------|------------------|---------------|----------|----------------------|---------------------------|----------------------|------------------------|----------------|

Bottom Hole Location If Different From Surface

|                        |                 |                    |               |          |                       |                           |                      |                        |                |
|------------------------|-----------------|--------------------|---------------|----------|-----------------------|---------------------------|----------------------|------------------------|----------------|
| UL or Lot No.<br>L     | Section<br>27   | Township<br>21-S   | Range<br>24-E | Lot Idn. | Feet from the<br>1980 | North/South line<br>SOUTH | Feet from the<br>660 | East/West line<br>WEST | County<br>EDDY |
| Dedicated Acres<br>320 | Joint or Infill | Consolidation Code | Order No.     |          |                       |                           |                      |                        |                |

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTEREST HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

|                             |   |  |
|-----------------------------|---|--|
| <p>SURFACE LOCATION</p>     | OPERATOR CERTIFICATION<br>I HEREBY CERTIFY THAT THE INFORMATION HEREIN IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.  |  |
|                             | Signature: <i>Cy Cowan</i><br>Printed Name: Cy Cowan<br>Title: Regulatory Agent<br>Date: February 16, 2004  |  |
| <p>BOTTOM HOLE LOCATION</p> | SURVEYOR CERTIFICATION<br>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 KNOWLEDGE AND BELIEF. |  |
|                             | Date of Survey: DECEMBER 26, 2002<br>Signature and Seal of Professional Surveyor: <i>[Signature]</i><br>NEW MEXICO 5412<br>REGISTERED PROFESSIONAL SURVEYOR   |  |

**YATES PETROLEUM CORPORATION**  
PanAm Pardue ALZ Federal Com. #3  
603' FNL and 545' FWL Surface Location  
1980' FSL and 660' FWL Bottom Hole Location  
Section 27-T21S-R24E  
Eddy County, New Mexico

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

|                             |       |                       |       |
|-----------------------------|-------|-----------------------|-------|
| San Andres                  | 1184' | Wolf Camp             | 7320' |
| Glorieta                    | 2808' | Cisco Canyon Dolomite | 7959' |
| Bone Spring Lime            | 3559' | O/W Contact           | 8109' |
| 2 <sup>nd</sup> Bone Spring | 3814' | Base of Dolomite      | 8539' |
| 3 <sup>rd</sup> Bone Spring | 6969' | TD                    | 8650' |

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

Water: 150' – 250'  
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:

| <u>Hole Size</u> | <u>Casing Size</u> | <u>Wt./Ft</u> | <u>Grade</u> | <u>Interval</u> | <u>Length</u> |
|------------------|--------------------|---------------|--------------|-----------------|---------------|
| 14 3/4"          | 9 5/8"             | 36#           | J-55         | 0-1800'         | 1800'         |
| 8 3/4"           | 7"                 | 23#+26#       | J-55/L-80    | 0-8650'         | 8650'         |

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:** 1200 sx Lite (YLD 2.0 WT 12.0). Tail in with 250 sx Class "C" +2% CaCl<sub>2</sub> (YLD 1.34 WT 14.8).

**Production Casing TOC 1300':** 600 sx Lite "C" (YLD 1.95 WT 12.5). Tail in with 700 sx Class "C" (YLD 1.61 WT 13.2).

**5. MUD PROGRAM AND AUXILIARY EQUIPMENT:**

| <u>Interval</u> | <u>Type</u>      | <u>Weight</u> | <u>Viscosity</u> | <u>Fluid Loss</u> |
|-----------------|------------------|---------------|------------------|-------------------|
| 0-1800'         | FW/Air Mist      | 8.4           | 28               | N/C               |
| 1800'-7900'     | Cut Brine/Starch | 8.7           | 28               | N/C               |
| 7900'-8650'     | SW Gel/Starch    | 8.7-8.9       | 3.4-38           | <12-15 cc         |

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: Every 10' out from under intermediate casing.  
Logging: Platform Express/Hals/ NGT.  
Coring: None anticipated.  
DST's: None anticipated.

**7. Abnormal Conditions: none anticipated.**

Bottom hole pressure and potential hazards:

Anticipated BHP:

|             |           |                                |
|-------------|-----------|--------------------------------|
| From: 0     | To: 1800' | Anticipated Max. BHP: 700 PSI  |
| From: 1800' | To: 8650' | Anticipated Max. BHP: 4000 PSI |

Lost Circulation Zones Anticipated: Possible in the Canyon Formation.

H<sub>2</sub>S Zones Anticipated: None.

Maximum Bottom Hole Temperature: 165 F

**8. ANTICIPATED STARTING DATE:**

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

**YATES PETROLEUM CORPORATION**

105 South 4<sup>th</sup> Street  
Artesia, NM 88210

**FAX**

DATE: 10/11/06

NUMBER OF PAGES INCLUDING COVER SHEET: 10

**TO: Fred Wright**

Phone : 505-234-5938

Fax: 505-885-9264

**FROM: Jeremiah Mullen**

PHONE: 505-748-4378

FAX: 505-748-4665

Remarks:

☐ Urgent☐ For Your Review☐ Reply ASAP☐ Please Comment

Attached are the directional plans for the following wells:

Pan Am Pardue ALZ Federal Com. #3

Anadarko P. Farms ANQ Federal Com. #2

Simulated Survey - C:\Program Files\Drilling Toolbox 2001\Templates\Visual Wellbore\panam3

Pan Am 5

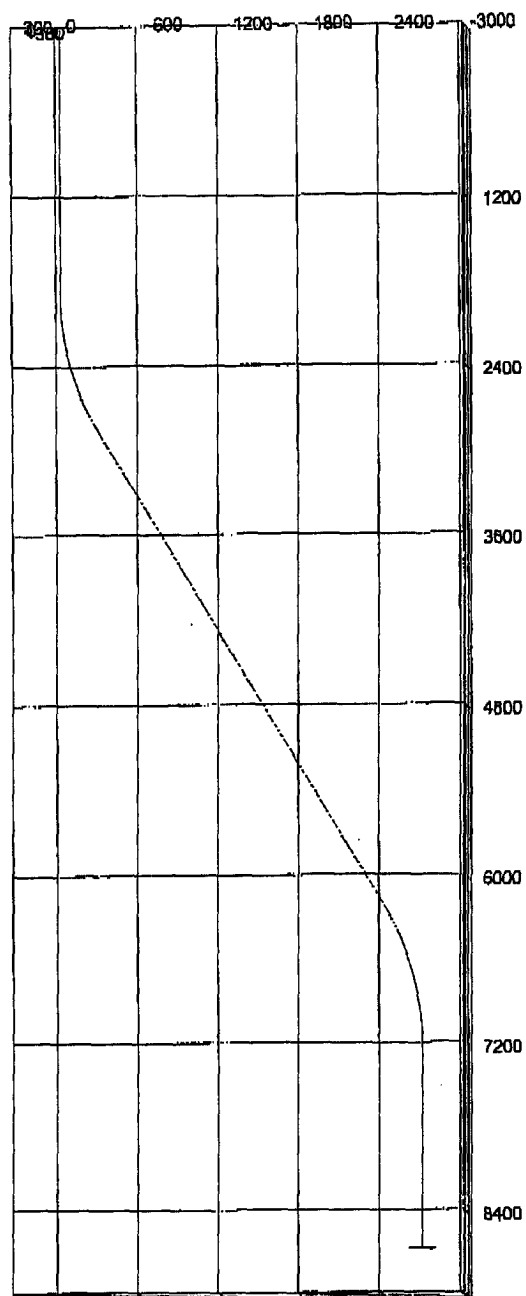
|    | M.D. [ft] | Inclination [°] | Azimuth [°] | T.V.D. [ft] | N+S- [ft] | E+W- [ft] | D.L.S. [°/100ft] | ToolFace [°] | T.F. Ref. [HS/GN] |
|----|-----------|-----------------|-------------|-------------|-----------|-----------|------------------|--------------|-------------------|
| 1  | 0.00      | 0.00            | 0.00        | 0.00        | 0.00      | 0.00      | 0.00             |              |                   |
| 2  | 1850.00   | 0.00            | 0.00        | 1850.00     | 0.00      | 0.00      | 3.00             | 178          | GN                |
| 3  | 1900.00   | 1.50            | 177.56      | 1899.99     | -0.65     | 0.03      | 3.00             | 0            | HS                |
| 4  | 1950.00   | 3.00            | 177.56      | 1949.95     | -2.62     | 0.11      | 3.00             | 360          | HS                |
| 5  | 2000.00   | 4.50            | 177.56      | 1999.85     | -5.88     | 0.25      | 3.00             | 360          | HS                |
| 6  | 2050.00   | 6.00            | 177.56      | 2049.64     | -10.45    | 0.45      | 3.00             | 360          | HS                |
| 7  | 2100.00   | 7.50            | 177.56      | 2099.29     | -16.32    | 0.70      | 3.00             | 360          | HS                |
| 8  | 2150.00   | 9.00            | 177.56      | 2148.77     | -23.49    | 1.00      | 3.00             | 360          | HS                |
| 9  | 2200.00   | 10.50           | 177.56      | 2198.04     | -31.95    | 1.36      | 3.00             | 0            | HS                |
| 10 | 2250.00   | 12.00           | 177.56      | 2247.08     | -41.70    | 1.78      | 3.00             | 360          | HS                |
| 11 | 2300.00   | 13.50           | 177.56      | 2295.85     | -52.72    | 2.25      | 3.00             | 0            | HS                |
| 12 | 2350.00   | 15.00           | 177.56      | 2344.31     | -65.02    | 2.77      | 3.00             | 0            | HS                |
| 13 | 2400.00   | 16.50           | 177.56      | 2392.43     | -78.58    | 3.35      | 3.00             | 360          | HS                |
| 14 | 2450.00   | 18.00           | 177.56      | 2440.18     | -93.39    | 3.98      | 3.00             | 0            | HS                |
| 15 | 2500.00   | 19.50           | 177.56      | 2487.52     | -109.45   | 4.67      | 3.00             | 0            | HS                |
| 16 | 2550.00   | 21.00           | 177.56      | 2534.43     | -126.74   | 5.40      | 3.00             | 0            | HS                |
| 17 | 2600.00   | 22.50           | 177.56      | 2580.87     | -145.25   | 6.19      | 3.00             | 360          | HS                |
| 18 | 2650.00   | 24.00           | 177.56      | 2626.81     | -164.97   | 7.03      | 3.00             | 0            | HS                |
| 19 | 2700.00   | 25.50           | 177.56      | 2672.22     | -185.86   | 7.93      | 3.00             | 0            | HS                |
| 20 | 2750.00   | 27.00           | 177.56      | 2717.06     | -207.97   | 8.87      | 3.00             | 360          | HS                |
| 21 | 2800.00   | 28.50           | 177.56      | 2761.31     | -231.23   | 9.86      | 3.00             | 360          | HS                |
| 22 | 2850.00   | 30.00           | 177.56      | 2804.93     | -255.64   | 10.90     | 3.00             | 360          | HS                |
| 23 | 2900.00   | 31.50           | 177.56      | 2847.90     | -281.18   | 11.98     | 3.00             | 0            | HS                |
| 24 | 2933.50   | 32.50           | 177.56      | 2876.31     | -298.92   | 12.75     | 3.00             | 360          | HS                |
| 25 | 6843.39   | 32.50           | 177.56      | 6173.69     | -2398.08  | 102.25    | 0.00             |              |                   |
| 26 | 6850.00   | 32.31           | 177.56      | 6179.27     | -2401.62  | 102.41    | 3.00             | 180          | HS                |
| 27 | 6900.00   | 30.81           | 177.56      | 6221.88     | -2427.76  | 103.52    | 3.00             | 180          | HS                |
| 28 | 6950.00   | 29.31           | 177.56      | 6265.15     | -2452.78  | 104.59    | 3.00             | 180          | HS                |
| 29 | 7000.00   | 27.81           | 177.56      | 6309.07     | -2476.66  | 105.60    | 3.00             | 180          | HS                |
| 30 | 7050.00   | 26.31           | 177.56      | 6353.60     | -2499.38  | 106.57    | 3.00             | 180          | HS                |
| 31 | 7100.00   | 24.81           | 177.56      | 6398.70     | -2520.93  | 107.49    | 3.00             | 180          | HS                |
| 32 | 7150.00   | 23.31           | 177.56      | 6444.36     | -2541.30  | 108.36    | 3.00             | 180          | HS                |
| 33 | 7200.00   | 21.81           | 177.56      | 6490.53     | -2560.46  | 109.18    | 3.00             | 180          | HS                |
| 34 | 7250.00   | 20.31           | 177.56      | 6537.19     | -2578.41  | 109.94    | 3.00             | 180          | HS                |
| 35 | 7300.00   | 18.81           | 177.56      | 6584.31     | -2595.13  | 110.66    | 3.00             | 180          | HS                |
| 36 | 7350.00   | 17.31           | 177.56      | 6631.84     | -2610.61  | 111.32    | 3.00             | 180          | HS                |

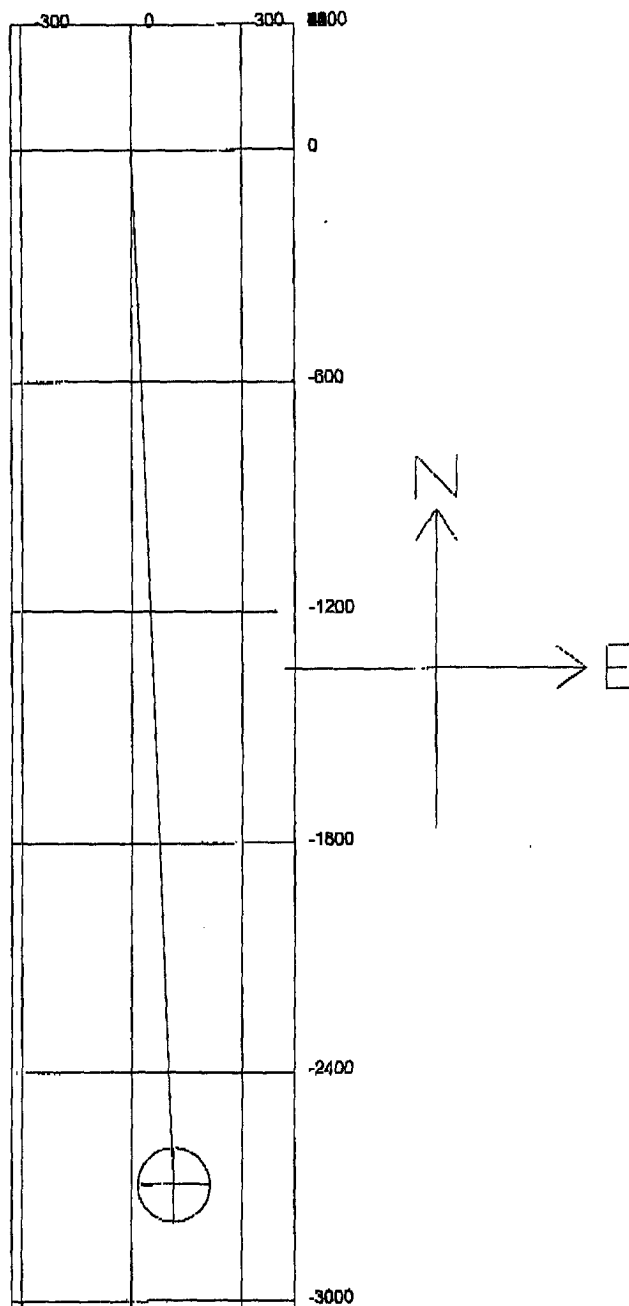
Van Am S

Simulated Survey - C:\Program Files\Drilling Toolbox 2001\Templates\Visual Wellbore\panam3

|    | M.D. [ft] | Inclination [°] | Azimuth [°] | T.V.D. [ft] | N+/S. [ft] | E+/W. [ft] | D.L.S. [°/100ft] | ToolFace [°] | T.F. Ref. [HS/GN] |
|----|-----------|-----------------|-------------|-------------|------------|------------|------------------|--------------|-------------------|
| 37 | 7400.00   | 15.81           | 177.56      | 6679.77     | -2624.85   | 111.92     | 3.00             | 180          | HS                |
| 38 | 7450.00   | 14.31           | 177.56      | 6728.05     | -2637.82   | 112.48     | 3.00             | 180          | HS                |
| 39 | 7500.00   | 12.81           | 177.56      | 6776.68     | -2649.53   | 112.98     | 3.00             | 180          | HS                |
| 40 | 7550.00   | 11.31           | 177.56      | 6825.55     | -2659.97   | 113.42     | 3.00             | 180          | HS                |
| 41 | 7600.00   | 9.81            | 177.56      | 6874.70     | -2669.12   | 113.81     | 3.00             | 180          | HS                |
| 42 | 7650.00   | 8.31            | 177.56      | 6924.08     | -2676.98   | 114.15     | 3.00             | 180          | HS                |
| 43 | 7700.00   | 6.81            | 177.56      | 6973.84     | -2683.55   | 114.43     | 3.00             | 180          | HS                |
| 44 | 7750.00   | 5.31            | 177.56      | 7023.36     | -2688.82   | 114.65     | 3.00             | 180          | HS                |
| 45 | 7800.00   | 3.81            | 177.56      | 7073.20     | -2692.79   | 114.82     | 3.00             | 180          | HS                |
| 46 | 7850.00   | 2.31            | 177.56      | 7123.13     | -2695.45   | 114.93     | 3.00             | 180          | HS                |
| 47 | 7900.00   | 0.81            | 177.56      | 7173.11     | -2696.81   | 114.99     | 3.00             | 180          | HS                |
| 48 | 7926.89   | 0.00            | 1.87        | 7200.00     | -2697.00   | 115.00     | 3.00             | 358          | GN                |
| 49 | 9376.89   | 0.00            | 0.00        | 8650.00     | -2697.00   | 115.00     | 0.00             |              |                   |



**3D<sup>s</sup> Directional Drilling Planner - 3D View**Company: **Technical Toolboxes Inc.**Well: **Pan Am Pardue ALZ Fed. Com. #3**

**3D<sup>s</sup> Directional Drilling Planner - 3D View**Company: **Technical Toolboxes Inc.**Well: **Pan Am Pardue ALZ Fed. Com. #3**

Pan Am Yardue ALZ Fed. Com. #3

Production Casing

| 1st segment         |                | 9,377 ft to 8,000 ft |         | Make up Torque ft-lbs |      |       | Total ft = 1,377 |
|---------------------|----------------|----------------------|---------|-----------------------|------|-------|------------------|
| O.D.                | Weight         | Grade                | Threads | opt.                  | min. | mx.   |                  |
| 7 inches            | 26 #/ft        | L-80                 | UT&C    | 3110                  | 3830 | 5395  |                  |
| Collapse Resistance | Internal Yield | Joint Strength       |         | Body Yield            |      | Drift |                  |
| 5,410 psi           | 7,240 psi      | 511,000 #            |         | 604,000 #             |      | 6.15  |                  |

| 2nd segment         |                | 8,000 ft to 5,700 ft |         | Make up Torque ft-lbs |      |       | Total ft = 2,300 |
|---------------------|----------------|----------------------|---------|-----------------------|------|-------|------------------|
| O.D.                | Weight         | Grade                | Threads | opt.                  | min. | mx.   |                  |
| 7 inches            | 26 #/ft        | L-80                 | UT&C    | 3070                  | 2750 | 4595  |                  |
| Collapse Resistance | Internal Yield | Joint Strength       |         | Body Yield            |      | Drift |                  |
| 4,320 psi           | 4,980 psi      | 367,000 #            |         | 413,000 #             |      | 6.15  |                  |

| 3rd segment         |                | 5,700 ft to 1,200 ft |         | Make up Torque ft-lbs |      |       | Total ft = 4,500 |
|---------------------|----------------|----------------------|---------|-----------------------|------|-------|------------------|
| O.D.                | Weight         | Grade                | Threads | opt.                  | min. | mx.   |                  |
| 7 inches            | 26 #/ft        | L-80                 | UT&C    | 3130                  | 2350 | 4915  |                  |
| Collapse Resistance | Internal Yield | Joint Strength       |         | Body Yield            |      | Drift |                  |
| 3,270 psi           | 4,380 psi      | 313,000 #            |         | 368,000 #             |      | 6.25  |                  |

| 4th segment         |                | 1,200 ft to 0 ft |         | Make up Torque ft-lbs |      |       | Total ft = 1,200 |
|---------------------|----------------|------------------|---------|-----------------------|------|-------|------------------|
| O.D.                | Weight         | Grade            | Threads | opt.                  | min. | mx.   |                  |
| 7 inches            | 26 #/ft        | L-80             | UT&C    | 3070                  | 2750 | 4595  |                  |
| Collapse Resistance | Internal Yield | Joint Strength   |         | Body Yield            |      | Drift |                  |
| 4,320 psi           | 4,980 psi      | 367,000 #        |         | 413,000 #             |      | 6.15  |                  |

## **MULTI-POINT SURFACE USE AND OPERATIONS PLAN**

### **Yates Petroleum Corporation**

Pan Am Pardue "ALZ" Federal Com. #3  
603' FNL and 545' FWL Surface Location  
1980' FSL and 660' FWL Bottom Hole Location  
Section 27-T21S-R24E  
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 well site is located approximately 31 miles northwest of Carlsbad, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

#### **DIRECTIONS:**

Go north of Carlsbad, New Mexico on Highway 285 for approximately 12 miles. Turn left on Highway 137 (Scenic Byway) and go approximately 9 miles. The new access road will start here going to the northeast.

#### **2. PLANNED ACCESS ROAD:**

- A. The new access will be approximately .1 of a mile from Hwy 137 to the southwest corner of the well pad.
- 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 well site.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed well site.

#### **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 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 landfill. Burial on site is not approved.

**8. ANCILLARY FACILITIES:**

- A. None Required.

**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.
- 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 well site 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.

**Pan Am Pardue "ALZ" Federal Com. #3**  
**Page 3**

11. SURFACE OWNERSHIP: Private surface owned by Stacy Biebelle and Skip Shafer, 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

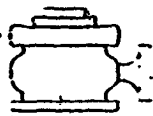
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

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.

8/22/2006

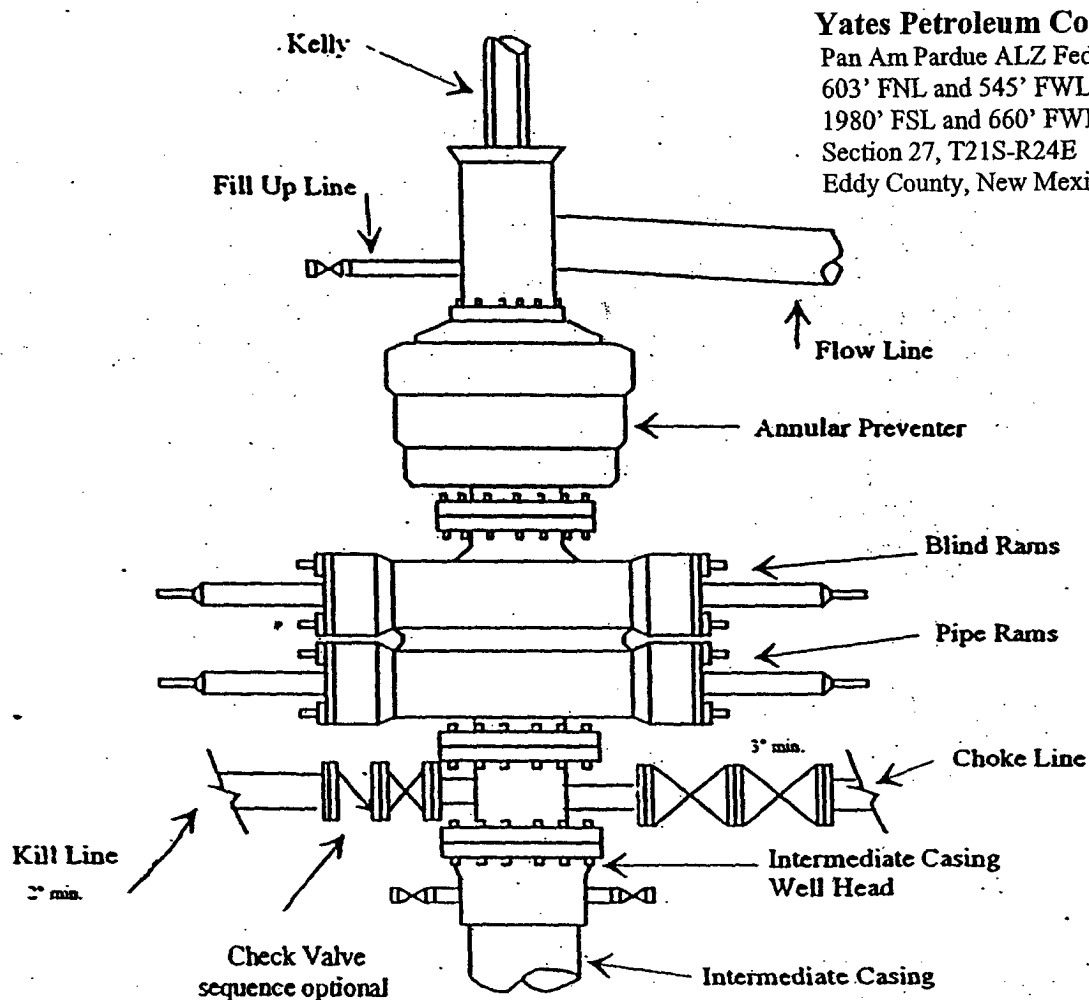
  
Cy Cowan, Regulatory Agent



# Yates Petroleum Corporation

BOP-3

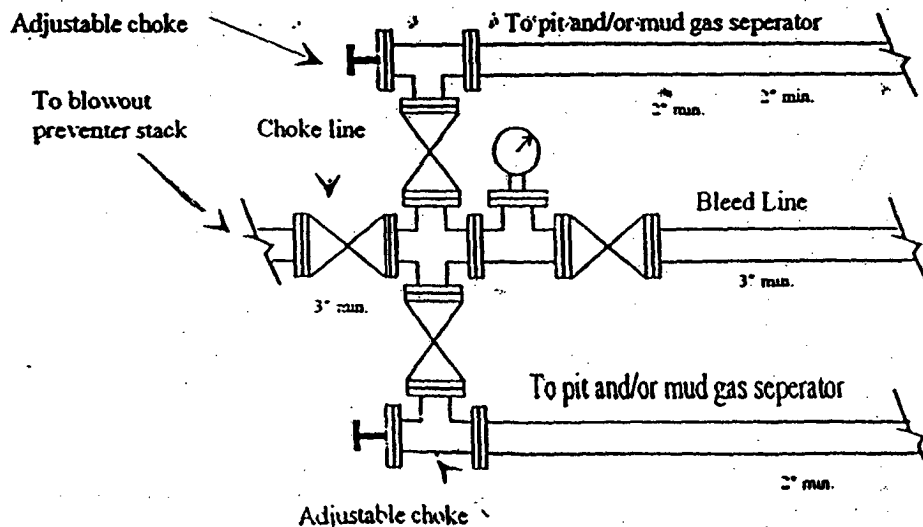
## Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack



### Yates Petroleum Corporation

Pan Am Pardue ALZ Fed. Com. #3  
603' FNL and 545' FWL Surf. Loc.  
1980' FSL and 660' FWL B.H.L.  
Section 27, T21S-R24E  
Eddy County, New Mexico

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



## CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corp.  
Well Name & No. Pan Am Pardue ALZ Fed Com # 3  
Location: 603' FNL, 545' FWL, SEC 27, T21S, R24E, Eddy County, NM  
BHL: 1980' FNL, 660' FWL, SEC 27, T21S, R24E, Eddy County, NM  
Lease: NM-76944 FSL JL

### 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; and the Hobbs Field Station, 414 West Taylor, Hobbs NM 88240, (505) 393-3612 for wells in Lea County, in sufficient time for a representative to witness:
  - A. Spudding
  - B. Cementing casing: 9 5/8 inch 7 inch
  - C. BOP tests
2. A Hydrogen Sulfide (H<sub>2</sub>S) Drilling Plan should be activated prior to **drilling out of the surface casing**. A copy of the plan shall be posted at the drilling site.
3. 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.
4. 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.
5. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.
6. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.
7. Gamma-Ray/Neutron logs shall be run from the base of the Salado Formation to the surface; cable speed not to exceed 30 feet per minute.

### II. CASING:

1. The 9 5/8 inch surface casing shall be set at 1800 feet, below usable water 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 5-1/2 inch production casing is **cement shall extend upward a minimum of 200 feet above the base of the intermediate casing string.**
3. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.



### **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) required for drilling the surface and intermediate casing shall be 3000 psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the 9 5/8 inch casing shall be 3000 psi.

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

- A variance to test the \_\_\_\_\_ to the reduced pressure of \_\_\_\_psi with the rig pumps is approved.
- 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.
- BOPE must be tested prior to drilling into the **Wolfcamp** Formation by an independent service company.

### **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:

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

**Engineering may be contacted at 505-706-2779 for variances if necessary.**