Form 3160-3
(August 2007)

**New Mexico Oil Conservation Division, District I**
**1625 N. French Drive**
**Hobbs, NM 88240**
**HOBBS OCD**

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

**APPLICATION FOR PERMIT TO DRILL OR REENTER**

NOV 28 2011

RECEIVED

FORM APPROVED
OMB No 1004-0137
Expires July 31, 2010

| | |
|---|---|
| 1a Type of work: [X] DRILL [ ] REENTER | 5 Lease Serial No: NM-03927 |
| | 6 If Indian, Allotee or Tribe Name: |
| | 7 If Unit or CA Agreement, Name and No: R1477 |
| 1b Type of Well: [X] Oil Well [ ] Gas Well [ ] Other [ ] Single Zone [ ] Multiple Zone | 8. Lease Name and Well No.: Drickey Queen Sand Unit #701 (303733) |
| 2. Name of Operator: Celero Energy II, LP (247128) | 9 API Well No.: 30-005-29196 |
| 3a Address: 400 W. Illinois, Ste. 1601 Midland, TX 79701 | 3b Phone No. (include area code): (432)686-1883 |
| | 10 Field and Pool, or Exploratory: Caprock, Queen (8559) |
| 4. Location of Well (Report location clearly and in accordance with any State requirements *)<br>At surface: 11' FSL & 1329 FWL (N)<br>At proposed prod. zone | 11 Sec., T. R. M. or Blk and Survey or Area: (N) Sec 34, T13S, R31E |
| 14 Distance in miles and direction from nearest town or post office* | 12 County or Parish: Chaves; 13 State: NM |

| | | | |
|---|---|---|---|
| 15 Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) | 11' | 16. No. of acres in lease: 1040 | 17. Spacing Unit dedicated to this well: 40 acres |
| 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. | 919' | 19. Proposed Depth: 3115' | 20 BLM/BIA Bond No. on file: B003298 |
| 21 Elevations (Show whether DF, KDB, RT, GL, etc.): 4425' | | 22. Approximate date work will start*: 10/18/2011 | 23. Estimated duration: 7 days |

24. Attachments

ROSWELL CONTROLLED WATER BASIN

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No 1, must 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 must 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 BLM.

| | | |
|---|---|---|
| 25 Signature: Lisa Hunt | Name (Printed/Typed): Lisa Hunt | Date: 08/26/2011 |
| Title: Regulatory Analyst | | |
| Approved by (Signature): /S/ Angel Mayes | Name (Printed/Typed): ANGEL MAYES | Date: 11-23-11 |
| Title: Assistant Field Manager, Lands And Minerals | Office: ROSWELL FIELD OFFICE | APPROVED FOR 2 YEARS |

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.
Conditions of approval, if any, are attached

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Continued on page 2)

*(Instructions on page 2)

DECLARED WATER BASIN

CEMENT BEHIND THE 8 5/8" CASING MUST BE CIRCULATED

WITNESS

APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL STIPULATIONS ATTACHED

DEC 07 2011

EXHIBITS TO FORM 3160-3, Application for Permit to Drill or Reenter

| Exhibit | Description |
|---|---|
| 1 | NMOCD Form C-102 (Plat) |
| 2 | Topographic Map |
| 3 | Vicinity Map and Area Roads |
| 4 | Elevation Plat |
| 5 | Ownership Map with Well Location and Wells within a 1-mile Radius |
| 6 | Plan of Development Map |
| 7 | Drilling Plan |
| 8 | Rig Layout and Closed-Loop Schematic |
| 9 | BOPE and Choke Manifold |
| 10 | NMOCD Form C-144 CLEZ, Closed Loop System Permit Application |
| 11 | Caprock Area H2S Contingency Plan |
| 12 | Surface Use Plan of Operations and Operator Certification |

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**Celero Energy II LP Drilling Plan**
**Drickey Queen Sand Unit (DQSU) # 701**
**Surface location: 11' FSL & 1329' FWL (Unit N)**
**Section 35, T-13S, R31E**
**Chaves County, New Mexico**

1. **The estimated tops (MD) of relevant geologic markers are as follows:**

| | |
|---|---|
| Rustler | 1399' |
| Salado | 1493' |
| Tansill | 2185' |
| Yates | 2282' |
| Seven Rivers | 2397' |
| Queen | 3038' |

2. **The estimated depths at which water, oil, or gas formations are anticipated:**

Freshwater at surface to maximum 185' as recorded in Section 35 to the east.
Formation/salt water below 350'.
Oil and/or gas in the Queen Formation at 3038'.

3. **Pressure control equipment:**

There will not be any pressure control equipment on the well until the surface pipe is set at roughly 350'. After setting surface pipe and before drilling out, a 3000 psi working pressure, double-ram BOP will be flanged to the surface casinghead A rotating head will be installed on top of the BOP The BOPE controls will be installed at the time the BOPE is installed All equipment will remain in use until the production casing is cemented or the well is abandoned as a dry hole. The BOPE will be cycled and casing will be pressure tested by a third party before the surface casing shoe is drilled out A schematic of the BOPE and choke manifold is attached as Exhibit # 9. A mud-gas separator will be installed downstream of the choke manifold and will be of sufficient height to return mud and cuttings to the shaker.

**Ancillary Equipment:**

A kelly cock and a flow sensor recorder will be in service on the mud return line after the surface pipe is set and the BOPE is nipped up A sub with full-opening valve (in the open position) to fit the drill pipe and drill collars will be on the rig floor at all times the Kelly is not in use

4. **Proposed casing and cementing program:**

| Hole size(in) | Casing size(in) | Weight (lbs/ft) | Grade | Coupling | Depth fr-to(ft) | Length (feet) |
|---|---|---|---|---|---|---|
| | | | | | any competent bed between 400' to 1285' | |
| 12-1/4 | 8-5/8 | 24 | J-55 | ST&C | ~~0-350~~ | ~~350~~ |
| 7-7/8 | 5-1/2 | 15.5 | J-55 | LT&C | 0-3115 | 3115 |

The well will be drilled vertically, natural walk (deviation) will be maintained at 5 (five) degrees or less.

Minimum design factors are: 1 125 Burst, 1.1 Collapse, 1 5 Tension.

EXHIBIT 7

**4. Proposed casing and cementing program:(cont)**

Cementing program

Surface casing set at 350'. Pump 270 sx Class C cement containing 2% CaCl2, celloflake, and a defoamer and circulate cement to surface

Production casing set at 3115'. Anticipate TOC at surface Pump lead slurry consisting of 500 sx Class C 50/50 Poz containing 10% bentonite, 5% salt, and a defoamer, followed by 300 sx Class C 50/50 Poz containing 2% bentonite, 5% salt, and a defoamer In the event that a stage (DV) tool is necessary to cement the production casing, it will be placed around 2500'. The production casing will then be cemented using the above two cement slurries; stage one will be 300 sx and stage 2 will be 500 sx of the above slurries

**5. Drilling mud program/auxiliary equipment:**

| Interval (feet) | Mud Type | Weight (ppg) | Viscosity | Fluid Loss (cc) |
|---|---|---|---|---|
| ~~0-350~~ 400' ± | Freshwater | 8.6 | | Uncontrolled |
| ~~350~~-TD | Saltwater | 10-10.2 | 40-45 | < 10 |

As mud is circulated out of the hole, mud cuttings are caught in moveable storage bins until the cuttings are eventually hauled to an approved disposal site.

Sufficient mud materials are held on location to: 1) maintain mud properties, 2) control lost circulation by continuously adding lost-circulation material to the mud system or pumping concentrated lost-circulation pills, and 3) contain/control any possible flow from the well The mud system will be checked each tour by rig personnel

**6. Formation Evaluation Program:**

| | |
|---|---|
| Samples: | None |
| Logging | Cased-hole GR/CNL |
| Coring: | None |
| DST. | None |
| Mudlog: | None |

**7. Abnormal conditions, bottomhole pressure and potential hazards:**

Abnormal pressures or temperatures are not anticipated.

Bottomhole pressures:

Surface to 350 feet: Anticipated maximum of 160 psi.
350 feet to TD: Anticipated maximum of 1500 psi

Lost circulation zones are possible and generally occur below 2300 feet. Lost circulation will be controlled either by adding lost-circulation material continuously to the drilling fluid or by spotting heavy LCM pills In certain circumstances, no attempt will be made to control lost-circulation.

**7. Abnormal conditions, bottomhole pressure and potential hazards: (cont.)**

Produced gas from the Queen Formation occurring at 3038' is known to contain H2S. Anticipated maximum concentration is 10080 ppm; maximum anticipated produced gas rate is 6 MCFPD. The 100 ppm ROE is 17 feet; the 500 ppm ROE is 8 feet. Please see Celero Energy's H2S Contingency Plan, Caprock Field Area, Chaves & Lea Cos., New Mexico for Celero's response plans regarding any H2S release while drilling this well

Maximum anticipated bottomhole temperature is 90 degrees F.

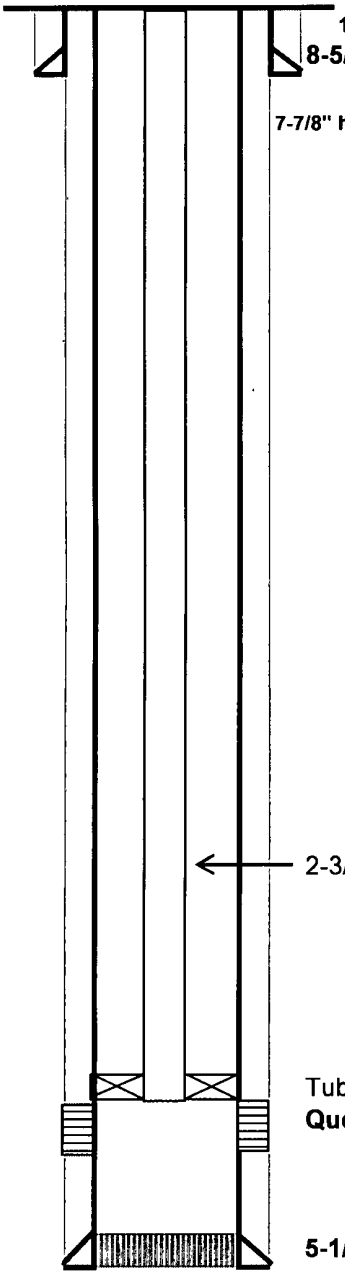
**8. Anticipated spud date: October 18, 2011.**

Drilling rig will be under continuous contract It will take roughly 7 days from rig up to rig down and move to drill the well It will take only 3 days to complete the well to produce. Production should start as soon as electricity is installed.

# CELERO ENERGY

| | | | |
|---|---|---|---|
| | | **DATE:** | **Aug. 24, 2011** |
| **FIELD:** | **Caprock** | **BY:** | **MWM** |
| **LEASE/UNIT:** | **Drickey Queen Sand Unit** | **WELL:** | **701** |
| **COUNTY:** | **Chaves** | **STATE:** | **New Mexico** |

Location 11' FSL & 1329' FWL, Sec 34N, T13S, R31E — **KB = 13' AGL**
SPUD. COMP — **GL = 4425'**
CURRENT STATUS Pending BLM approval — **API = Unassigned**



**11" hole**
**8-5/8", 24#, J-55, ST&C @ 350' w/270 sx-circ'd**

**7-7/8" hole**

2-3/8", 4 7#, J-55, 8rd EUE production tubing

Tubing anchor at 2950'
**Queen: Anticipated perforations at 3038'-3053'**

**5-1/2", 15.5#, J-55, LT&C @ 3115' w/800 sx-circ'd**

**PBTD - 3071'est**
**TD - 3115'**

# CELERO ENERGY II LP

## CLOSED LOOP SYSTEM

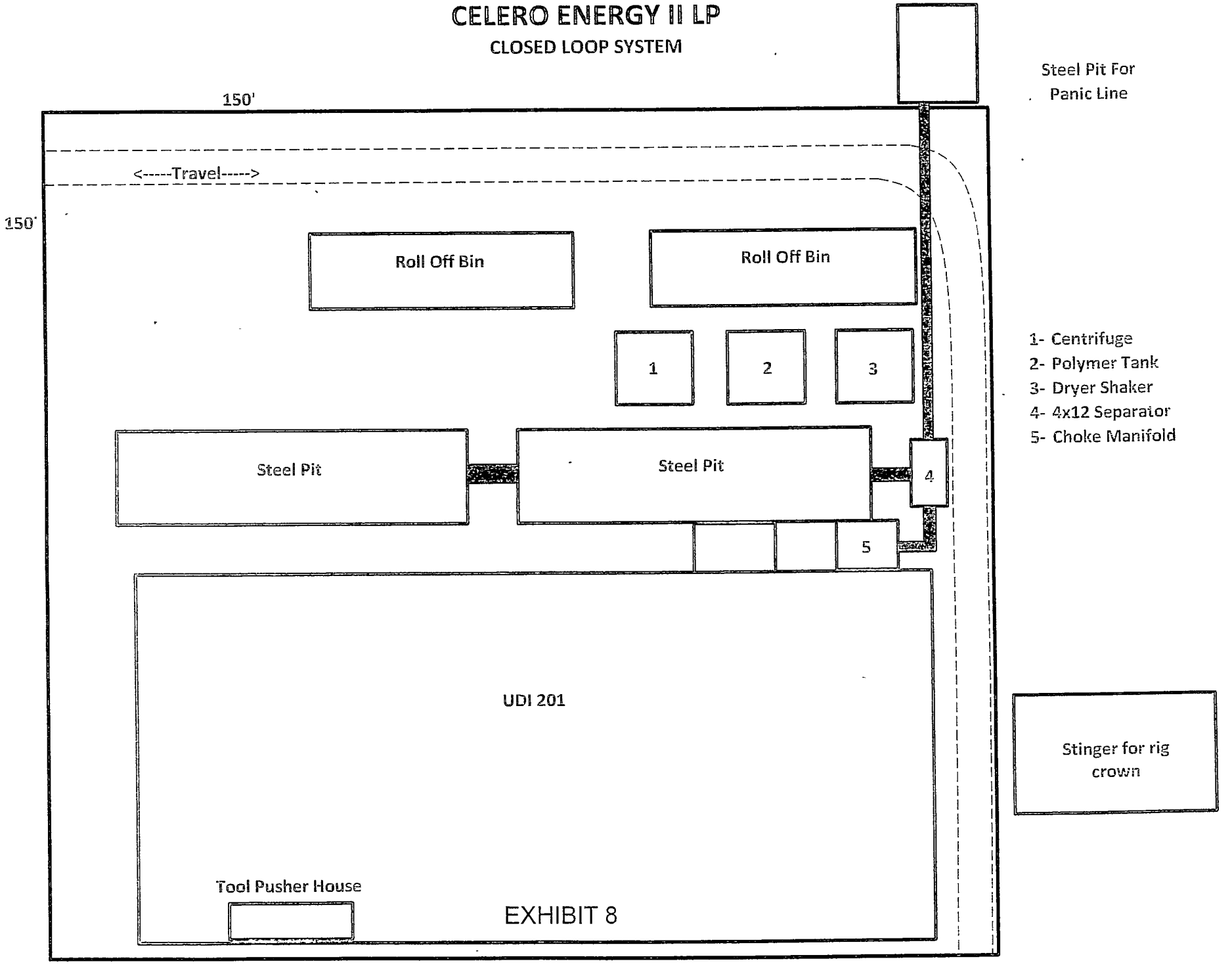
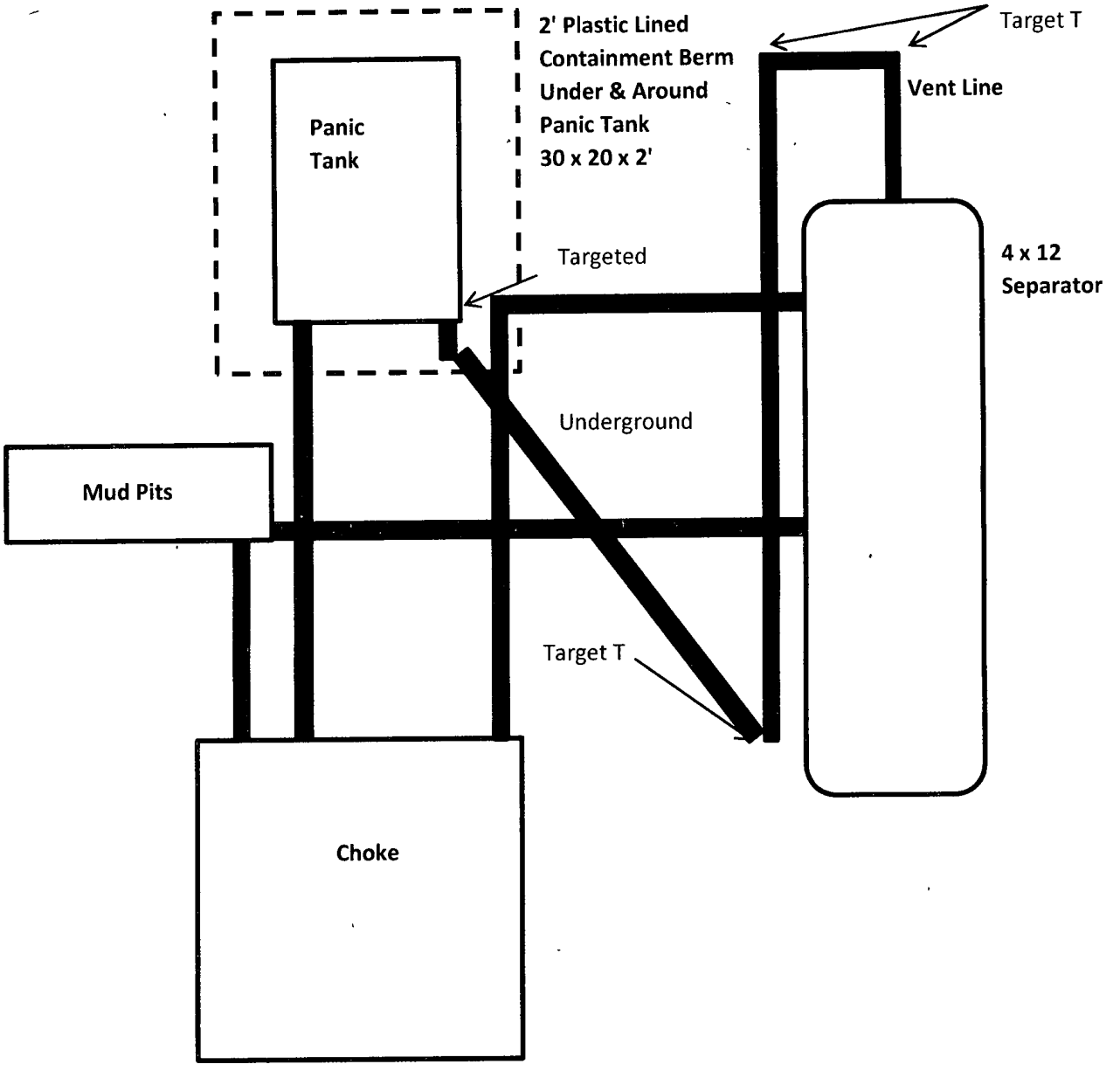
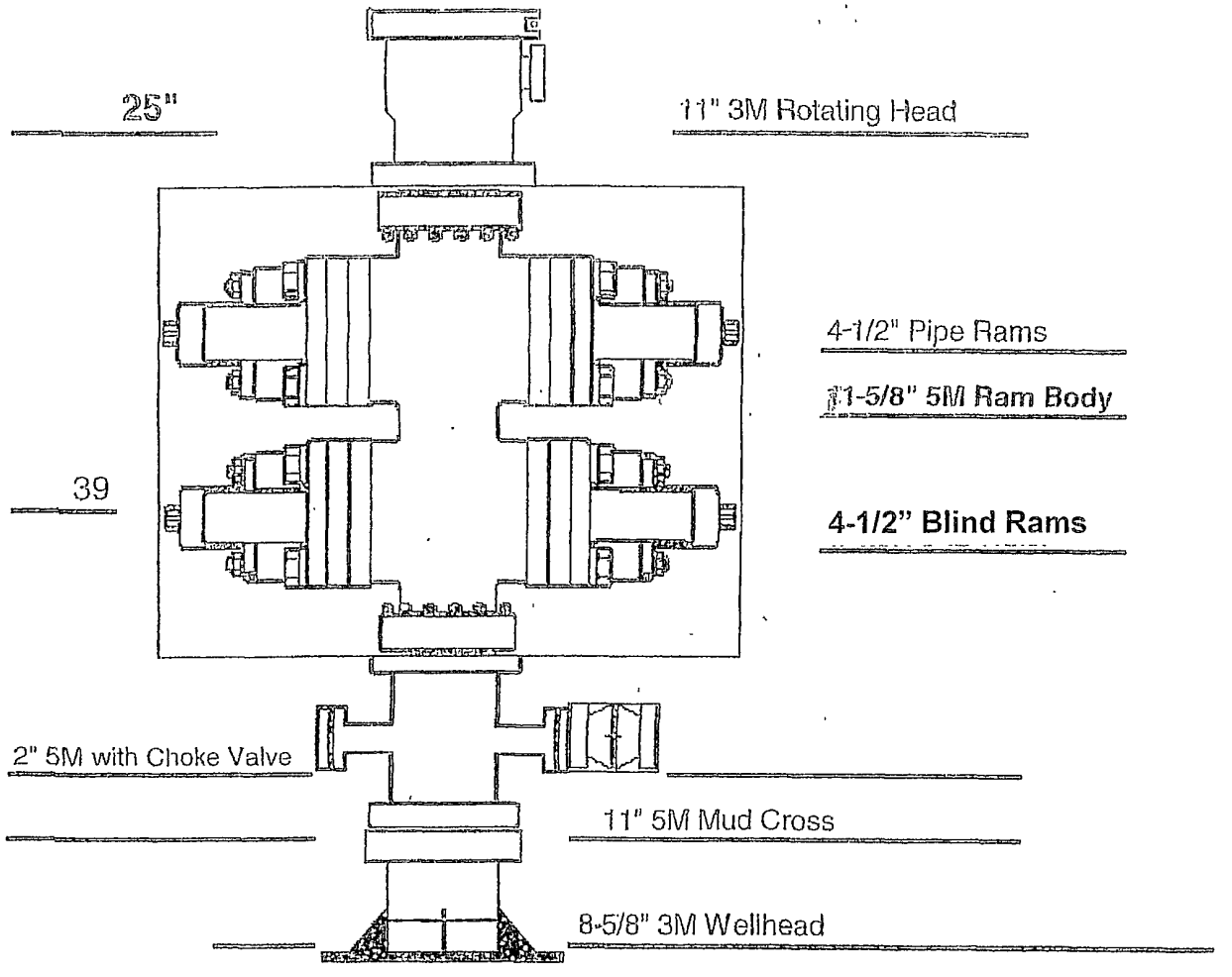



EXHIBIT 8


2' Plastic Lined
Containment Berm
Under & Around
Panic Tank
30 x 20 x 2'
Target T
Vent Line
Panic
Tank
Targeted
4 x 12
Separator
Underground
Mud Pits
Target T
Choke


25"
11" 3M Rotating Head
4-1/2" Pipe Rams
11-5/8" 5M Ram Body
39
4-1/2" Blind Rams
2" 5M with Choke Valve
11" 5M Mud Cross
8-5/8" 3M Wellhead

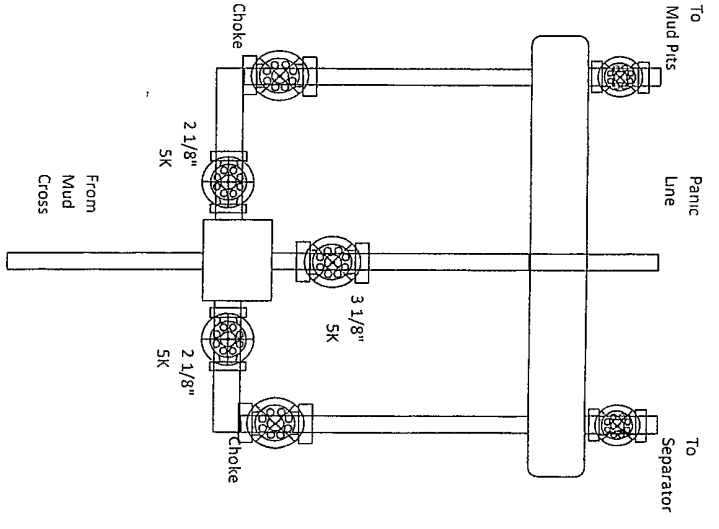
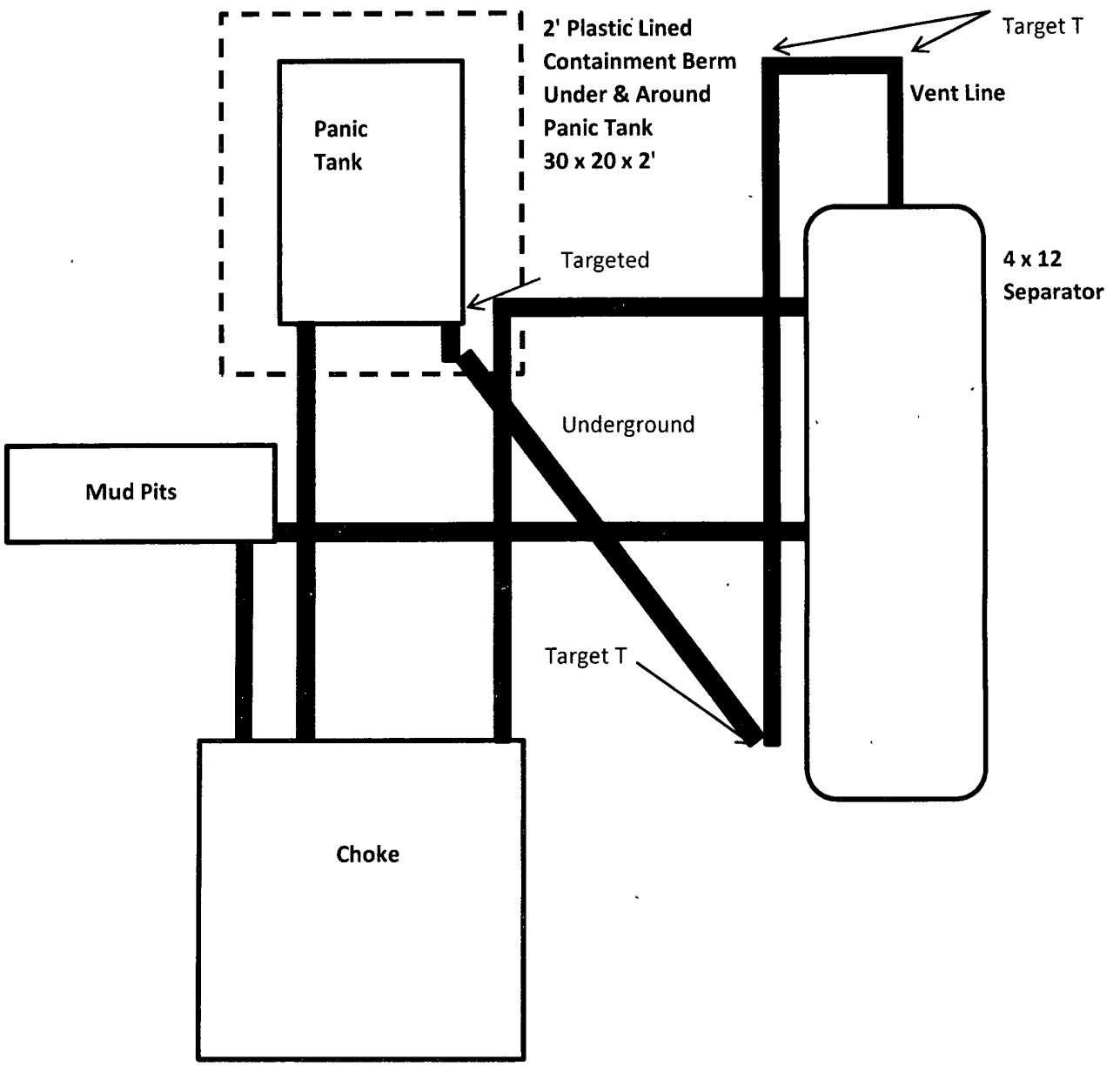

Choke
To Mud Pits
2 1/8" 5K
From Mud Cross
Panic Line
3 1/8" 5K
2 1/8" 5K
Choke
To Separator

EXHIBIT 9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