

Form 3160-3
(August 1999)

JUN 16 2008
OCD-ARTESIA UNITED STATES

915
Split Estate



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

BUREAU OF LAND MANAGEMENT

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

5. Lease Serial No. NM-105211
6. If Indian, Allottee or Tribe Name
7. If Unit or CA Agreement, Name and No
8. Lease Name and Well No. 37219
Pequeno Mike BLU Federal #1H
9. API Well No. 30-015-36390

2. Name of Operator Yates Petroleum Corporation 25575

3A Address 105 South Fourth Street
Artesia, New Mexico 88210
3b. Phone No. (include area code) (505) 748-1471

10. Field and Pool, or Exploratory Wildcat Wolfcamp

4. Location of Well (Report location clearly and in accordance with any State requirements *)
At surface 200' FSL & 200' FWL, Sec. 2, Surface Hole
At proposed prod. Zone 950' FSL & 330' FWL, Sec. 3, Bottom Hole

11. Sec., T, R., M, or Blk, and Survey or Area
Section 2, T16S-R29E, SHL
Section 3, T16S-R29E, BHL

14. Distance in miles and direction from nearest town or post office*
Approximately 34 miles northeast of Artesia, New Mexico.

12. County or Parish Eddy County
13. State NM

15. Distance from proposed location to nearest property or lease line, ft (Also to nearest drig unit line, if any) 200'
16. No. of Acres in lease 761.5
17. Spacing Unit dedicated to this well S/2S/2

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft 1650'
19. Proposed Depth TVD-7280' TMD-12,227'
7193' per Yates - HB-6-9108
20. BLM/BIA Bond No on file NM-B000434

21. Elevations (Show whether DF, KDB, RT, GL, etc) 3718 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 Name (Printed/Typed) Cy Cowan Date 5/14/2008

Regulatory Agent
Approved by (Signature) Is/ Don Peterson Name (Printed/Typed) Title FIELD MANAGER Office CARLSBAD FIELD OFFICE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 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

NOTE: NEW PIT RULE 19.15.17 NMAC.

Drilling pit must be constructed, operated and closed per above new rule.

Subject to General Requirements special Stipulations Attached

SEE ATTACHED FOR CONDITIONS OF APPROVAL

DISTRICT I
1825 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 and Natural Resources Department

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, New Mexico 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 97489	Pool Name Wildcat Wolfcamp
Property Code	Property Name PEQUENO MIKE "BLU" FEDERAL	Well Number 1H
OGRID No. 025575	Operator Name YATES PETROLEUM CORP.	Elevation 3718'

Surface Location

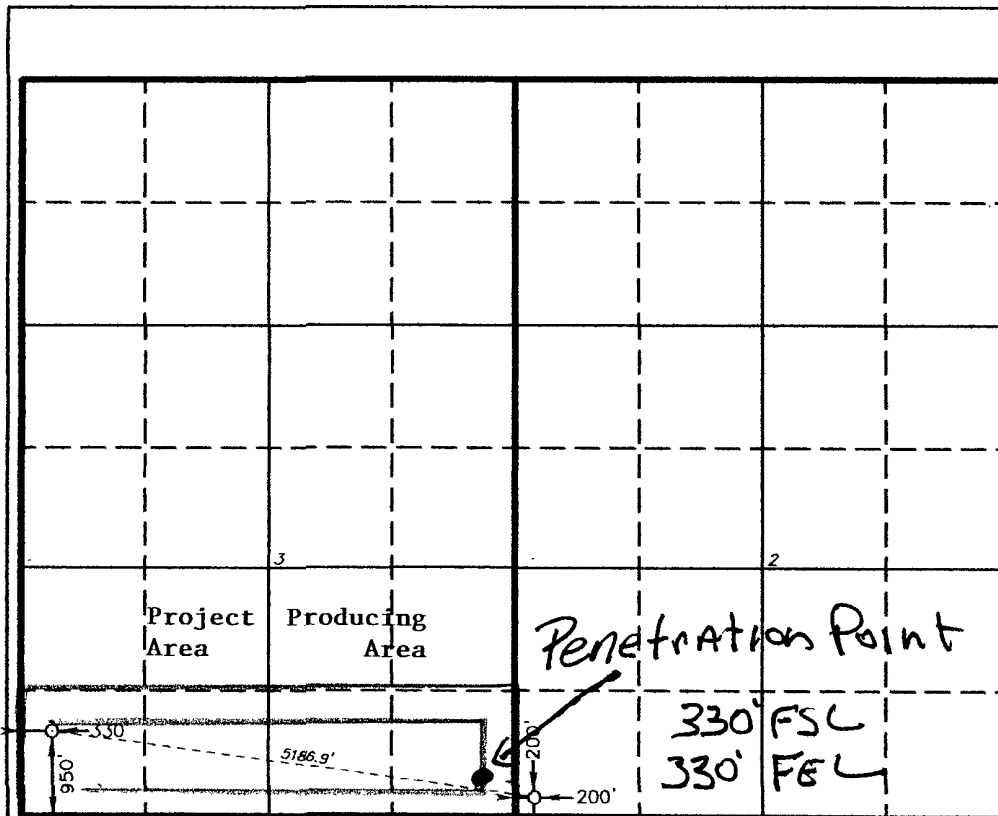
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	2	16 S	29 E		200	SOUTH	200	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	3	16 S	29 E		950	SOUTH	330	WEST	EDDY

Dedicated Acres 160	Joint or Infill	Consolidation Code	Order No.
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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



OPERATOR 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 either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the Division.

G. Cowan 5/15/08
Signature Date

Cy Cowan

Printed Name

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

MAY 1 2008
Date Surveyed
Signature of Gary L. Jones
Professional Surveyor
Professional Surveyor
W.D. PROFESSIONAL SURVEYORS

Certificate No. Gary L. Jones 7977

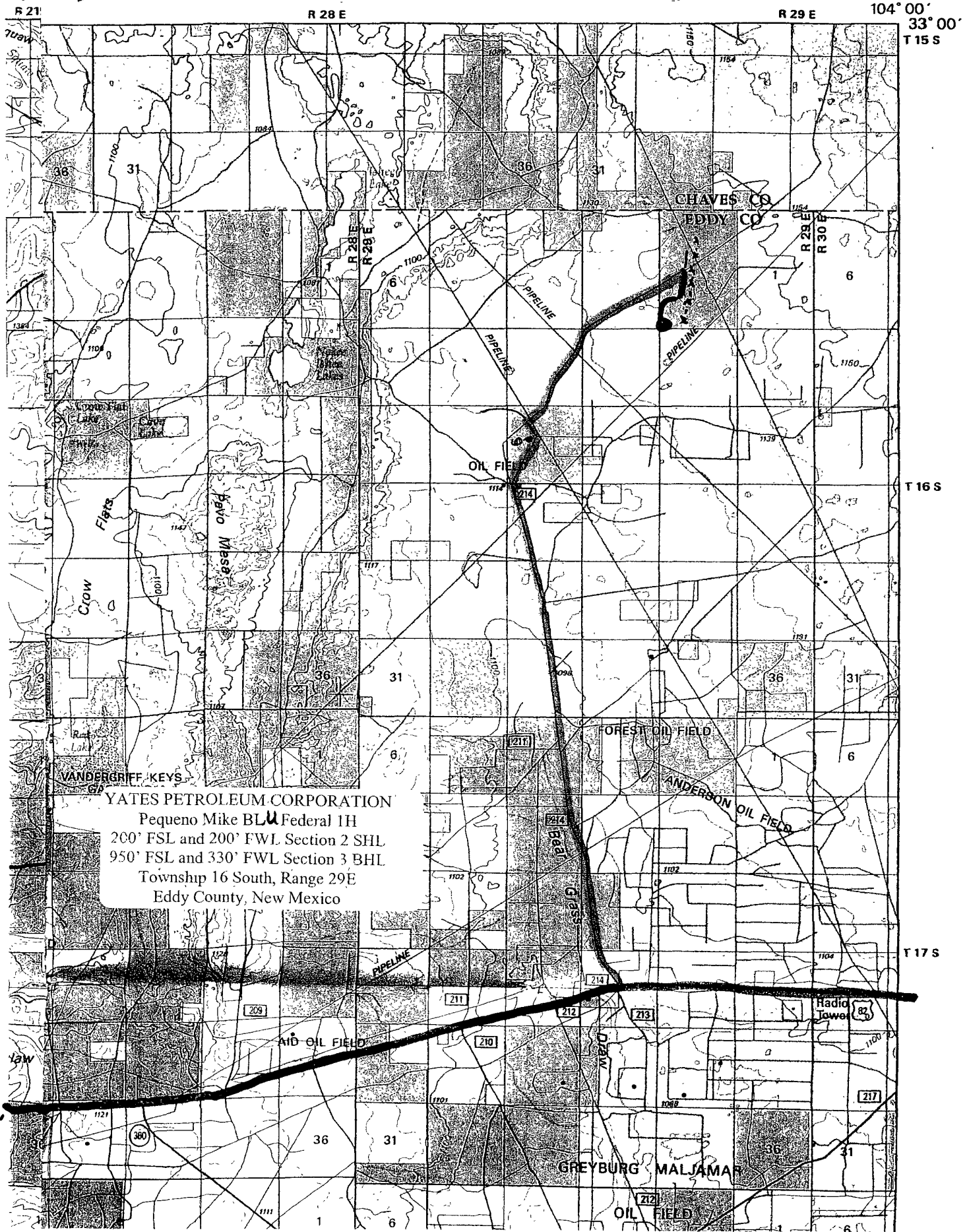
Basin Surveys

BOTTOM HOLE LOCATION
Lat - N32°56'45.87"
Long - W104°04'12.61"
SPC- N.: 708017.706
E.: 622066.909
(NAD-83)

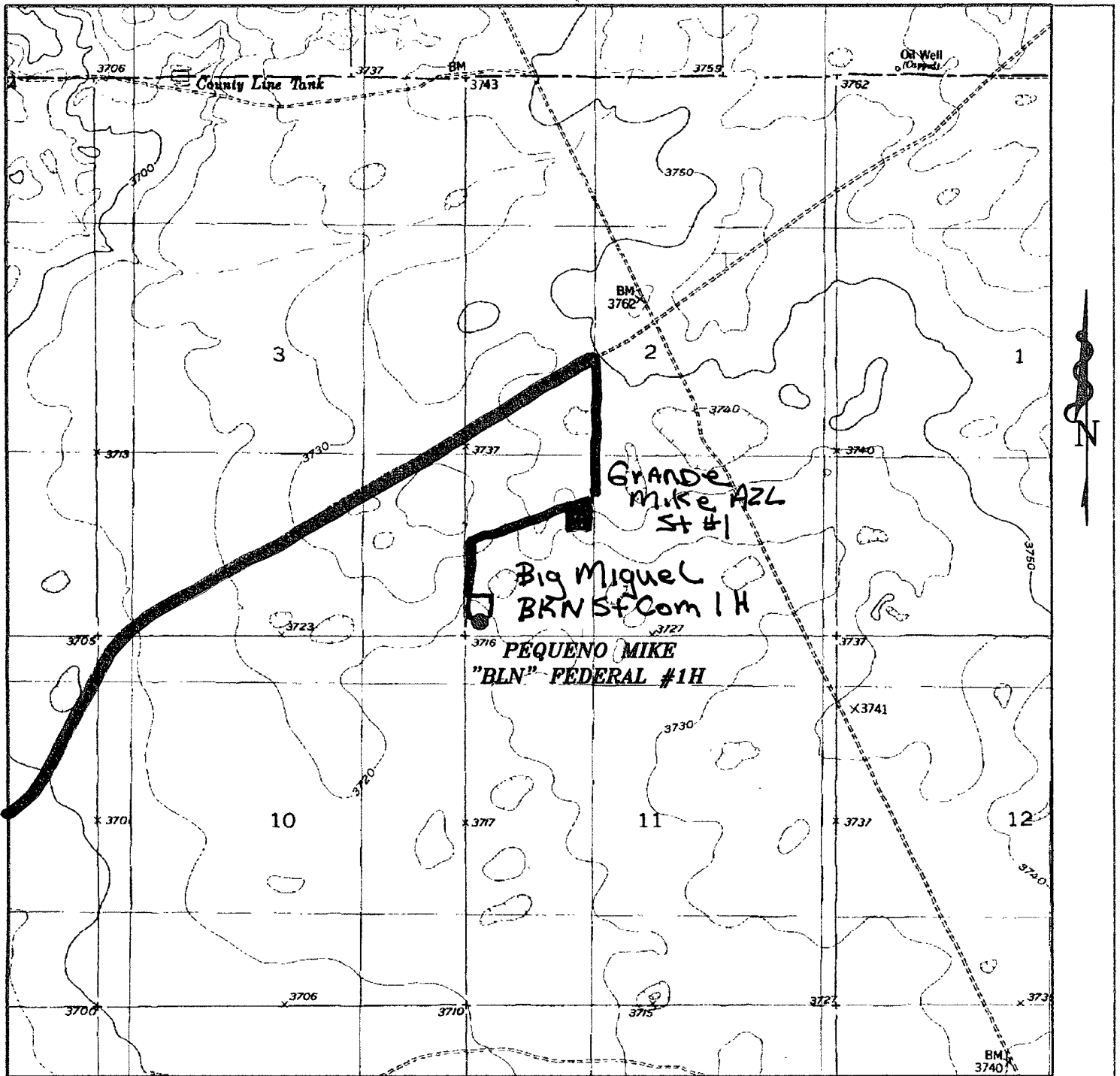
SURFACE LOCATION
Lat - N32°56'38.45"
Long - W104°03'12.37"
SPC- N.: 707281.487
E.: 627201.362
(NAD-83)

30 X 60 MINUTE SER (TOPOGRAPHIC)

(TATUM)



YATES PETROLEUM CORPORATION
Pequeno Mike BLU Federal 1H
200' FSL and 200' FWL Section 2 SHL
950' FSL and 330' FWL Section 3 BHL
Township 16 South, Range 29E
Eddy County, New Mexico



PEQUENO MIKE "BLU" FEDERAL #1H

Located at 200' FSL AND 200' FWL
 Section 2, Township 16 South, Range 29 East,
 N.M.P.M., Eddy County, New Mexico.



focused on excellence
 in the oilfield

P.O. Box 1786
 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (505) 393-7316 - Office
 (505) 392-3074 - Fax
 basinsurveys.com

W.O. Number: 19558T

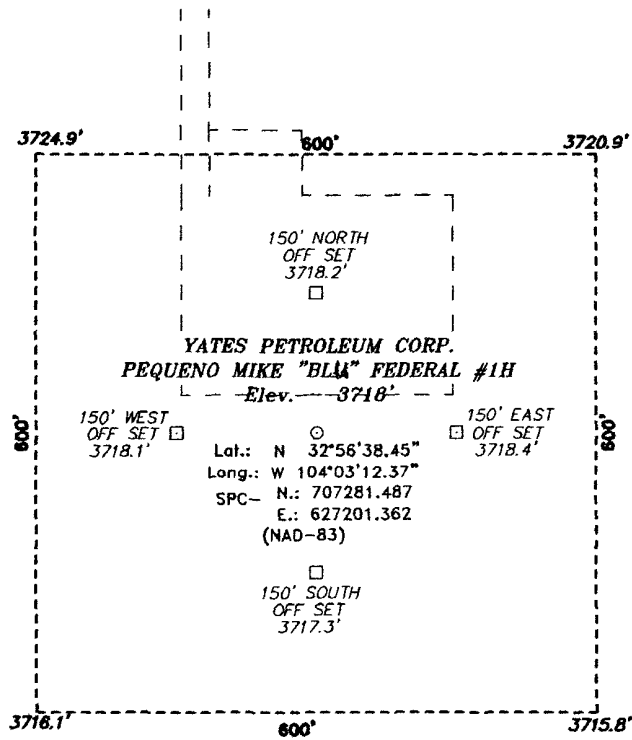
Survey Date: 05-01-2008

Scale: 1" = 2000'

Date: 05-07-2008

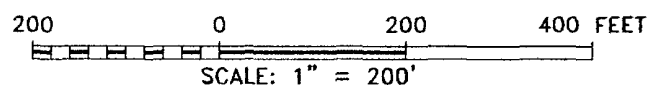
**YATES
 PETROLEUM
 CORP.**

SECTION 2, TOWNSHIP 16 SOUTH, RANGE 29 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.



YATES PETROLEUM CORP.
 PEQUENO MIKE "BLN" FEDERAL #1H

Lat.: N 32°56'38.45"
 Long.: W 104°03'12.37"
 SPC- N.: 707281.487
 E.: 627201.362
 (NAD-83)

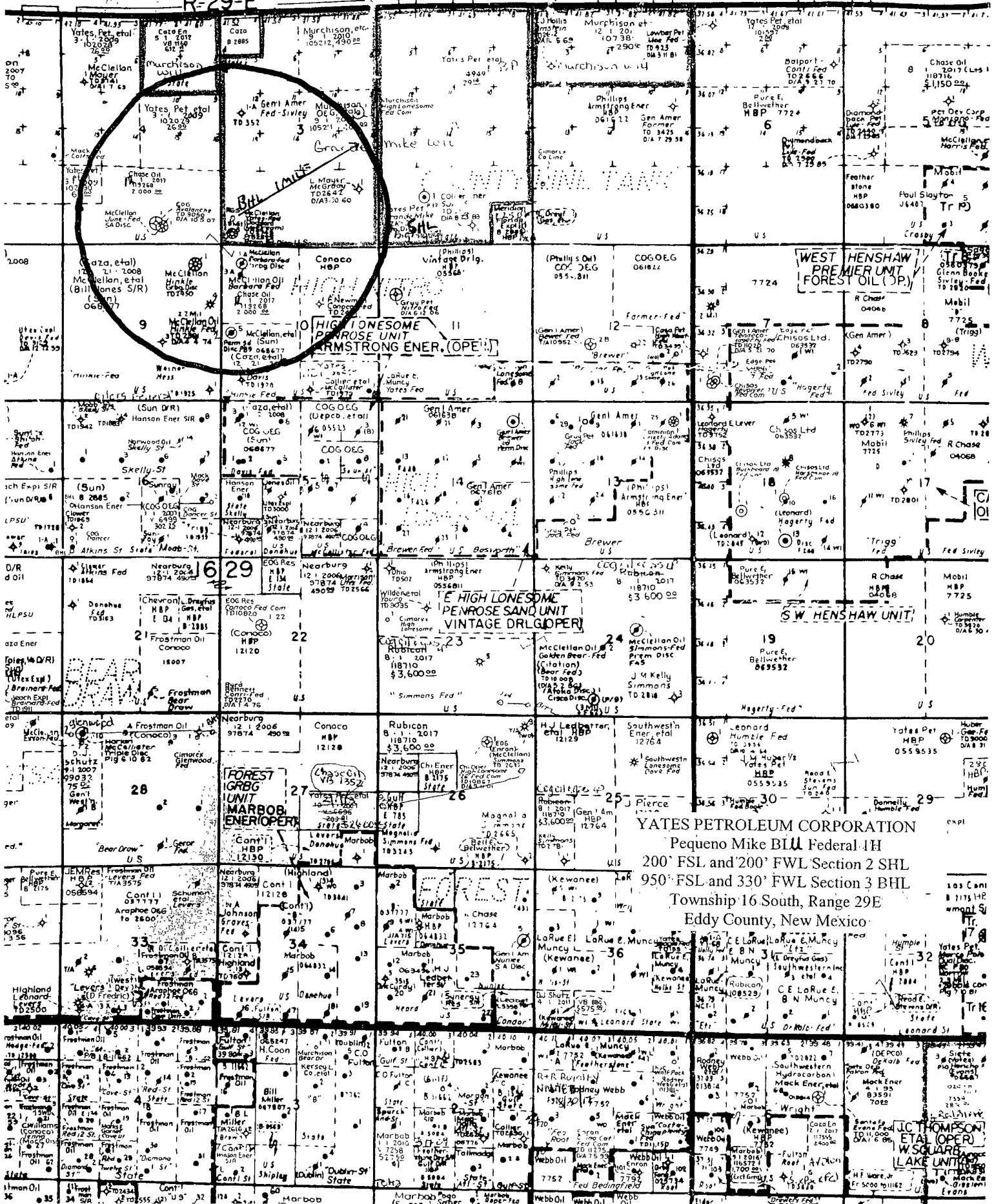


YATES PETROLEUM CORP.	
REF: PEQUENO MIKE "BLN" FEDERAL #1H / WELL PAD TOPO	
THE PEQUENO MIKE "BLN" FEDERAL #1H LOCATED 200' FROM THE SOUTH LINE AND 200' FROM THE WEST LINE OF SECTION 2, TOWNSHIP 19 SOUTH, RANGE 29 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.	

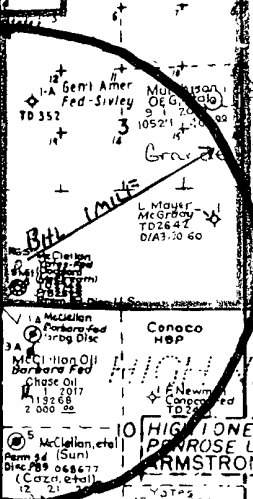
BASIN SURVEYS P.O. BOX 1786--HOBBS, NEW MEXICO

W.O. Number: 19558	Drawn By: J. M. SMALL	Survey Date: 05-01-2008	Sheet 1 of 1 Sheets
Date: 05-07-2008	Disk: 19558W JMS		

R-29-E



YATES PETROLEUM CORPORATION
 Pequeno Mike BLU Federal 1H
 200' FSL and 200' FWL Section 2 SHL
 950' FSL and 330' FWL Section 3 BHL
 Township 16 South, Range 29E
 Eddy County, New Mexico



HIGH LONESOME
 PENROSE UNIT
 ARMSTRONG ENER. (OPEN)

E HIGH LONESOME
 PENROSE SAND UNIT
 VINTAGE DRG OPPER

WEST HENSHAW
 PREMIER UNIT
 FOREST OIL (OP)

S.W. HENSHAW UNIT

FOREST
 UNIT
 MARBOB
 ENER (OPEN)

FOREST
 UNIT

YATES PETROLEUM CORPORATION
 Pequeno Mike BLU Federal 1H
 200' FSL and 200' FWL Section 2 SHL
 950' FSL and 330' FWL Section 3 BHL
 Township 16 South, Range 29E
 Eddy County, New Mexico

J.C. TAYLOR
 ETAL (OPEN)
 W. SQUARE
 LAKE UNIT

YATES PETROLEUM CORPORATION
Pequeno Mike BLU Federal #1H
 200' FSL and 200' FWL, Section 2 (Surface Hole Location)
 950' FSL and 330' FWL, Section 3 (Bottom Hole Location)
 T16S-R29E
 Eddy County, New Mexico

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

Yates	988'	No Pay	Glorieta	4004'	No Pay
Seven Rivers	1206'	No Pay	Tubb	5286'	No Pay
Queen	1718'	No Pay	ABO	6000'	No Pay
Grayburg	2133'	No Pay	Top of Pay	7569'	Oil Pay
San Andres	2500'	No Pay	TMD	12227'	Oil Pay

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

Water: 100'
 Oil or Gas: Wolfcamp 7569'

3. Pressure Control Equipment: BOPE will be installed on the 8 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>
14 3/4"	11 3/4"	42#	H-40	ST&C	0-400'	400'
11"	8 5/8"	32#	J-55	ST&C	0-100'	100'
11"	8 5/8"	24#	J-55	ST&C	100-2200'	2100'
11"	8 5/8"	32#	J-55	ST&C	2200-2600'	400'
7 7/8"	5 1/2"	17#	HCP-110	LT&C	0-12227'	12227' TMD.

Well will be kicked off at approximately 6759' at 12.39 degrees per 100' with a 7 7/8" hole to 12,227' MD with a TVD of 7193' at TD.

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

B. CEMENTING PROGRAM:

Surface Casing: 275 sx "C" + 2% CaCL₂ (WT 14.8 YLD 1.34). TOC-Surface.

Intermediate Casing: 525 sx C Lite (Wt. 12.5 YLD 2.04). Tail in with 200 sx C (WT 14.80 YLD 1.33). TOC-Surface.

Production Casing: TOC 2100', Lead w/ 600 sx Lite "C" (WT 11.6 YLD 2.43) Tail in 1425 sx Class "C" (WT 13.5 YLD 1.46).

5. Mud Program and Auxiliary Equipment:

Interval	Type	Weight	Viscosity	Fluid Loss
0 to 400'	FW Gel	8.6-9.0	32-34	N/C
400'-2600'	Brine Water	10.0-10.0	28-28	N/C
2600'-6000'	Cut Brine	8.7-9.2	28-28	N/C
6000'-6759'	Cut Brine	8.7-9.2	28-28	<10-15cc
6759'-12227'	Cut Brine	8.7-9.2	28-28	<10-12cc

(Lateral Section)

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: Horizontal MWD/GR.

Coring: None anticipated.

DST's: None anticipated.

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

Anticipated BHP:

From: 0 TO 400' TVD	Anticipated Max. BHP: 190	PSI
From: 400' TO 2600' TVD	Anticipated Max. BHP: 1010	PSI
From: 2600' TO 7280' TVD	Anticipated Max. BHP: 3455	PSI

Well will be kicked off at approximately 6759' at 12.39 degrees per 100' with a 7 7/8" hole to 12227' MD with a TVD of 7193' at TD.

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: None

H₂S Zones Anticipated: None

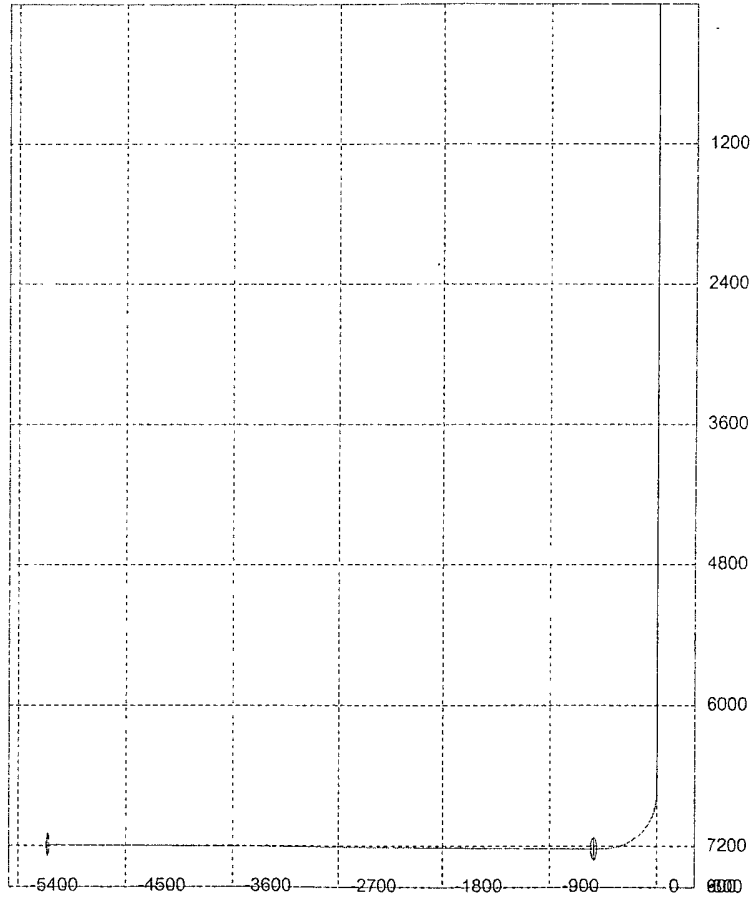
Maximum Bottom Hole Temperature: 120° F

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 45 days to drill the well with completion taking another 30 days.

3D³ Directional Drilling Planner - 3D View

Company: Yates Petroleum Corporation
Well: Pequeno Mike BLU Federal #1H

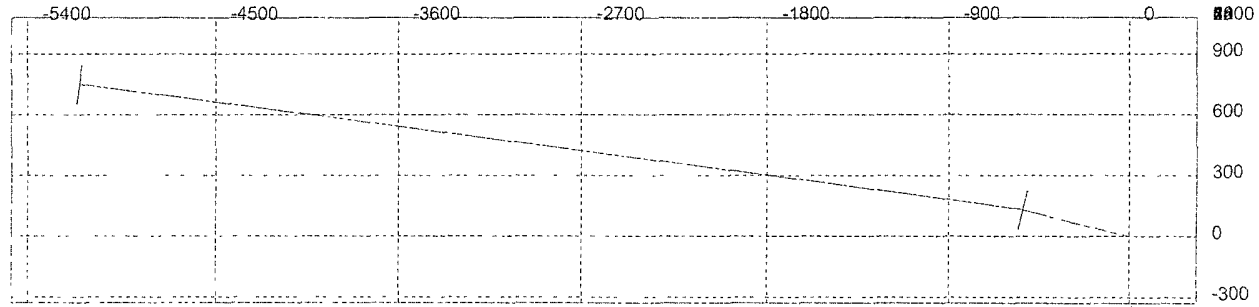


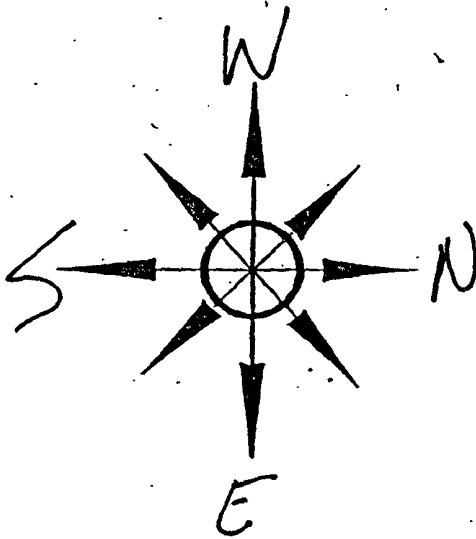
MD	Inclination	Azimuth	TVD	N/S	E/W	D/S	ToolFace	T.F. Ref	HS/GN
0	0	0	0	0	0	0			
988	0	0	988	0	0	0			YATES
1,206	0	0	1,206	0	0	0			SEVEN RIVERS
1,718	0	0	1,718	0	0	0			QUEEN
2,133	0	0	2,133	0	0	0			GRAYBURG
2,500	0	0	2,500	0	0	0			SAN ANDRES
4,004	0	0	4,004	0	0	0			GLORIETA
5,286	0	0	5,286	0	0	0			TUBB
6,000	0	0	6,000	0	0	0			ABO
6759	0	0	6759	0	0	12.39	284		GN
6775	1.98	283.78	6775	0.07	-0.27	12.39	0		HS
6800	5.08	283.78	6799.95	0.43	-1.76	12.39	0		HS
6825	8.18	283.78	6824.78	1.12	-4.57	12.39	0		HS
6850	11.27	283.78	6849.41	2.13	-8.67	12.39	0		HS
6875	14.37	283.78	6873.79	3.45	-14.06	12.39	360		HS
6900	17.47	283.78	6897.83	5.08	-20.72	12.39	360		HS
6925	20.57	283.78	6921.46	7.02	-28.63	12.39	0		HS
6950	23.66	283.78	6944.62	9.26	-37.77	12.39	0		HS
6975	26.76	283.78	6967.23	11.8	-48.11	12.39	0		HS
7000	29.86	283.78	6989.24	14.62	-59.62	12.39	0		HS
7025	32.96	283.78	7010.57	17.73	-72.27	12.39	0		HS
7050	36.05	283.78	7031.17	21.1	-86.03	12.39	0		HS
7075	39.15	283.78	7050.98	24.73	-100.84	12.39	0		HS
7100	42.25	283.78	7069.93	28.62	-116.67	12.39	360		HS
7125	45.35	283.78	7087.97	32.74	-133.48	12.39	0		HS
7150	48.44	283.78	7105.05	37.09	-151.2	12.39	360		HS
7175	51.54	283.78	7121.12	41.65	-169.8	12.39	0		HS
7200	54.64	283.78	7136.13	46.41	-189.21	12.39	0		HS
7225	57.74	283.78	7150.04	51.36	-209.38	12.39	0		HS
7250	60.83	283.78	7162.81	56.48	-230.25	12.39	0		HS
7275	63.93	283.78	7174.4	61.75	-251.76	12.39	360		HS
7300	67.03	283.78	7184.77	67.17	-273.85	12.39	0		HS
7325	70.13	283.78	7193.9	72.71	-296.45	12.39	0		HS
7350	73.22	283.78	7201.76	78.37	-319.5	12.39	0		HS
7375	76.32	283.78	7208.32	84.11	-342.92	12.39	0		HS
7400	79.42	283.78	7213.57	89.94	-366.66	12.39	0		HS
7425	82.52	283.78	7217.5	95.82	-390.63	12.39	0		HS
7450	85.61	283.78	7220.08	101.74	-414.78	12.39	0		HS
7475	88.71	283.78	7221.32	107.69	-439.03	12.39	0		HS
7482.32	89.62	283.78	7221.43	109.43	-446.14	0			
7568.67	89.62	283.78	7222	130	-530	0			Top of Pay
7568.67	89.62	283.78	7222	130	-530	12	277		HS
7575	89.71	283.03	7222.04	131.47	-536.16	12	277		HS
7600	90.07	280.05	7222.09	136.47	-560.65	12	277		HS
7620.48	90.36	277.61	7222.01	139.61	-580.88	0			
12230.28	90.36	277.61	7193	750	-5150	0			Lateral TD

Well will be kicked off at approx. 6759' at 12.39 degrees per 100' with a 7 7/8" hole to 12,230' MD with a TVD of 7,193' at TD.

3D³ Directional Drilling Planner - 3D View

Company: Yates Petroleum Corporation
Well: Pequeno Mike BLU Federal #1H





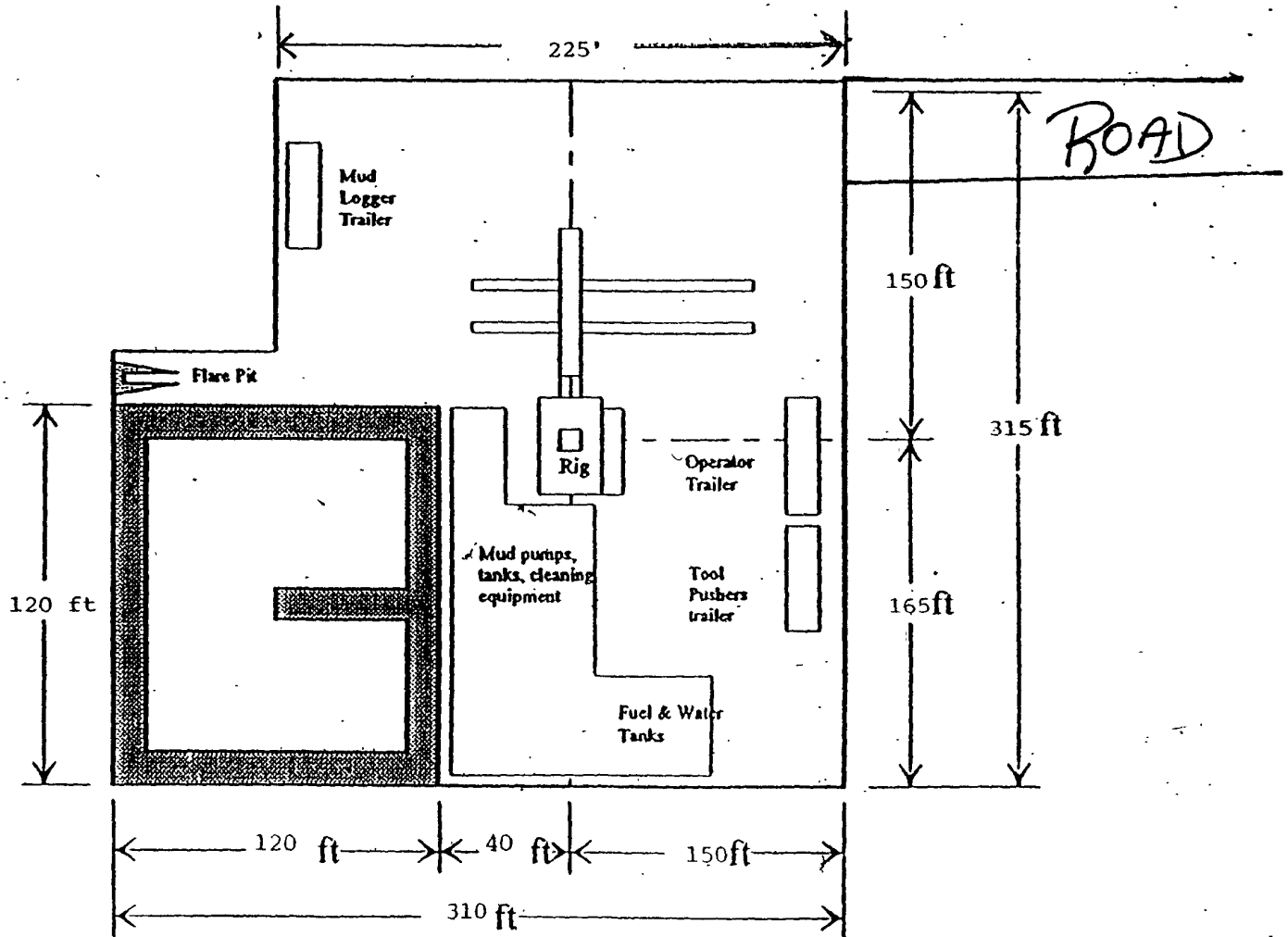
Yates Petroleum Corporation

PB - L1

Location Layout for Permian Basin
Up to 12,000'

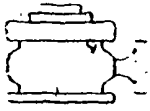
Pits South

YATES PETROLEUM CORPORATION
Pequeno Mike BLU Federal 1H
200' FSL and 200' FWL Section 2 SHL
950' FSL and 330' FWL Section 3 BHL
Township 16 South, Range 29E
Eddy County, New Mexico



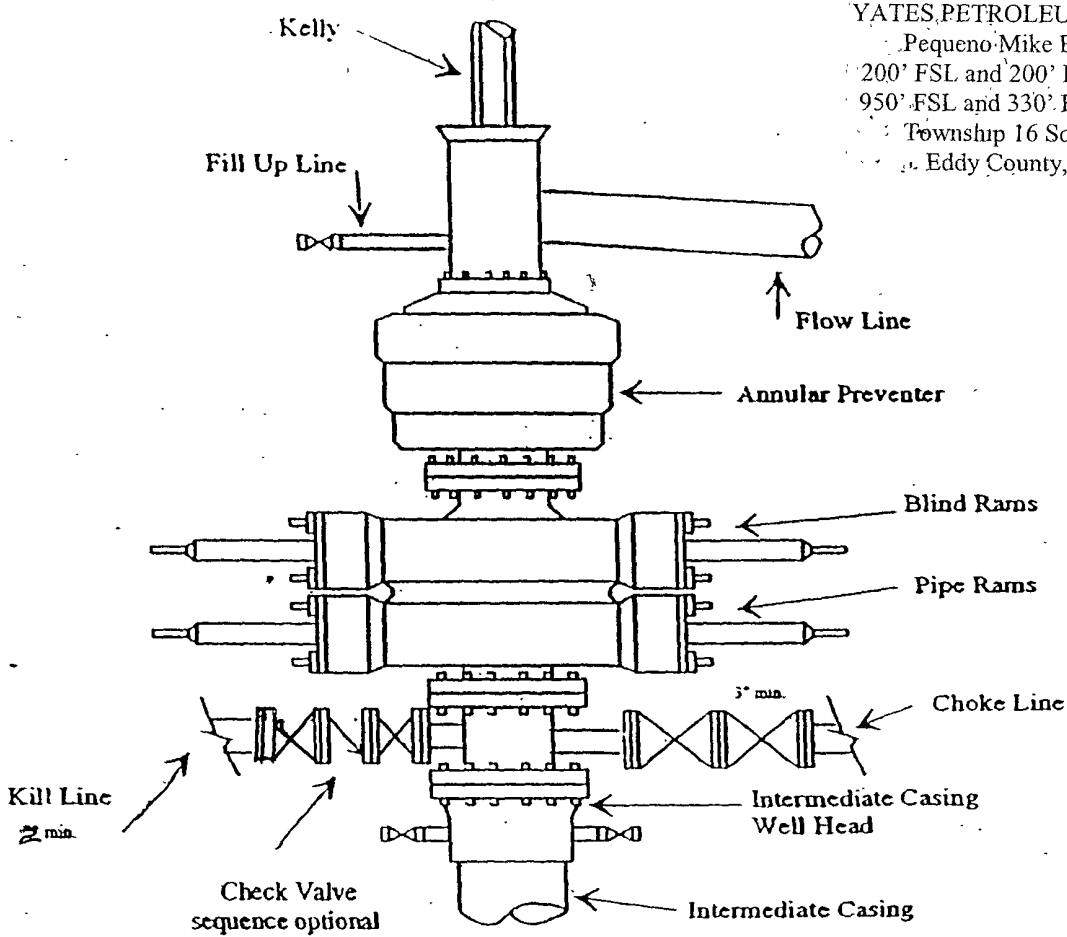
Distance from Well Head to Reserve Pit will vary between rigs

The above dimension should be a maximum



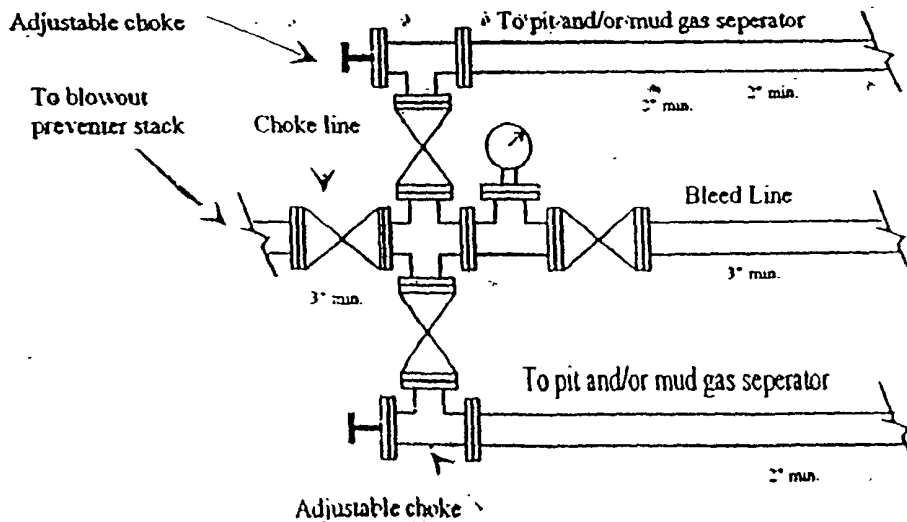
Yates Petroleum Corporation
Typical 3,000 psi Pressure System
Schematic
Annular with Double Ram Preventer Stack

BOP-3



YATES PETROLEUM CORPORATION
 Pequeno-Mike BLU Federal 1H
 200' FSL and 200' FWL Section 2 SHL
 950' FSL and 330' FWL Section 3 BHL
 Township 16 South, Range 29E
 Eddy County, New Mexico

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



MULTI-POINT SURFACE USE AND OPERATIONS PLAN
Yates Petroleum Corporation
Pequeno Mike BLU Federal Com. #1H
200' FSL and 200' FWL, Section 2 (Surface Hole Location)
950' FSL and 330' FWL, Section 3 (Bottom Hole Location)
T16S-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 well site is located approximately 34 miles northeast of Artesia, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go east of Artesia, NM on highway 82 for approximately 23 miles to Barnaval Draw Road, CR-214. (across from the Arrow Gas storage site). Turn left on Barnaval Draw Road and go north for approximately 6.3 miles. At this point the road will fork. Take the right fork and go about 0.6 of a mile. Turn left and go about 0.2 of a mile. Turn right here and go about 2.8 miles on lease road. The road will come to a fence and make a "T". Turn right here and go about 0.5 of a mile Grande Mike AZK Federal #1 well. Follow the road from the northwest corner of the Grande Mike AZK #1 well pad going west and south for about 0.5 of a mile to the Big Miguel BKN St. Com. #1 and this well pad.

2. PLANNED ACCESS ROAD:

This well will share the pad with the Big Miguel BKN State Com. #1H well. .

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 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.

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 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 within 90 days after abandonment.

11. SURFACE OWNERSHIP: State Surface leased to Bogle Limited Company, Dexter, NM,
(575) 734-5442.

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.
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CERTIFICATION
YATES PETROLEUM CORPORATION
Pequeno Mike BLN Federal 1H

I hereby certify that I, or someone under my direct supervision, have inspected the drill site and access route proposed herein; that I am familiar with the conditions which currently exist; and an someone under employment of Yates Petroleum Corporation has full knowledge of state and federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C. 1001 for the filing of false statements.

Executed this 15th day of May 2008

Signature 

Name Cy Cowan

Position Title Regulatory Agent

Address 105 South Fourth Street, Artesia, New Mexico 88210

Telephone (505) 748-4372

Field Representative (if not above signatory) Tim Bussell, Drilling Supervisor

Address (if different from above) Same as above.

Telephone (if different from above) (505) 748-4221

E-mail (optional) _____

PECOS DISTRICT CONDITIONS OF APPROVAL

OPERATOR'S NAME:	Yates Petroleum Corporation
LEASE NO.:	NM105211
WELL NAME & NO.:	Pequeno Mike BLU Federal 1H
SURFACE HOLE FOOTAGE:	200' FSL & 200' FWL, Sec. 2, T16S-R29E
BOTTOM HOLE FOOTAGE:	950' FSL & 330' FWL
LOCATION:	Section 3, T. 16 S., R 29 E., NMPM
COUNTY:	Eddy County, New Mexico

TABLE OF CONTENTS

Standard Conditions of Approval (COA) apply to this APD. If any deviations to these standards exist or special COAs are required, the section with the deviation or requirement will be checked below.

- General Provisions**
- Permit Expiration**
- Archaeology, Paleontology, and Historical Sites**
- Noxious Weeds**
- Special Requirements**
- Construction**
 - Notification
 - Topsoil
 - Reserve Pit
 - Federal Mineral Material Pits
 - Well Pads
 - Roads
- Road Section Diagram**
- Drilling**
- Production (Post Drilling)**
 - Well Structures & Facilities
- Reserve Pit Closure/Interim Reclamation**
- Final Abandonment/Reclamation**

I. GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

II. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD. (Filing of a Sundry Notice is required for this 60 day extension.)

III. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or paleontological resources may result in a shutdown order by the Authorized Officer.

IV. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations. Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

CONSTRUCTION

A. NOTIFICATION

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Carlsbad Field Office at (505) 234-5972 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved APD and Conditions of Approval (COA) made available upon request by the Authorized Officer. NOTE: NEW PIT RULE 19.15.17 NMAC.

B. TOPSOIL

Drilling pit must be constructed, operated and closed per above new rule.

The operator shall stockpile the topsoil of the well pad. The topsoil to be stripped is approximately 6 inches in depth. The topsoil shall not be used to backfill the reserve pit and will be used for interim and final reclamation.

RESERVE PITS

The reserve pit shall be constructed and closed in accordance with the NMOCD rules.

The reserve pit shall be constructed 120' X 120' on the South side of the well pad.

The reserve pit shall be constructed, so that upon completion of drilling operations, the dried pit contents shall be buried a minimum depth of three feet below ground level. Should the pit content level not meet the three foot minimum depth requirement, the excess contents shall be removed until the required minimum depth of three feet below ground level has been met. The operator shall properly dispose of the excess contents at an authorized disposal site.

The reserve pit shall be constructed and maintained so that runoff water from outside the location is not allowed to enter the pit. The berms surrounding the entire perimeter of the pit shall extend a minimum of two (2) feet above ground level. At no time will standing fluids in the pit be allowed to rise above ground level.

The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.

C. FEDERAL MINERAL MATERIALS PIT

If the operator elects to surface the access road and/or well pad, mineral materials extracted during construction of the reserve pit may be used for surfacing the well pad and access road and other facilities on the lease.

Payment shall be made to the BLM prior to removal of any additional federal mineral materials from any site other than the reserve pit. Call the Carlsbad Field Office at (505) 234-5972.

D. WELL PAD SURFACING

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational needs.

V. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

The BLM is to be notified a minimum of **4 hours** in advance for a representative to witness:

- a. Spudding well
- b. Setting and/or Cementing of all casing strings
- c. BOP/BOPE tests

Eddy County

Call the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220,
(575) 361-2822

1. **Although Hydrogen Sulfide has not been reported in this section, it is always a potential hazard. If Hydrogen Sulfide is encountered, please report measured amounts and formations to the BLM.**
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. Floor controls are required for 3M or Greater systems. These controls will be on the rig floor, unobstructed, readily accessible to the driller and will be operational at all times during drilling and/or completion activities. Rig floor is defined as the area immediately around the rotary table; the area immediately above the substructure on which the draw works are located, this does not include the dog house or stairway area.

B. CASING

Changes to the approved APD casing and cement program require submitting a sundry and receiving approval prior to work. Failure to obtain approval prior to work will result in an Incident of Non-Compliance being issued.

Centralizers required on surface casing as per Onshore Order 2.III.B.1.f

Provide compressive strengths including hours to reach required 500 pounds compressive strength prior to cementing each casing string.

No pea gravel permitted for remedial or fall back remedial without prior authorization from the BLM engineer

**Possible lost circulation in Grayburg & San Andres Formations
Possible H2O flows in Salado and Artesia Group**

1. The 11-3/4 inch surface casing shall be set at approximately 400 feet (a minimum of 25 feet into the Rustler Anhydrite and above the salt) and cemented to the surface. **Should the salt be penetrated set surface casing 25 feet above the top of the salt.**
 - a. If cement does not circulate to the surface, the appropriate BLM office shall be notified and a temperature survey utilizing an electronic type temperature survey with surface log readout will be used or a cement bond log shall be run to verify the top of the cement.
 - b. Wait on cement (WOC) time for a primary cement job will be a minimum 18 hours for a water basin, 24 hours in the potash area, or 500 pounds compressive strength, whichever is greater. (This is to include the lead cement).
 - c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compressive strength, whichever is greater.
 - d. If cement falls back, remedial cementing will be done prior to drilling out that string.
2. The minimum required fill of cement behind the 8-5/8 inch intermediate casing is:
 Cement to surface. If cement does not circulate see B.1.a-d above.

Formation below the 8-5/8" shoe to be tested according to Onshore Order 2.III.B.1.i.

Centralizers required on horizontal leg, must be type for horizontal service and minimum of one every other joint

3. The minimum required fill of cement behind the 5-1/2 inch production casing is:
 Cement should tie-back at least 200 feet into previous casing string. **Operator shall provide method of verification.**
4. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

C. PRESSURE CONTROL

1. All blowout preventer (BOP) and related equipment (BOPE) shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2 and API RP 53 Sec. 17.
2. The appropriate BLM office shall be notified a minimum of **4 hours** in advance for a representative to witness the tests.
 - a. The tests shall be done by an independent service company.
 - b. The results of the test shall be reported to the appropriate BLM office.
 - c. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the appropriate BLM office.
 - d. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.
 - e. BOP/BOPE must be tested by an independent service company within 500 feet of the top of the Wolfcamp formation if the time between the setting of the intermediate casing and reaching this depth exceeds 20 days. This test does not exclude the test prior to drilling out the casing shoe as per Onshore Order No. 2.

D. 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.

E. DRILL STEM TEST

If drill stem tests are performed, Onshore Order 2.III.D shall be followed.

LB 6/9/08

VI. PRODUCTION (POST DRILLING)

A. WELL STRUCTURES & FACILITIES

Placement of Production Facilities

Production facilities should be placed on the well pad to allow for maximum interim recontouring and revegetation of the well location.

Containment Structures

The containment structure shall be constructed to hold the capacity of the entire contents of the largest tank, plus 24 hour production, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a flat non-reflective paint color
Shale Green, Munsell Soil Color Chart # 5Y 4/2

VII. INTERIM RECLAMATION & RESERVE PIT CLOSURE

A. INTERIM RECLAMATION

If the well is a producer, interim reclamation shall be conducted on the well site in accordance with the orders of the Authorized Officer. The operator shall submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

During the life of the development, all disturbed areas not needed for active support of production operations should undergo interim reclamation in order to minimize the environmental impacts of development on other resources and uses.

At the time reserve pits are to be reclaimed, operators should work with BLM surface management specialists to devise the best strategies to reduce the size of the location. Any reductions should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche may be used for road repairs, fire walls or for building other roads and locations. In order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing revegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be revegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

B. RESERVE PIT CLOSURE

The reserve pit, when dried and closed, shall be recontoured, all trash removed, and reseeded as follows.

Seed Mixture 1, for Loamy Sites

The holder shall seed all disturbed areas with the seed mixture listed below. The seed mixture shall be planted in the amounts specified in pounds of pure live seed (PLS)* per acre. There shall be no primary or secondary noxious weeds in the seed mixture. Seed will be tested and the viability testing of seed will be done in accordance with State law(s) and within nine (9) months prior to purchase. Commercial seed will be either certified or registered seed. The seed container will be tagged in accordance with State law(s) and available for inspection by the authorized officer.

Seed will be planted using a drill equipped with a depth regulator to ensure proper depth regulator to ensure proper depth of planting where drilling is possible. The seed mixture will be evenly and uniformly planted over the disturbed area (small/heavier seeds have a tendency to drop the bottom of the drill and are planted first). The holder shall take appropriate measures to ensure this does not occur. Where drilling is not possible, seed will be broadcast and the area shall be raked or chained to cover the seed. When broadcasting the seed, the pounds per acre are to be doubled. The seeding will be repeated until a satisfactory stand is established as determined by the authorized officer. Evaluation of growth will not be made before completion of at least one full growing season after seeding.

Species to be planted in pounds of pure live seed* per acre:

<u>Species</u>	<u>lb/acre</u>
Plains lovegrass (<i>Eragrostis intermedia</i>)	0.5
Sand dropseed (<i>Sporobolus cryptandrus</i>)	1.0
Sideoats grama (<i>Bouteloua curtipendula</i>)	5.0

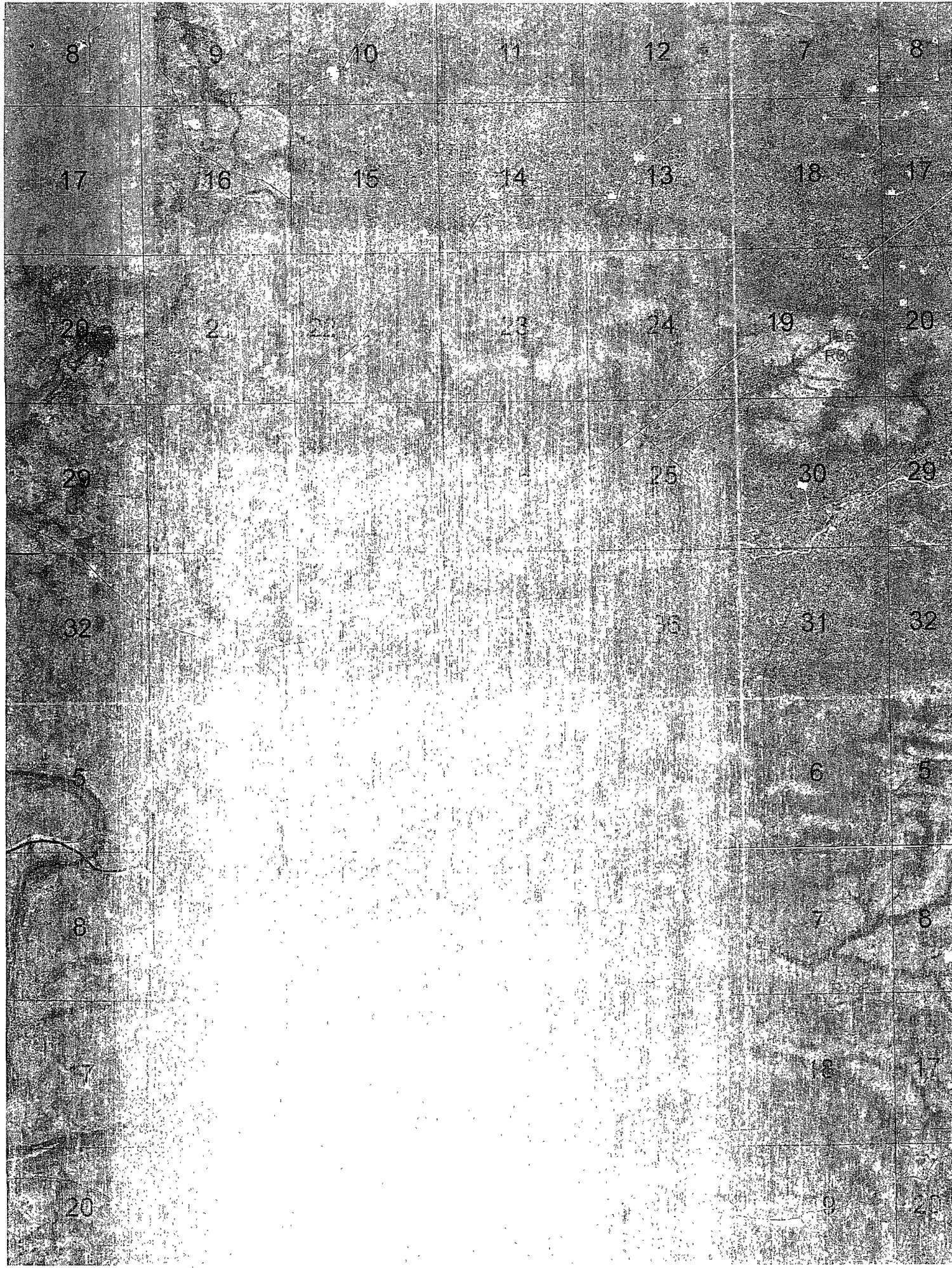
*Pounds of pure live seed:

Pounds of seed x percent purity x percent germination = pounds pure live seed
(Insert Seed Mixture Here)

X. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

Upon abandonment of the well and/or when the access road is no longer in service the Authorized Officer shall issue instructions and/or orders for surface reclamation and restoration of all disturbed areas.

On private surface/federal mineral estate land the reclamation procedures on the road and well pad shall be accomplished in accordance with the private surface land owner agreement.



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