

30-005-29172

**PECOS DISTRICT - RFO
CONDITIONS OF APPROVAL**

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January 11, 2011

OPERATORS NAME: Yates Petroleum Corporation
LEASE NO.: NM-105888
WELL NAME & NO: Scooter BPS Federal #1H
SURFACE HOLE FOOTAGE: 770' FNL & 200' FEL,
BOTTOM HOLE LOCATION: 360' FNL & 330' FWL,
LOCATION: Section 28, T. 15 S., R. 31 E.,
COUNTY: Chaves

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.

If, during any phase of the construction, operation, maintenance, or termination of the authorization, any oil or other pollutant should be discharged, impacting Federal land, the control and total removal, disposal, and cleaning up of such oil or other pollutant, wherever found, shall be the responsibility of the operator, regardless of fault. Upon failure of the operator to control, dispose of, or clean up such discharge on or affecting Federal land, or to repair all damages to Federal land resulting therefrom, the authorized officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the operator. Such action by the authorized officer shall not relieve the holder of any liability or responsibility.

As stated in 43 CFR 3162.3-2, at no time does the issuance of this APD imply permission to conduct any associated activities off the approved pad area. All surface disturbing activities associated with the drilling of these wells will be restricted to the approved areas

I. 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).

II. 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.

III. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations (access road and/or well pad). 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.

IV. CONSTRUCTION

A. NOTIFICATION:

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Roswell Field Office at (575) 627-0272 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 Application for Permit to Drill and Conditions of Approval on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL:

The topsoil will be stripped to approximately 6 inches in depth within the area designated for construction of the well pad. The operator shall stockpile the stripped topsoil in shallow rows adjacent to the constructed well pad. The topsoil will be used for interim and final reclamation of the surface disturbance created by the construction of the well pad. The topsoil will not be used to construct the containment structure or earthen dike that is constructed and maintained on the outside boundaries of the constructed well pad.

C. CLOSED LOOP SYSTEMS: No reserve pit will be used.

Steel tanks will be used in lieu of reserve pits. The operator shall properly dispose of drilling contents at an authorized disposal site.

D. FEDERAL MINERAL MATERIALS PIT:

Payment shall be made to the BLM prior to removal of any federal mineral materials from any site. Call the Roswell Field Office at (575) 627-0272.

E. WELL PAD SURFACING:

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material will 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 need.

F. ON LEASE ACCESS ROADS:

Road Egress and Ingress

The on lease access road shall be constructed to access the southwest corner of the well pad.

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material will be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

Crowning

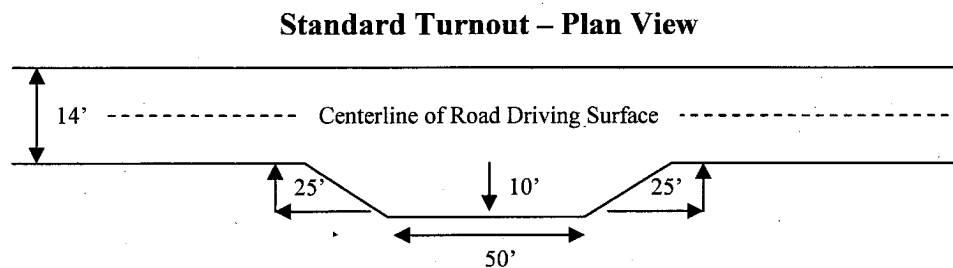
Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Ditching

Ditching shall be required on both sides of the road.

Turnouts

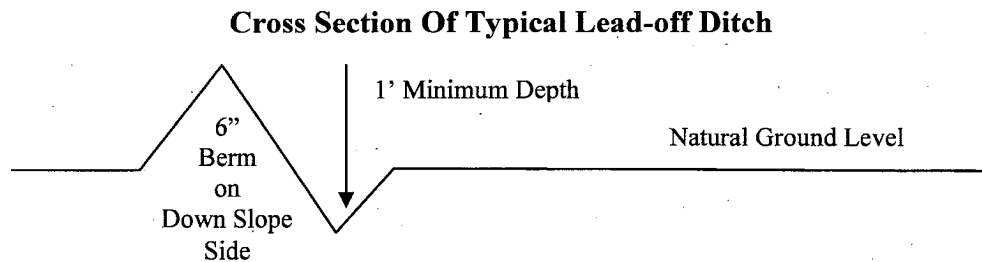
Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:



Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outsloping and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula For Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4\%} + 100' = 200' \text{ lead-off ditch interval}$$

Culvert Installations

Appropriately sized culvert(s) shall be installed at any deep waterway channel flow crossing.

Cattleguards

An appropriately sized cattleguard(s) sufficient to carry out the project shall be installed and maintained at fence crossing(s).

Any existing cattleguard(s) on the access road shall be repaired or replaced if they are damaged or have deteriorated beyond practical use. The operator shall be responsible for the condition of the existing cattleguard(s) that are in place and are utilized during lease operations. Gates or cattlegaurds on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the authorized officer.

A gate shall be constructed and fastened securely to H-braces.

Fence Requirement

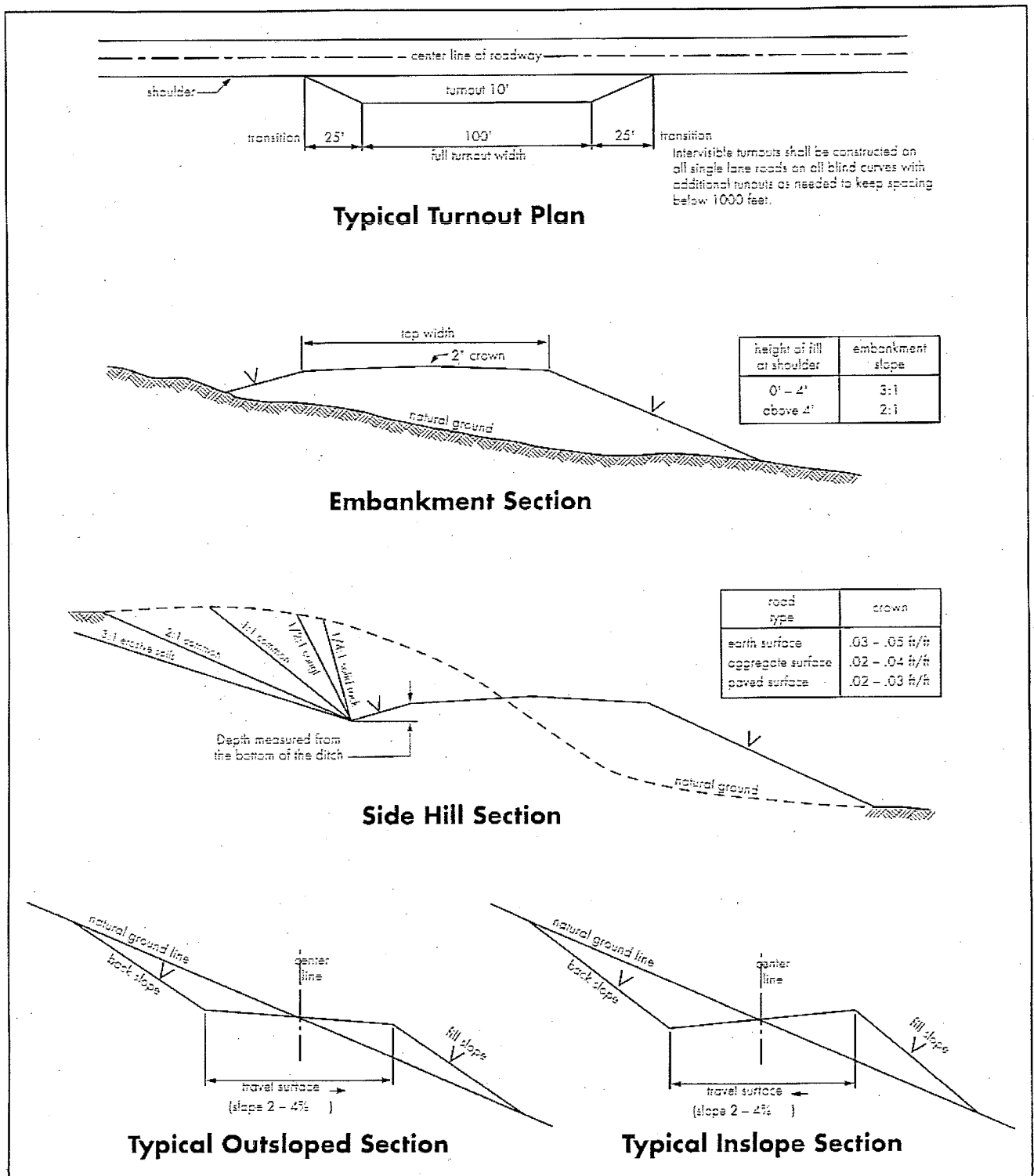
Where entry is required across a fence line, the fence shall be braced and tied off on both sides of the passageway prior to cutting.

The operator shall notify the private surface landowner or the grazing allotment holder prior to crossing any fence(s).

Public Access

Public access along this road will not be restricted by the holder without specific written approval being granted by the authorized officer. Gates or cattlegaurds on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the authorized officer.

Figure 1 – Cross Sections and Plans For Typical Road Sections



PECOS DISTRICT CONDITIONS OF APPROVAL

| | |
|------------------------------|---|
| OPERATOR'S NAME: | Yates Petroleum Corporation |
| LEASE NO.: | NM-105888 |
| WELL NAME & NO.: | Scooter BPS Federal No. 1H |
| SURFACE HOLE FOOTAGE: | 770' FNL & 200' FEL, |
| BOTTOM HOLE FOOTAGE | 360' FNL & 330' FWL, |
| LOCATION: | Section 28, T. 15 S., R. 31 E., NMPM |
| COUNTY: | Chaves County, New Mexico |

V. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

1. Call the Roswell Field Office, 2909 West Second St., Roswell, NM 88201. During office hours call (575) 627-0205. Engineer on call during office hours call (575) 627-0275 or after office hours call (575) 626-5749.
2. The BLM is to be notified a minimum of 24 hours in advance for a representative to witness:
 - a. Spudding well
 - b. Setting and/or Cementing of all casing strings

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

BOPE Tests

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. Include the API Number assigned to well by NMOCD on the subsequent report of setting the first casing string.
5. The operator will accurately measure the drilling rate in ft/min to set the base of the usable water protection casing string(s) opposite competent rock. The record of the drilling rate along with the caliper-gamma ray-neutron well log run to surface will be submitted to this office as well as all other logs run on the borehole 30 days from completion
6. Fresh water mud shall be used to drill to the base of the usable water protection casing string(s). Any polymers used will be water based and non-toxic.

B. CASING

1. The 13 3/8 inch usable water protection casing string shall be set at approximately 425 ft.

in competent bedrock. The deepest usable water in this section occurs at 380' to 410' as seen on the geophysical log of the B.D. Taylor No. 1 well located in the NE $\frac{1}{4}$ NE $\frac{1}{4}$, sec. 28, T. 15 S., R. 31 E., NMPM, Chaves County, New Mexico.

There may be some competent beds between 425 to 480 ft., however porosity maybe high. It appears the best competent zone occurs at 492 to 508 ft. There is another competent bed at 620 ft.. Surface casing may be set in any of in any competent bed below 425' down to 620 ft. interval.

If the bedrock at any of these depths is not competent for cementing the usable water protection casing string the operator will drill to the next thick bedrock (i.e. 15 to 25 ft or greater) encountered that is competent to set the usable water protection string.

Setting surface casing should be witnessed by a PET.

a. If cement does not circulate to the surface, the Roswell Field Office shall be notified and a temperature survey utilizing an electronic type temperature survey with a 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 or 500 pounds compression 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 compression strength, whichever is greater.

d. If cement falls back, remedial action will be done prior to drilling out that string.

2. The minimum required fill of cement behind the 9-5/8 inch intermediate casing is **sufficient to circulate to the surface.** If cement does not circulate see B.1.a-d above.

3. The minimum required fill of cement behind the 7 inch production casing is **sufficient to tie back 200 feet into the 9-5/8 inch intermediate casing set at approximately 4100 feet.** If cement does not circulate, a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.

4. There is no required fill of cement behind the 4-1/2 inch production casing since a Peak Systems Iso-Pak liner will be used for lateral and will not require cementing.

5. 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.

6. All casing shall be new or reconditioned and tested casing and meet API standards for new casing. The use of reconditioned and tested casing shall be subject to approval by the authorized

officer. Approval will be contingent upon the wall thickness of any casing being verified to be at least 87-1/2 per cent of the nominal wall thickness of new casing.

C. PRESSURE CONTROL

1. Before drilling below the 13-3/8 inch surface casing shoe, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve. Before drilling below the 9-5/8 inch intermediate casing shoe, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.
2. Before drilling below the 13-3/8 inch surface casing shoe, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi. Before drilling below the 9-5/8 inch intermediate casing shoe, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 3000 psi.
3. The BOPE shall be installed before drilling below the 13-3/8 inch surface casing and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
 - a. The BLM Roswell Field office shall be notified a minimum of 4 hours in advance for a representative to witness the tests.
 - b. The tests shall be done by an independent service company.
 - c. 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.
 - d. 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 BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.
 - e. 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.
 - f. Testing must be done in a safe workman like manner. Hard line connections shall be required.

D. DRILLING MUD

1. Fresh water and non toxic drilling mud shall be used to drill the 17-1/2 inch hole for the 13-3/8 inch surface casing to be set at 425 feet.

E. SPECIAL STIPULATION FOR FRAC PONDS:

If frac ponds are necessary submit for approval a right-of-way application or sundry notice (Form 3160-5) to the BLM, Roswell Field Office 2902 West Second, Roswell, NM 88201. If frac pond is located on private/State surface and support the enhanced production of federal minerals BLM approval is necessary.

The frac pond will only be authorized to contain freshwater and testing of water quality is required. Additives are not allowed without consent of the authorized officer. If at any time the water in the frac pond becomes polluted with salts or other contaminants, use of the frac pond will cease and desist, and all liquids will be removed from the frac pond and disposed of properly. Mineral materials extracted during construction of the frac pond will be stored on-location and/or used for constructing the frac pond.

VI. PRODUCTION

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, Juniper Green (Standard Environmental Color Chart June 2008).

VII. 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. Earthwork for interim and final reclamation must be completed within 6 months of well completion or well plugging (weather permitting). The operator shall submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

During reclamation, the removal of caliche is important to increasing the success of revegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, 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.

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.

- A. Desired Plant Community seed mixture to be planted in pounds of pure live seed (pls) per acre; no less than 9.0 pounds pls per acre shall be applied:

| <u>Common Name and Preferred Variety</u> | <u>Scientific Name</u> | <u>Pounds of Pure Live Seed Per Acre</u> |
|---|---|--|
| Sideoats grama, var. Vaughn or El Reno | <i>Bouteloua curtipendula</i> | 1.5 |
| Blue grama | <i>Bouteloua gracilis</i> | 0.75 |
| Sand dropseed | <i>Sporobolus cryptandrus</i> | 0.5 |
| Buffalograss | <i>Buchloe dactyloides</i> | 1.75 |
| Winterfat | <i>Ceratoides lanata</i> | 1.25 |
| Apache plume | <i>Fallugia paradoxa</i> | 0.75 |
| Indian blanket flower | <i>Gaillardia aristada</i> | 1.5 |
| Paperflower | <i>Psilostrophe tagentina</i> | 0.5 |
| Desert or Scarlet Globemallow | <i>Sphaeralcea ambigua</i> or <i>S. coccinea</i> | <u>0.5</u> |
| TOTAL POUNDS PURE LIVE SEED PER ACRE Certified Weed Free Seed. | | 9.00 |

If one species is not available Increase ALL others proportionately
No less than 6 species with a minimum of one forb
No less than 9.0 lbs/acre shall be applied

C. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

VIII. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

- Upon abandonment of the well and/or when the access road is no longer in service, a Notice of Intent for Final Abandonment with the proposed surface restoration procedure must be submitted for approval.
- 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 agreements and a copy of the release is to be submitted upon abandonment.

- c) Upon abandonment of the well, all casing shall be cut-off at the base of the cellar or 3-feet below final restored ground level (whichever is deeper). A 4-inch pipe, 10 feet in length, shall be installed 4 feet above ground and embedded in cement. The following information shall be permanently inscribed on the dry hole marker: Well name and number, the name of the operator, the lease serial number, the surveyed location (the quarter-quarter section, section, township and range or other authorized survey designation acceptable to the authorized officer; such as metes and bounds).
- d) d. Surface Reclamation must be completed within 6 months of well plugging. If the operator proposes to modify the plans for surface reclamation approved on the APD, the operator must attach these modifications to the Subsequent Report of Plug and Abandon using Sundry Notices and Reports on Wells, Form 3160-5.

IX. PIPELINE PROTECTION REQUIREMENT

Precautionary measures shall be taken by the operator during construction of the access road to protect existing pipelines that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (2' X 3' X 14'), shall be constructed over existing pipelines. The operator shall be held responsible for any damage to existing pipelines. If the pipeline is ruptured and/or damaged the operator shall immediately cease construction operations and repair the pipeline. The operator shall be held liable for any unsafe construction operations that threaten human life and/or cause the destruction of equipment.

X. WILDLIFE

Netting storage tanks and installation of cones on separator stacks would alleviate losses of wildlife species. Interim reclamation and final rehabilitation through re-vegetation would return to wildlife previous levels.