

OCD-ARTESIA



UNITED STATES
BUREAU OF LAND MANAGEMENT

Month -
MAY 30 2007
OCD - ARTESIA, NM

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

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-9402
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 25575		7. If Unit or CA Agreement, Name and No.
3A. Address 105 South Fourth Street Artesia, New Mexico 88210	3b. Phone No. (include area code) (505) 748-1471	8. Lease Name and Well No. 12157 Cottonwood KI Federal Com. #2H
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 310' FSL and 660' FWL Pilot Hole At proposed prod. Zone 660' FNL and 660' FWL Bottom Hole		9. API Well No. 30-015-35640
14. Distance in miles and direction from nearest town or post office* Approximately 9 miles as the crow flies northwest of Artesia, New Mexico.		10. Field and Pool, or Exploratory Cottonwood Creek Wolfcamp
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 310' PHL & 660'BHL	16. No. of Acres in lease 478.81	11. Sec., T., R., M., or Bk. and Survey or Area Section 18, T16S-R25E
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 1320'	19. Proposed Depth 5050'	12. County or Parish Eddy County
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3579' GL	22. Approximate date work will start* ASAP	13. State NM
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>Clyde R. May for Cy Cowan</i>	Name (Printed/Typed) Cy Cowan	Date 10/20/2006
Regulatory Agent		
Approved by (Signature) <i>S. Caffrey</i>	Name (Printed/Typed)	Date
Title ACTING FIELD MANAGER	Office BLM-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 TWO YEARS

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

Roswell Controlled Water Basin

SEE ATTACHED FOR CONDITIONS OF APPROVAL
APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

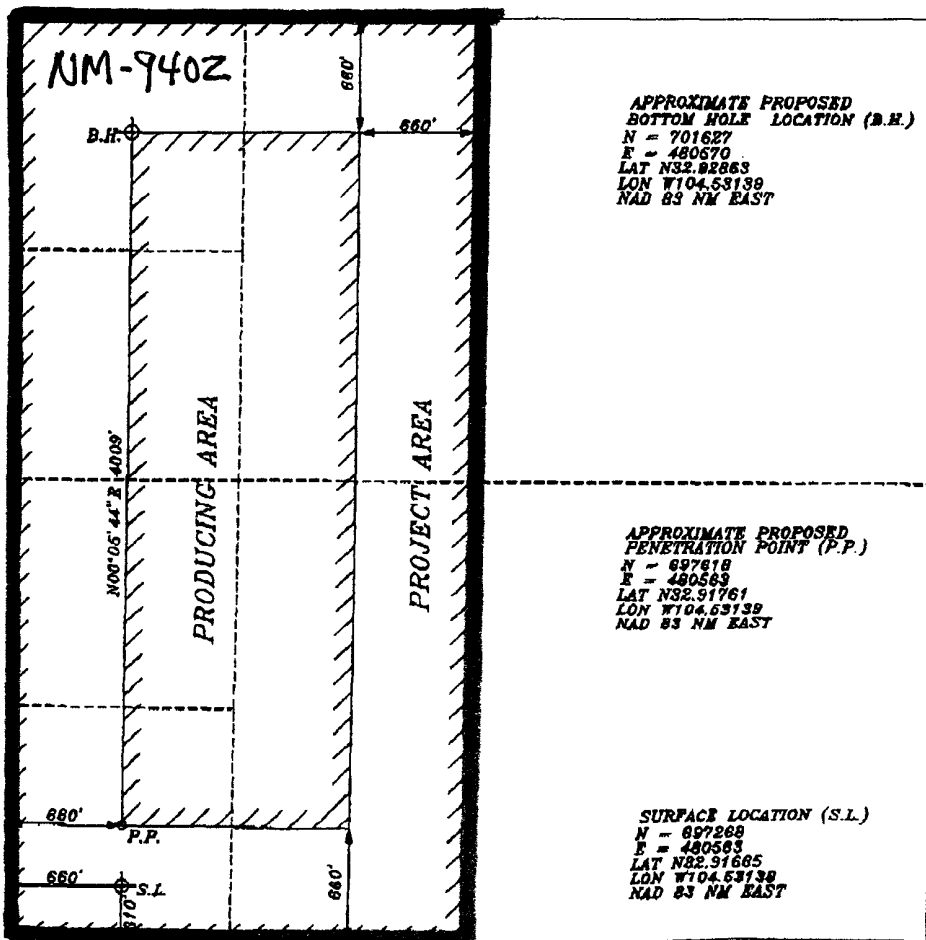
1 API Number	2 Pool Code	3 pool Name
	75250	Cottonwood Creek Wolfcamp
4 Property Code	5 Property Name	
	COTTONWOOD KI FED. COM	
7 OGRD No.	8 Operator Name	9 Well Number
025575	YATES PETROLEUM CORPORATION	2H
		8 Elevation
		3579

10 Surface Location									
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
LOT 4	18	16-S	25-E		310	SOUTH	660	WEST	EDDY

11 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
LOT 1	18	16-S	25-E		660	NORTH	660	WEST	EDDY

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
320			

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.



APPROXIMATE PROPOSED
BOTTOM HOLE LOCATION (B.H.)
N = 701627
E = 480570
LAT N32.82863
LON W104.53139
NAD 83 NM EAST

APPROXIMATE PROPOSED
PENETRATION POINT (P.P.)
N = 697268
E = 480583
LAT N32.91761
LON W104.53139
NAD 83 NM EAST

SURFACE LOCATION (S.L.)
N = 697268
E = 480583
LAT N32.91685
LON W104.53139
NAD 83 NM EAST

17 OPERATORS CERTIFICATION	
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization affirms every employee a working interest or retained interest in the land including the proposed bottom hole location or has a right in oil and gas and of this location pursuant to a contract with or owner of such interest or working interest, or to voluntary pooling agreement or a compulsory pooling order heretofore entered by the state.	
Signature	Date
<i>Cy Cowan</i>	
Printed Name Cy Cowan Regulatory Agent	
18 SURVEYOR CERTIFICATION SURFACE LOCATION ONLY	
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.	
OCTOBER 4, 2006	
Date of Survey	
Signature and Seal of Professional Surveyor	
Certificate Number: DAN R. REDDY NM PE&PS 35412	

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State of New Mexico
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Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number	2 Pool Code	3 Pool Name Wildcat Wolfcamp
4 Property Code	5 Property Name COTTONWOOD KI FED. COM	
7 OORID No. 025575	8 Operator Name YATES PETROLEUM CORPORATION	6 Well Number 2H
		9 Elevation 3579

10 Surface Location

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
LOT 4	18	16-S	25-E		310	SOUTH	660	WEST	EDDY

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
LOT 1	18	16-S	25-E		660	NORTH	660	WEST	EDDY

12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code	15 Order No.
---------------------------	--------------------	-----------------------	--------------

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

	<p>17 OPERATORS CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or retained mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>Cy Cowan</i></p> <p>Signature: Cy Cowan Date: 10/20/06</p> <p>Printed Name:</p>
	<p>18 SURVEYOR CERTIFICATION</p> <p>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>OCTOBER 4, 2006</p> <p>Date of Survey:</p> <p>Signature: <i>[Signature]</i></p> <p>D. N. R. REDD NEW MEXICO 5412 REGISTERED PROFESSIONAL ENGINEER LAND SURVEYOR</p> <p>Certificate Number: DAN R. REDD NM PRAPS 5412</p>

YATES PETROLEUM CORPORATION
Cottonwood KI Federal Com. #2H
 310' FSL and 660' FWL (Pilot Hole)
 660' FNL and 660' FWL (Bottom Hole)
 Section 18, T16S-R25E
 Eddy County, New Mexico

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

San Andres	483'	Wolfcamp	4716'
Glorietta	1773'	Base Wolfcamp	4793'
Tubb	3083'	Wolfcamp Shale	4813'
Abo	3753'	TD (Pilot Hole)	5050'
		TD (Lateral)	8864'

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

Water: 128'
 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)

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./Ft</u>	<u>Grade</u>	<u>Thread</u>	<u>Interval</u>	<u>Length</u>
17 1/2"	13 3/8"	48#	H-40	ST&C	0-350'	350'
12 1/4"	9 5/8"	36#	J-55	ST&C	0-1100'	1100'
8 3/4"	Open Hole	----	----	----	0-5050' TVD	5050'
* 8 3/4"	7"	23# +26#	J-55	ST&C	0-4850' MD	4850'
7 7/8"	5 1/2"	17#	HP-110	LT&C	0-8864' MD	8864'

* 7" will only be set if hole conditions dictate.

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 500# 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, Tensile Strength 1.8

B. CEMENTING PROGRAM:

Surface Casing: 250 sx Lite "C" (YLD 2.1 WT 12.6) tail in w/ 200 sx "C" w/ 2% CaCl₂ (YLD 1.32 WT 14.8).

Intermediate Casing: 325 sx Lite "C" (YLD 2.10 WT 12.6) Tail in w/200 sx Class "C" +2% CaCl₂ (YLD 1.32 WT 14.8).

Production Casing: TOC 600', Lead w/ 775 sx Lite "C" (YLD 2.05 WT 12.5) Tail in w/ 1220 sx Magne Plus (YLD 1.05 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>
Spud to 350'	FW/Spud Mud	8.4-8.9	32-36	N/C
350'-1100'	F/WGel/Air Mist	8.4-8.9	28-34	N/C
1100'-8864'	Cut Brine	8.8-9.2	28	N/C

ALL DEPTHS ARE MEASURED

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' out from under intermediate casing to TD.
 Logging: Platform Express/HALS/FMI.
 Coring: Rotary Sidewall Cores.
 DST's: NonE anticipated.

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

Anticipated BHP:

From: 0 TO 350' TVD Anticipated Max. BHP: 162 PSI
 From: 350' TO 1100' Anticipated Max. BHP: 510 PSI
 From: 1100' TO 5000' TVD Anticipated Max. BHP: 2415 PSI

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: None

H₂S Zones Anticipated: None

Maximum Bottom Hole Temperature: 168° F

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.

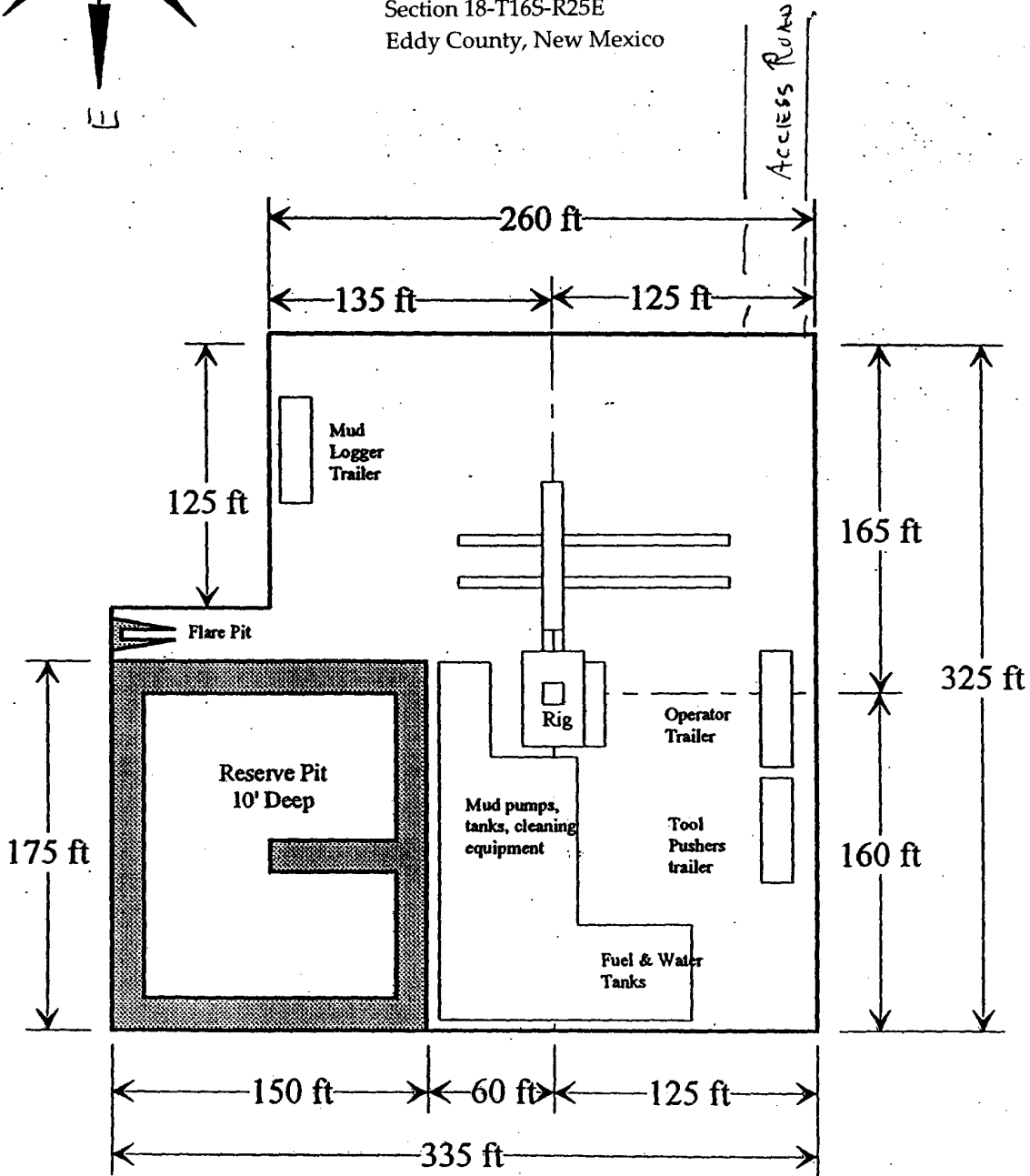
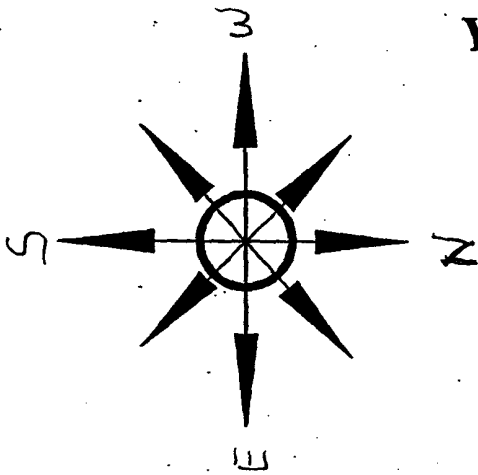
Yates Petroleum Corporation

Location Layout for Permian Basin

Up to 12,000'

EXHIBIT C

Cottonwood KI Federal Com. #2H
310' FSL & 660' FWL (Surface)
660' FNL & 660' FWL (Bottom Hole)
Section 18-T16S-R25E
Eddy County, New Mexico



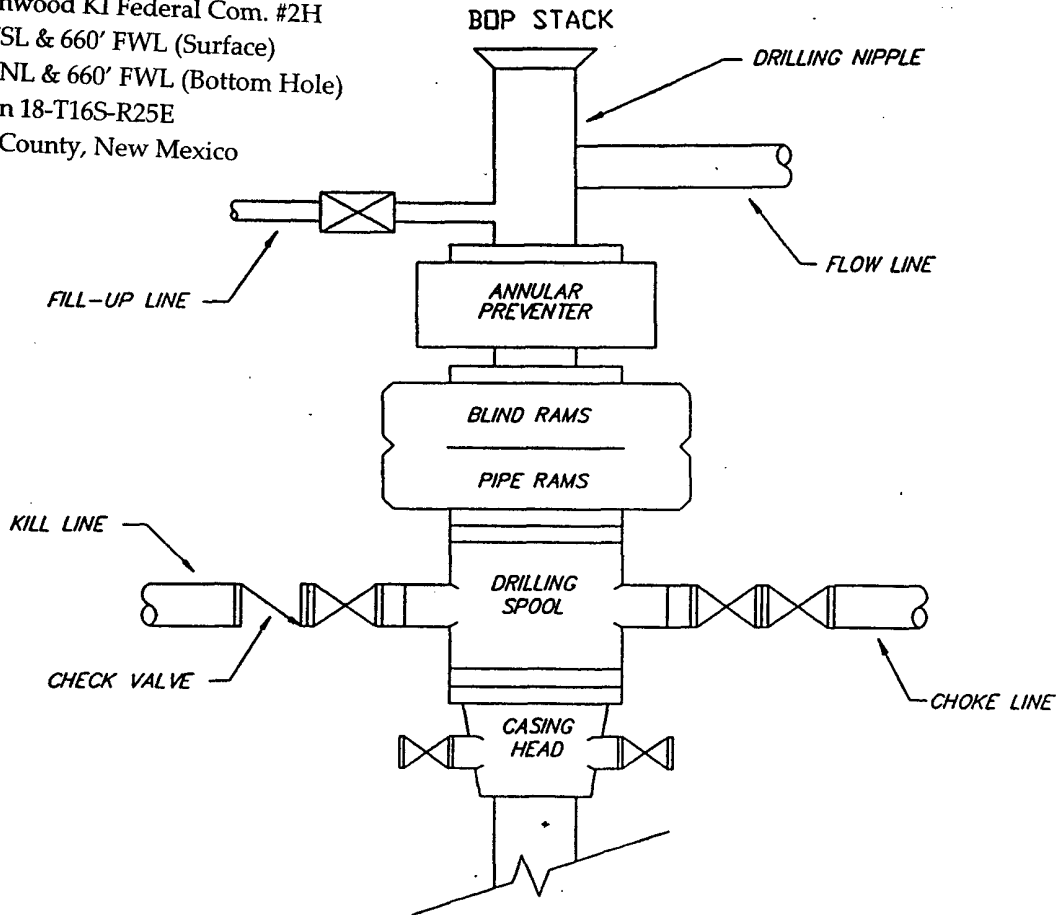
Distance from Well Head to Reserve Pit will vary between rigs

The above dimension should be a maximum

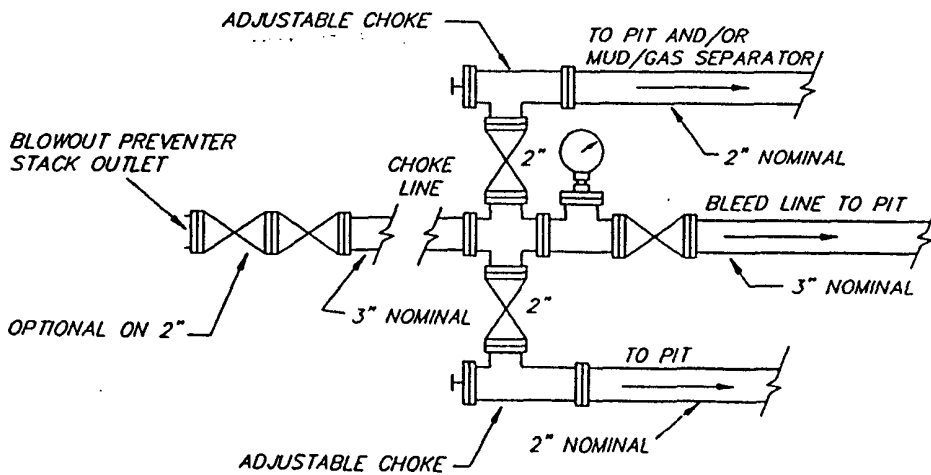
YATES PETROLEUM CORPORATION

TYPICAL 3,000 p.s.i. BLOWOUT PREVENTER SCHEMATIC

EXHIBIT B
Cottonwood KI Federal Com. #2H
310' FSL & 660' FWL (Surface)
660' FNL & 660' FWL (Bottom Hole)
Section 18-T16S-R25E
Eddy County, New Mexico



TYPICAL 3,000 p.s.i. CHOKE MANIFOLD SCHEMATIC



YATES PETROLEUM CORPORATION
General Plan was approved 4/15/04

The reserve pit will be to the south.
The southwest corner of thw pit will
be approximately 60' south of the well
bore. The pit will be 175' X 150' and
6' deep with a capacity of 28,000 bbls.



Flare pit



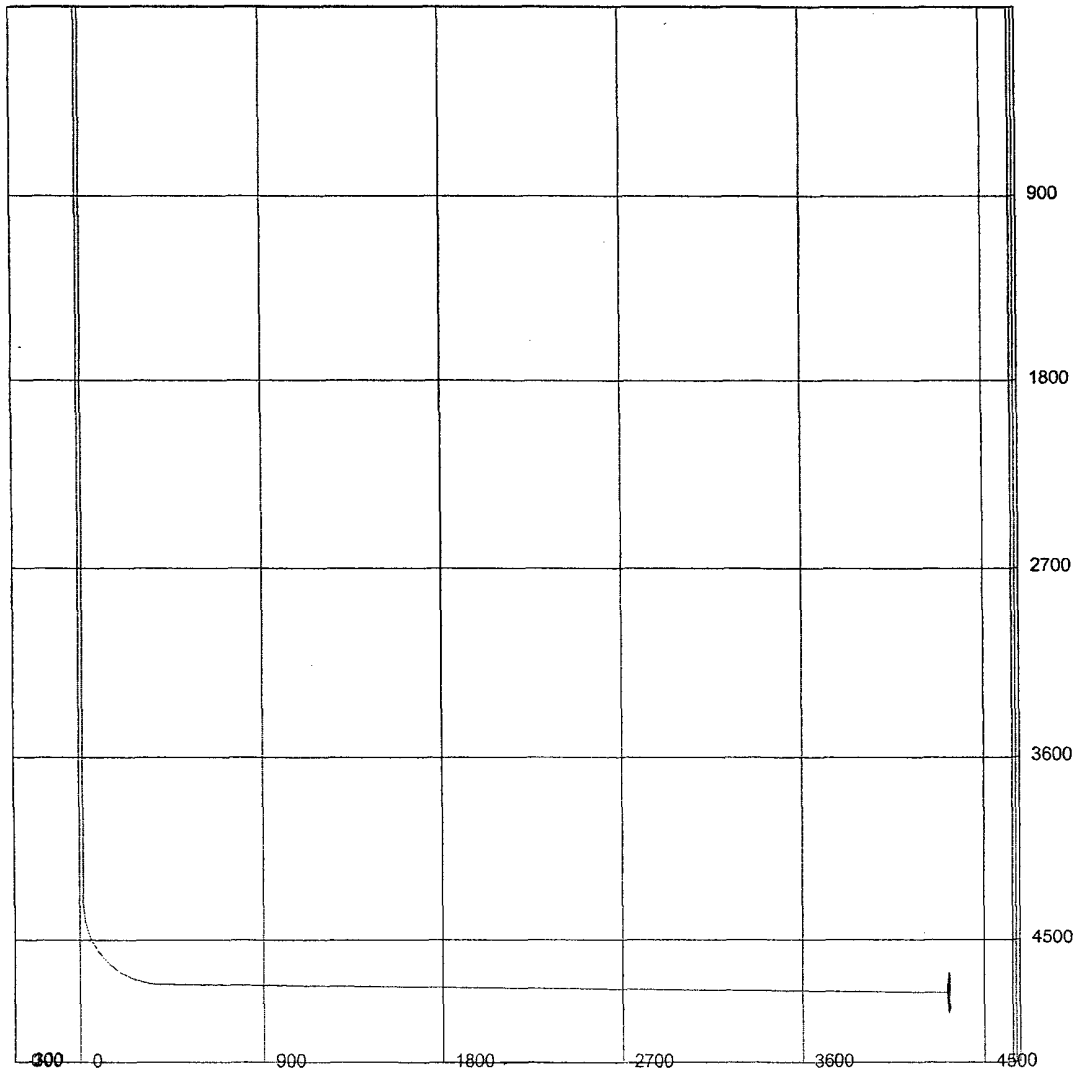
60'

Standard reserve pit. All Reserve pits are double
Horse shoe size varies with depth of well

	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	4335.00	0.00	0.00	4335.00	0.00	0.00	15.00	0	GN
3	4350.00	2.25	0.00	4350.00	0.29	0.00	15.00	0	HS
4	4375.00	6.00	0.00	4374.93	2.09	0.00	15.00	0	HS
5	4400.00	9.75	0.00	4399.69	5.52	0.00	15.00	0	HS
6	4425.00	13.50	0.00	4424.17	10.55	0.00	15.00	0	HS
7	4450.00	17.25	0.00	4448.27	17.18	0.00	15.00	0	HS
8	4475.00	21.00	0.00	4471.89	25.37	0.00	15.00	0	HS
9	4500.00	24.75	0.00	4494.92	35.09	0.00	15.00	0	HS
10	4525.00	28.50	0.00	4517.26	46.29	0.00	15.00	0	HS
11	4550.00	32.25	0.00	4538.83	58.93	0.00	15.00	0	HS
12	4575.00	36.00	0.00	4559.52	72.95	0.00	15.00	0	HS
13	4600.00	39.75	0.00	4579.25	88.30	0.00	15.00	0	HS
14	4625.00	43.50	0.00	4597.93	104.90	0.00	15.00	0	HS
15	4650.00	47.25	0.00	4615.49	122.69	0.00	15.00	0	HS
16	4675.00	51.00	0.00	4631.85	141.59	0.00	15.00	0	HS
17	4700.00	54.75	0.00	4646.93	161.52	0.00	15.00	0	HS
18	4725.00	58.50	0.00	4660.69	182.39	0.00	15.00	0	HS
19	4750.00	62.25	0.00	4673.04	204.12	0.00	15.00	0	HS
20	4775.00	66.00	0.00	4683.95	226.61	0.00	15.00	0	HS
21	4800.00	69.75	0.00	4693.36	249.77	0.00	15.00	0	HS
22	4825.00	73.50	0.00	4701.24	273.49	0.00	15.00	0	HS
23	4850.00	77.25	0.00	4707.55	297.67	0.00	15.00	0	HS
24	4875.00	81.00	0.00	4712.27	322.22	0.00	15.00	0	HS
25	4900.00	84.75	0.00	4715.37	347.02	0.00	15.00	0	HS
26	4925.00	88.50	0.00	4716.84	371.97	0.00	15.00	0	HS
27	4930.73	89.36	0.00	4716.95	377.70	0.00	0.00		
28	8863.27	89.36	0.00	4761.00	4310.00	0.00	0.00		

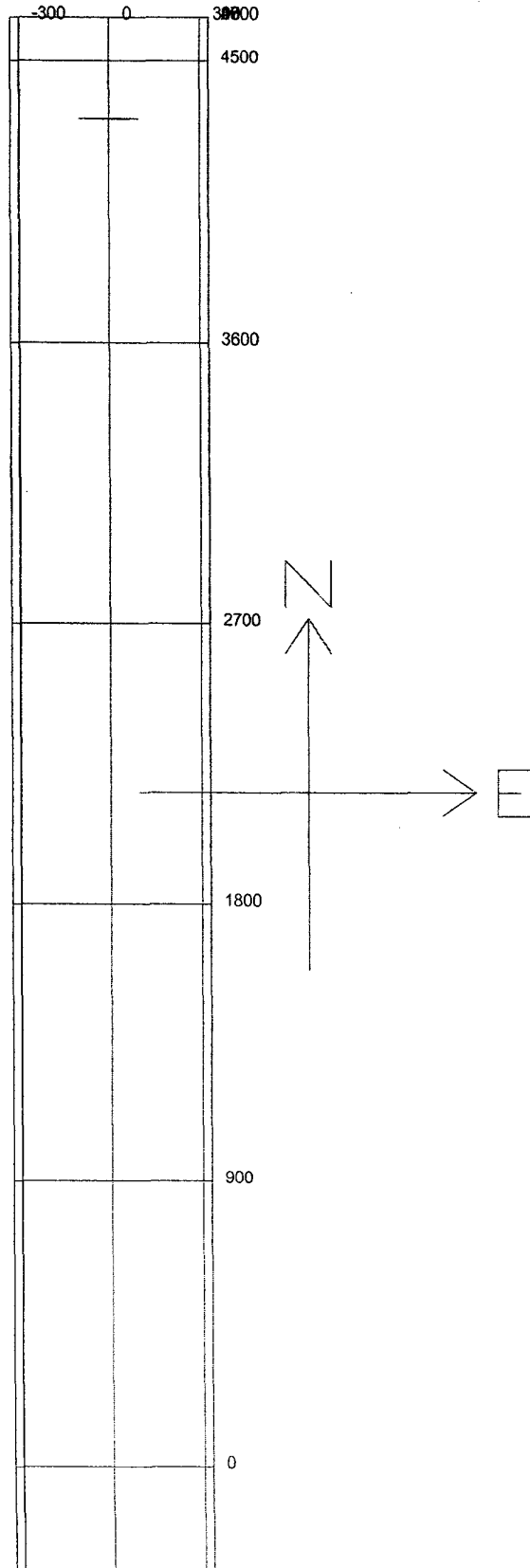
3D³ Directional Drilling Planner - 3D View

Company: Technical Toolboxes Inc.
Well: Cottonwood KI Fed. Com. #2H



3D³ Directional Drilling Planner - 3D View

Company: Technical Toolboxes Inc.
Well: Cottonwood KI Fed. Com. #2H



MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Yates Petroleum Corporation
Cottonwood KI Federal Com. #2H
310' FSL and 660' FWL (Pilot Hole)
660' FNL and 660' FWL (BHL)
Section 18, T16S-R25E
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 9 miles northwest of Artesia, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go west of Artesia from the intersection of 82 & 285 on Highway 82 for approximately 11.4 miles to Joy Road (Co. Rd. 95). Turn right on Joy Road and go approximately 7 miles. Turn right here on Bittersweet Road (Co. Rd. 133) and go approx. 0.5 of a mile. Go thru a cattle guard and leave the pavement. Take existing lease road and lease road will actually end up going back south. Go approximately 1.2 miles on the existing lease road next to a cultivated field. Turn left here on lease road and go approximately 0.8 of a mile to the EOG's Mackenzie 13 Fee #4H.. The new road will start here going east for approx. 0.25 of a mile to northwest corner of the proposed well location.

2. PLANNED ACCESS ROAD:

- A. The proposed new access will be approximately 0.25 of a mile in length from the point of origin the northwest corner of the well location. The road will lie in an easterly 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.
- F. One cattle guard will be needed.

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 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 acquire any materials from the closest source at the time of construction of the well pad.

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: 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.
- D. The reserve pits will be reclaimed to meet the standards set by OCD Rule 50.

11. SURFACE OWNERSHIP: 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.

10/20/2006



Regulatory Agent

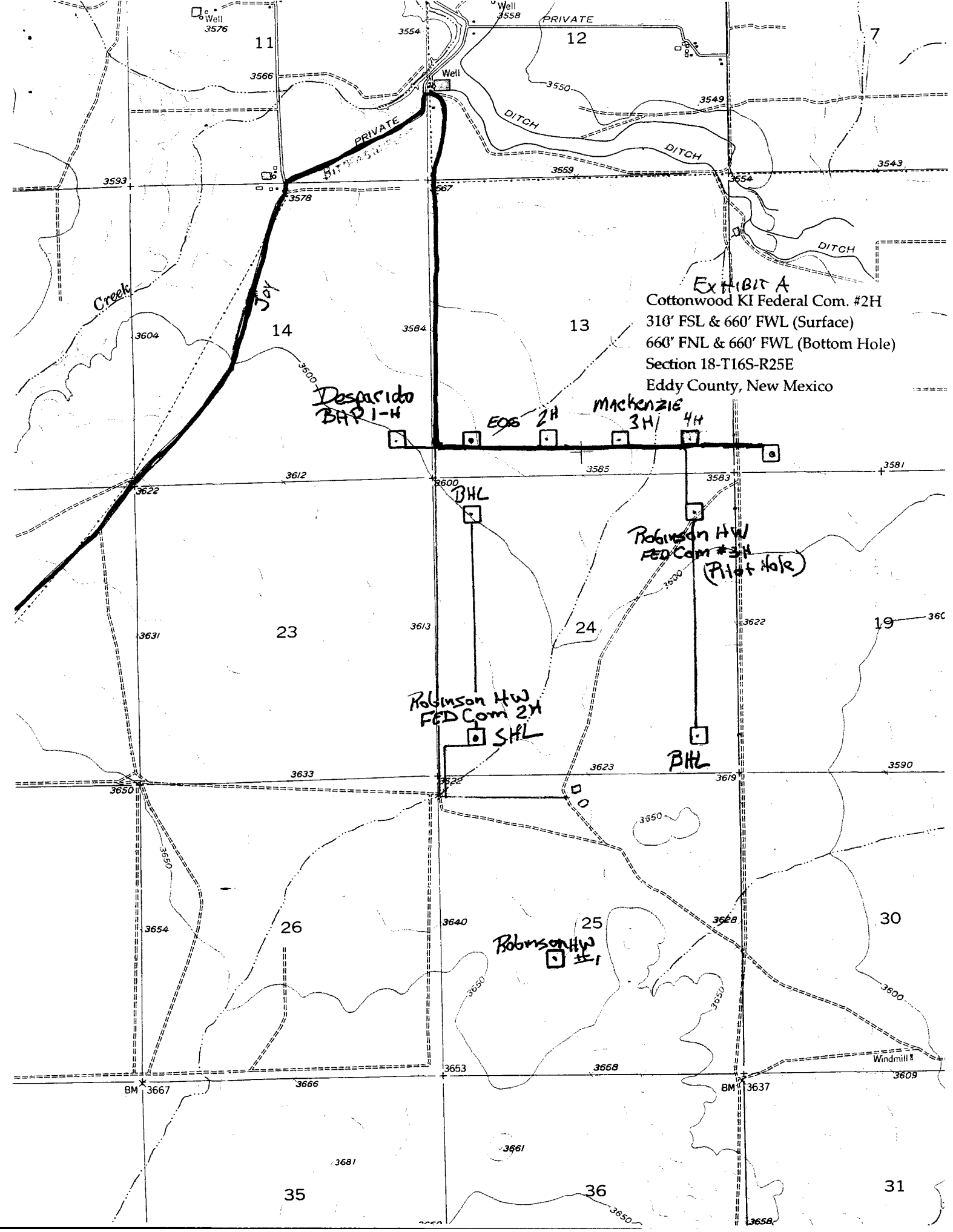


EXHIBIT A
Cottonwood KI Federal Com. #2H
310' FSL & 660' FWL (Surface)
660' FNL & 660' FWL (Bottom Hole)
Section 18-T16S-R25E
Eddy County, New Mexico

Desparido BHP 1-H

Eog 2H Mackenzie 3H/4H

Robinson HW FED Com #3H (Pilot Hole)

Robinson HW FED Com #2H SHL

Robinson HW #1

CONDITIONS OF APPROVAL - DRILLING

Well Name & No. 2H-Cottonwood KI Federal Com
Operator's Name: Yates Petroleum Corporation
Location SHL : 310FSL, 660FWL, Section 18, T-16-S, R-25-E
Location BHL: 660FNL, 660FWL, Section 18, T-16-S, R-25-E
Lease: NM9402

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) 234-5972 or (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: 13-3/8 inch 9-5/8 inch 7 inch 5-1/2 inch

C. BOP tests

2. Although no Hydrogen Sulfide has been reported in this section, it is always a possible hazard.

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 13-3/8 inch surface casing shall be set at approximately 350 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.

Possible lost circulation in Grayburg and San Andres formations.

2. The minimum required fill of cement behind the 9-5/8 inch intermediate casing is cement shall circulate to surface.

3. If this casing is run; the minimum required fill of cement behind the 7 inch casing is cement shall extend upward a minimum of 200 feet into the intermediate casing.

4. The minimum required fill of cement behind the 5-1/2 inch production casing is cement shall extend upward a minimum of 200 feet into the intermediate casing. Operator estimating TOC at 600 feet.

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 13-3/8 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 2M psi. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the 9-5/8 inch casing shall be 3M psi.

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

- A variance to test the 2M system to the reduced pressure of 500 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.

Engineer on call phone: 505-706-2779

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