

HOBBS OCD

Form 3160-3  
(March 2012)

AUG 07 2013

OCD Hobbs

FORM APPROVED  
OMB No. 1004-0137  
Expires October 31, 2014

UNORTHODOX  
LOCATION

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.  
NM-88164

6. If Indian, Allottee or Tribe Name  
N/A

7. If Unit or CA Agreement, Name and No.  
N/A

8. Lease Name and Well No.  
Parsley "ARA" Federal #3-H

9. API Well No.

30-025-41328

10. Field and Pool, or Exploratory  
Triste Draw Bone Spring

11. Sec., T. R. M. or Blk. and Survey or Area  
Section 26, T23S-R32E

12. County or Parish  
Lea County

13. State  
NM

1a. Type of work: ☒ DRILL ☐ REENTER

1b. Type of Well: ☒ Oil Well ☐ Gas Well ☐ Other ☒ Single Zone ☐ Multiple Zone

2. Name of Operator YATES PETROLEUM CORPORATION

3a. Address 105 South Fourth Street  
Artesia, NM 88210

3b. Phone No. (include area code)  
575-748-4372

4. Location of Well (Report location clearly and in accordance with any State requirements.)\*

At surface Ut. Ltr. O, 200 FSL & 1980' FEL, Section 26, T23S-R32E, NWNE

At proposed prod. zone Ut. Ltr. B, 330' FNL & 1980' FEL, Section 26, T23S-R32E, SWSE

14. Distance in miles and direction from nearest town or post office\*  
approximately 30 miles east of Carlsbad, New Mexico

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  
NM-88164 has 480 ac.

17. Spacing Unit dedicated to this well  
W2E2, Sec. 26, T25S-R32E

18. Distance from proposed location\* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 250'

19. Proposed Depth  
10933 TVD 15448 MD

20. BLM/BIA Bond No. on file  
Nationwide Bond #NM-B000434  
Individual Bond NMB000920

21. Elevations (Show whether DF, KDB, RT, GL, etc.)  
3698 GL

22. Approximate date work will start\*  
09/29/2013

23. Estimated duration  
70 Days

24. Attachments

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

Name (Printed/Typed)  
Cy Cowan

Date

6/6/13

Title

Land Regulatory Agent

Approved by (Signature)

/s/ James Stovall

Name (Printed/Typed)

/s/ James Stovall

Date

AUG - 2 2013

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.

(Continued on page 2)

\*(Instructions on page 2)

Carlsbad Controlled Water Basin

KZ  
08/14/13

Approval Subject to General Requirements  
& Special Stipulations Attached

HOBBS OCD

AUG 07 2013

SEE ATTACHED FOR  
CONDITIONS OF APPROVAL

RECEIVED

PM

AUG 16 2013

YATES PETROLEUM CORPORATION  
Parsley ARA Federal #3H  
200' FSL and 1980' FEL, Section 26-T23S-R32E, Surface Hole Location  
330' FNL and 1980' FEL, Section 26-T23S-R32E, Bottom Hole Location  
Eddy County, New Mexico

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

|                             |           |  |            |
|-----------------------------|-----------|--|------------|
| Rustler                     | 1193'     | Avalon Sand                            | 8918'-Oil  |
| Top of Salt                 | 1673'     | 1 <sup>st</sup> Bone Springs           | 9963'-Oil  |
| Bottom of Salt              | 4683'     | 2 <sup>nd</sup> Bone Springs           | 10534'-Oil |
| Lamar                       | 4933'     | Target Zone SBSG                       | 11166'-Oil |
| Bell Canyon Top of Delaware | 4983'-Oil | Base 2 <sup>nd</sup> Bone Springs Sand | 10514'     |
| Cherry Canyon               | 5883'-Oil | TD                                     | 15448 MD'  |
| Brushy Canyon               | 7183'-Oil |  |            |
| Bone Springs LM             | 8778'     |  |            |

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

Water: 150'  
Oil or Gas: Oil Zones: See above.

3. Pressure Control Equipment: A BOP with a minimum opening of 13 5/8" will be installed on the 13 3/8" rated for 3000# BOP System and a 5000# BOP with a minimum opening of 11" on the 9 5/8" casing. Pressure tests to 3000 PSI and held for 30 minutes will be conducted before drilling out from under all casing strings, which are set and cemented in place. Test will be conducted by an independent tester, utilizing a test plug in the well head. Test will be held for 10 minutes on each segment of the system tested. Any leaks will be repaired at the time of the test. Annular preventer will be tested to 50% of rated working pressure. Accumulator system will be inspected for correct pre charge pressures and proper functionality, prior to connection to the BOP system. Blowout Preventer controls will be installed prior to drilling the surface plug and will remain in use until the well is completed or abandoned. Preventers 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.
4. 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.
5. THE PROPOSED CASING AND CEMENTING PROGRAM:

A. Casing Program: All new casing to be used

*See COA*

| Hole Size | Casing Size | Wt./Ft | Grade       | Coupling | Interval                         | Length           |
|-----------|-------------|--------|-------------|----------|----------------------------------|------------------|
| 17 1/2"   | 13 3/8"     | 48#    | J-55/Hybrid | ST&C     | 0- <del>1220'</del> <i>1330'</i> | <del>1220'</del> |
| 12 1/4"   | 9 5/8"      | 40#    | J-55        | LT&C     | 0-80'                            | 80'              |
| 12 1/4"   | 9 5/8"      | 36#    | J-55        | LT&C     | 80'-3100'                        | 3020'            |
| 12 1/4"   | 9 5/8"      | 40#    | J-55        | LT&C     | 3100'-4100'                      | 1000'            |
| 12 1/4"   | 9 5/8"      | 40#    | HCK-55      | LT&C     | 4100'- <del>5100'</del>          | 1000'            |

*5000'*

|        |        |     |       |          |               |        |
|--------|--------|-----|-------|----------|---------------|--------|
| 8 3/4" | 5 1/2" | 17# | P-110 | Buttress | 0'-11166'     | 11166' |
| 8 1/2" | 5 1/2" | 17# | P-110 | Buttress | 11166'-15448' | 4282'  |

Hole will be drilled vertically to 10420'. Well will then kicked off at approximately 10420'. Well will then be directionally drilled at 12 degrees per 100' with a 8 3/4" hole to 11166' MD (10897' TVD). At this point, reduce the hole size to 8 1/2" and drill to 15448' MD (10933' TVD) where 5 1/2" casing will be set and cemented in three stages with a DV/Stage Packer tool from 9900'-10400' and 6850'-7350' (Cement volumes will be adjusted proportionately if DV tool is moved). Penetration point of the producing zone will be encountered at 673' FSL & 1983' FEL, 26-23S-31E. Deepest TVD in the is in the lateral is 10933'.

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

B. CEMENTING PROGRAM:

Surface Casing: Lead with 710 sacks 35:65:6PzC (Wt. 12.50 Yld 2.00). Tail in with 200 sacks Class C with CaCl 2% (Wt. 14.80 Yld. 1.34). Cement designed with 100% excess. TOC surface.

Intermediate Casing: Lead with 1455 sacks of 35:65:6PzC (Wt. 12.50 Yld. 2.00). Tail in with 200 sacks Class C with CaCl 2% (Wt. 14.80 Yld. 1.34). Cement designed with 100% excess. TOC surface.

Production Casing will be cemented in three stages with DV/Stage Packer tool from approximately 9900'-10400' and 6850'-7350'.

Stage One: 15,458'-10400'. Cement with 1220 sacks Pecos Valley Lite with D112, Fluid Loss, 0.4%; D151, Calcium Carbonate, 22.5 lb/sack; D174, Extender, 1.5 lb/sack; D177, Retarder, 0.01 lb/sack; D800, Retarder, 0.6 lb/sack; and D46, Antifoam Agent, 0.15 lb/sack (Wt. 13.00 Yld. 1.41). Cement designed with 35% excess. TOC will be 10400'.

See  
COA

Stage Two: 10,400'-7200'. Lead with 495 sacks 35:65:6PzC (Wt. 12.50 Yld 2.00). Tail in with 100 sacks Pecos Valley Lite with D112, Fluid Loss, 0.4%; D151, Calcium Carbonate, 22.5 lb/sack; D174, Extender, 1.5 lb/sack; D177, Retarder, 0.01 lb/sack; D800, Retarder, 0.6 lb/sack; and D46, Antifoam Agent, 0.15 lb/sack (Wt. 13.00 Yld. 1.41). Cement designed with 35% excess. TOC 7200'.

See  
COA

Stage Three: 7200'-4600'. Lead with 360 sacks 35:65:6PzC (Wt. 12.50 Yld 2.00). Tail in with 100 sacks Pecos Valley Lite with D112, Fluid Loss, 0.4%; D151, Calcium Carbonate, 22.5 lb/sack; D174, Extender, 1.5 lb/sack; D177, Retarder, 0.01 lb/sack; D800, Retarder, 0.6 lb/sack; and D46, Antifoam Agent, 0.15 lb/sack (Wt. 13.00 Yld. 1.41). Cement designed with 35% excess. TOC 4600'

6. MUD PROGRAM AND AUXILIARY EQUIPMENT:

See  
COA

| Interval          | Type        | Weight      | Viscosity | Fluid Loss |
|-------------------|-------------|-------------|-----------|------------|
| 0-1220' / 330'    | Fresh Water | 8.60-9.20   | 28-34     | N/C        |
| 1220'-5100' 5000' | Brine Water | 10.00-10.20 | 28-29     | N/C        |
| 5100'-15448'      | Cut Brine   | 8.80-9.00   | 32-34     | N/C        |

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. The slow pump speed will be recorded on the daily drilling report after mudding up. A mud test will be performed every 24 hours after mudding up to determine, as applicable, viscosity, gel strength, filtration and pH. After surface casing is set an electronic PVT system will be installed as our primary mud level monitoring system. A secondary system will also be implemented as to insure the PVT system is functioning properly. The secondary system will be comprised of the derrick hand visually checking the fluid level in the pits periodically using a nut on the end of a rope hanging just above the fluid level in the pit.

7. EVALUATION PROGRAM:

Samples: 30' samples to 5100'. 10' samples from 5100' to TD. Mudloggers on after surface casing.

Logging: Gamma Ray Neutron from 30 degrees into the curve to surface; CMR from 30 degrees into curve back to intermediate casing; Density from 30 degrees into curve back to intermediate casing; Laterolog from 30 degrees into curve back to intermediate casing. Schlumberger tools platform/HRLA/CMR.

Coring: None anticipated

DST's: None Anticipated

8. ABNORMAL CONDITIONS, BOTTOM HOLE PRESSURE, AND POTENTIAL HAZARDS

Maximum Anticipated BHP: Depths are TVD.

|                 |          |
|-----------------|----------|
| 0' to 1220'     | 584 PSI  |
| 1220' to 5100'  | 2705 PSI |
| 5100' to 10933' | 5230 PSI |

Abnormal Pressures Anticipated: None

Lost Circulation Zones Anticipated: None.

H2S Zones Anticipated: None Anticipated

Maximum Bottom Hole Temperature: 150 F

9. ANTICIPATED STARTING DATE:

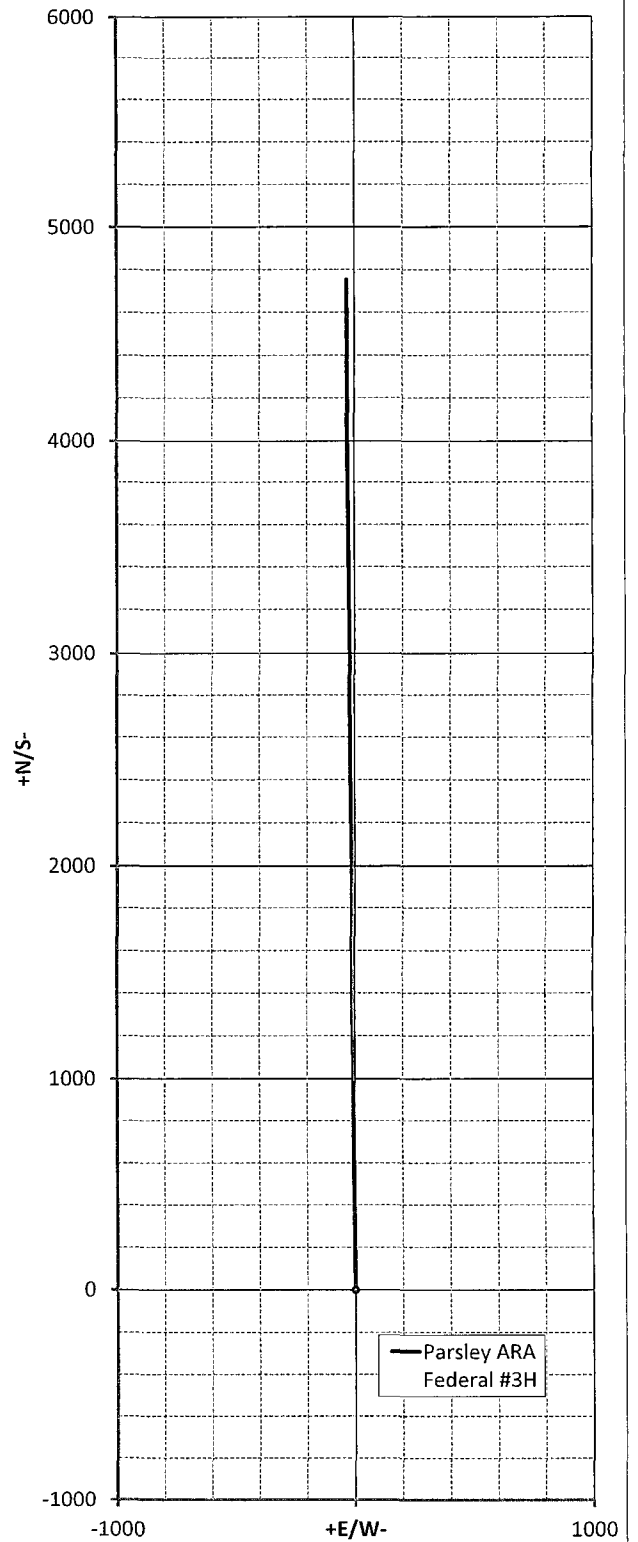
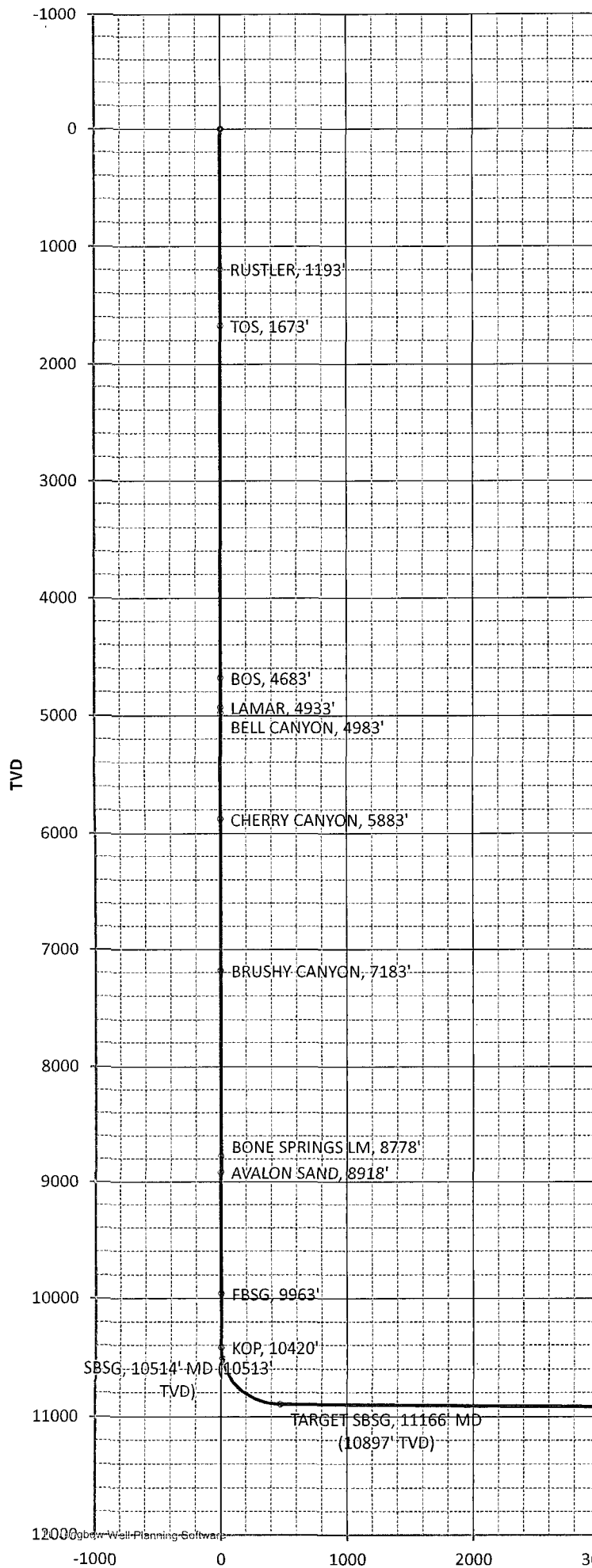
Plans are to drill this well as soon as possible after receiving approval. It should take approximately 70 days to drill the well with completion taking another 30 days.

Operator Co.

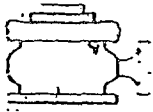
Your Co.

| Survey/Planning Report                        |                         |        |          |           |        |            |            |                     |       |
|---|-------------------------|--------|----------|-----------|--------|------------|------------|---------------------|-------|
| Operator                                      | Yates Petroleum Corp.   |        |          | Northing  |        |            | Date       | 29-May-13           |       |
| Dir. Co.                                      | Yates Petroleum Corp.   |        |          | Easting   |        |            | System     | 2 - St. Plane       |       |
| Well Name                                     | Parsley ARA Federal #3H |        |          | Elevation |        |            | Datum      | 1983 - NAD83        |       |
| Location                                      | Sec. 26, 23S-32E        |        |          | Latitude  |        |            | Zone       | 4302 - Utah Central |       |
| Rig   |                         |        |          | Longitude |        |            | Scale Fac. |                     |       |
| Job   |                         |        |          | Units     | Feet   |            | Converg.   |                     |       |
| MD  | INC                     | AZI    | TVD      | +N/S-     | +E/W-  | VS@359.59° | BR         | TR                  | DLS   |
| 0.00  | 0.00                    | 0.00   | 0.00     | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 1193.00                                       | 0.00                    | 360.00 | 1193.00  | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 1193: RUSTLER, 1193'                          |                         |        |          |           |        |            |            |                     |       |
| 1673.00                                       | 0.00                    | 360.00 | 1673.00  | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 1673: TOS, 1673'                              |                         |        |          |           |        |            |            |                     |       |
| 4683.00                                       | 0.00                    | 360.00 | 4683.00  | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 4683: BOS, 4683'                              |                         |        |          |           |        |            |            |                     |       |
| 4933.00                                       | 0.00                    | 360.00 | 4933.00  | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 4933: LAMAR, 4933'                            |                         |        |          |           |        |            |            |                     |       |
| 4983.00                                       | 0.00                    | 360.00 | 4983.00  | 0.00      | 0.00   | 0.00       | 0.00       | 0.00                | 0.00  |
| 4983: BELL CANYON, 4983'                      |                         |        |          |           |        |            |            |                     |       |
| 5883.00                                       | 0.00                    | 360.00 | 5883.00  | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 5883: CHERRY CANYON, 5883'                    |                         |        |          |           |        |            |            |                     |       |
| 7183.00                                       | 0.00                    | 360.00 | 7183.00  | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 7183: BRUSHY CANYON, 7183'                    |                         |        |          |           |        |            |            |                     |       |
| 8778.00                                       | 0.00                    | 360.00 | 8778.00  | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 8778: BONE SPRINGS LM, 8778'                  |                         |        |          |           |        |            |            |                     |       |
| 8918.00                                       | 0.00                    | 360.00 | 8918.00  | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 8918: AVALON SAND, 8918'                      |                         |        |          |           |        |            |            |                     |       |
| 9963.00                                       | 0.00                    | 360.00 | 9963.00  | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 9963: FBSG, 9963'                             |                         |        |          |           |        |            |            |                     |       |
| 10419.68                                      | 0.00                    | 359.59 | 10419.68 | 0.01      | 0.00   | 0.01       | 0.00       | 0.00                | 0.00  |
| 10419.68: KOP, 10420'                         |                         |        |          |           |        |            |            |                     |       |
| 10500.00                                      | 9.64                    | 359.59 | 10499.62 | 6.75      | -0.05  | 6.75       | 12.00      | 0.00                | 12.00 |
| 10513.61                                      | 11.27                   | 359.59 | 10513.00 | 9.22      | -0.07  | 9.22       | 12.00      | 0.00                | 12.00 |
| 10513.61: SBSG, 10514' MD (10513' TVD)        |                         |        |          |           |        |            |            |                     |       |
| 10600.00                                      | 21.64                   | 359.59 | 10595.74 | 33.65     | -0.24  | 33.65      | 12.00      | 0.00                | 12.00 |
| 10700.00                                      | 33.64                   | 359.59 | 10684.17 | 79.96     | -0.57  | 79.96      | 12.00      | 0.00                | 12.00 |
| 10800.00                                      | 45.64                   | 359.59 | 10761.04 | 143.63    | -1.03  | 143.63     | 12.00      | 0.00                | 12.00 |
| 10900.00                                      | 57.64                   | 359.59 | 10822.99 | 221.90    | -1.59  | 221.90     | 12.00      | 0.00                | 12.00 |
| 11000.00                                      | 69.64                   | 359.59 | 10867.31 | 311.33    | -2.23  | 311.34     | 12.00      | 0.00                | 12.00 |
| 11100.00                                      | 81.64                   | 359.59 | 10892.07 | 408.03    | -2.92  | 408.04     | 12.00      | 0.00                | 12.00 |
| 11165.68                                      | 89.52                   | 359.59 | 10897.13 | 473.46    | -3.39  | 473.47     | 12.00      | 0.00                | 12.00 |
| 11165.68: TARGET SBSG, 11166' MD (10897' TVD) |                         |        |          |           |        |            |            |                     |       |
| 15447.59                                      | 89.52                   | 359.59 | 10933.01 | 4755.11   | -34.04 | 4755.23    | 0.00       | 0.00                | 0.00  |
| 15447.59: LATERAL TD, 15448' MD (10933' TVD)  |                         |        |          |           |        |            |            |                     |       |



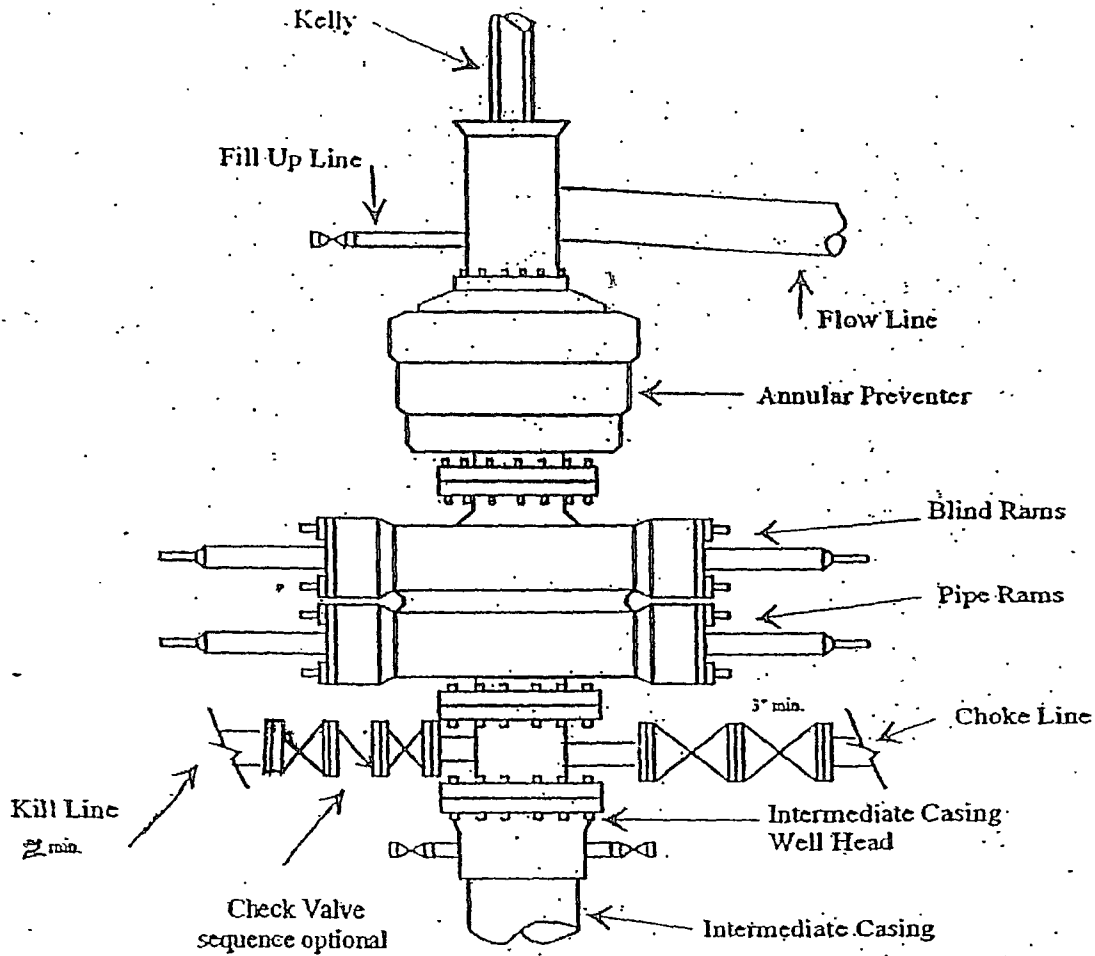


# Exhibit

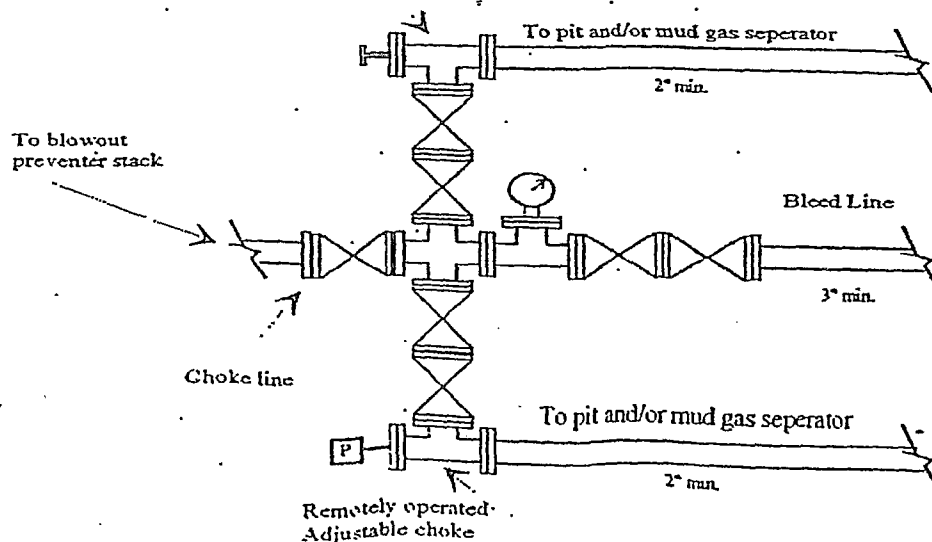


## Yates Petroleum Corporation Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack

BOP-3



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



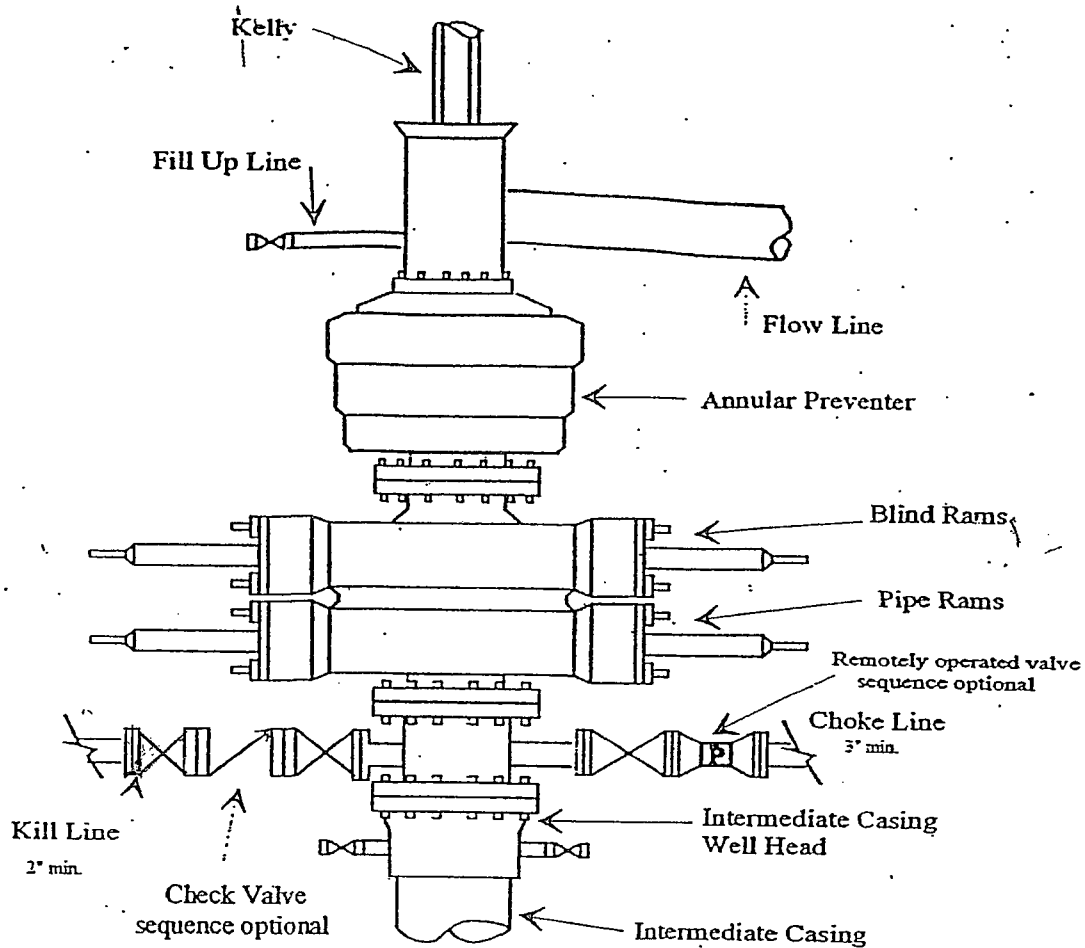


# Yates Petroleum Corporation

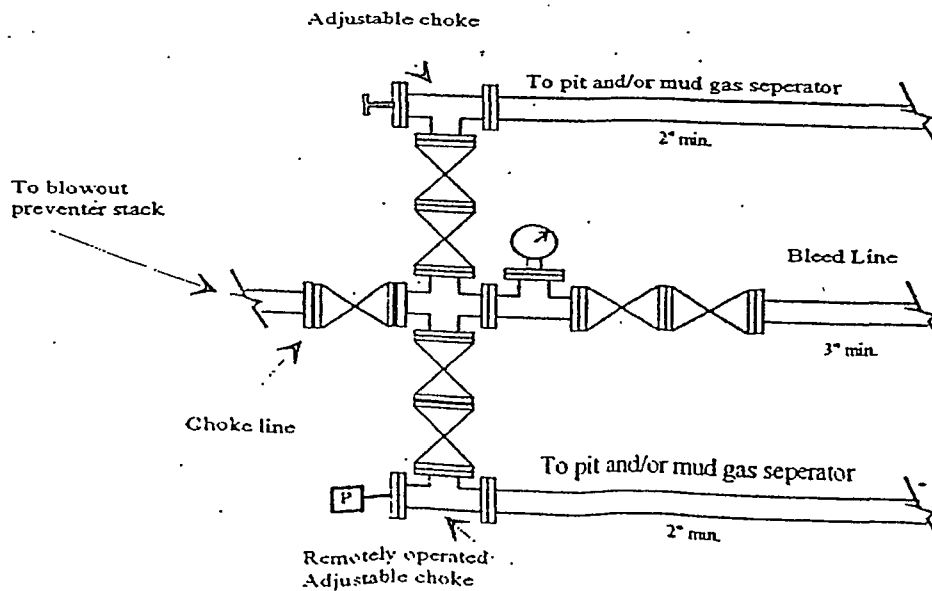
BOP-4

## Typical 5,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack

Exhibit



Typical 5,000 psi choke manifold assembly with at least these minimum features

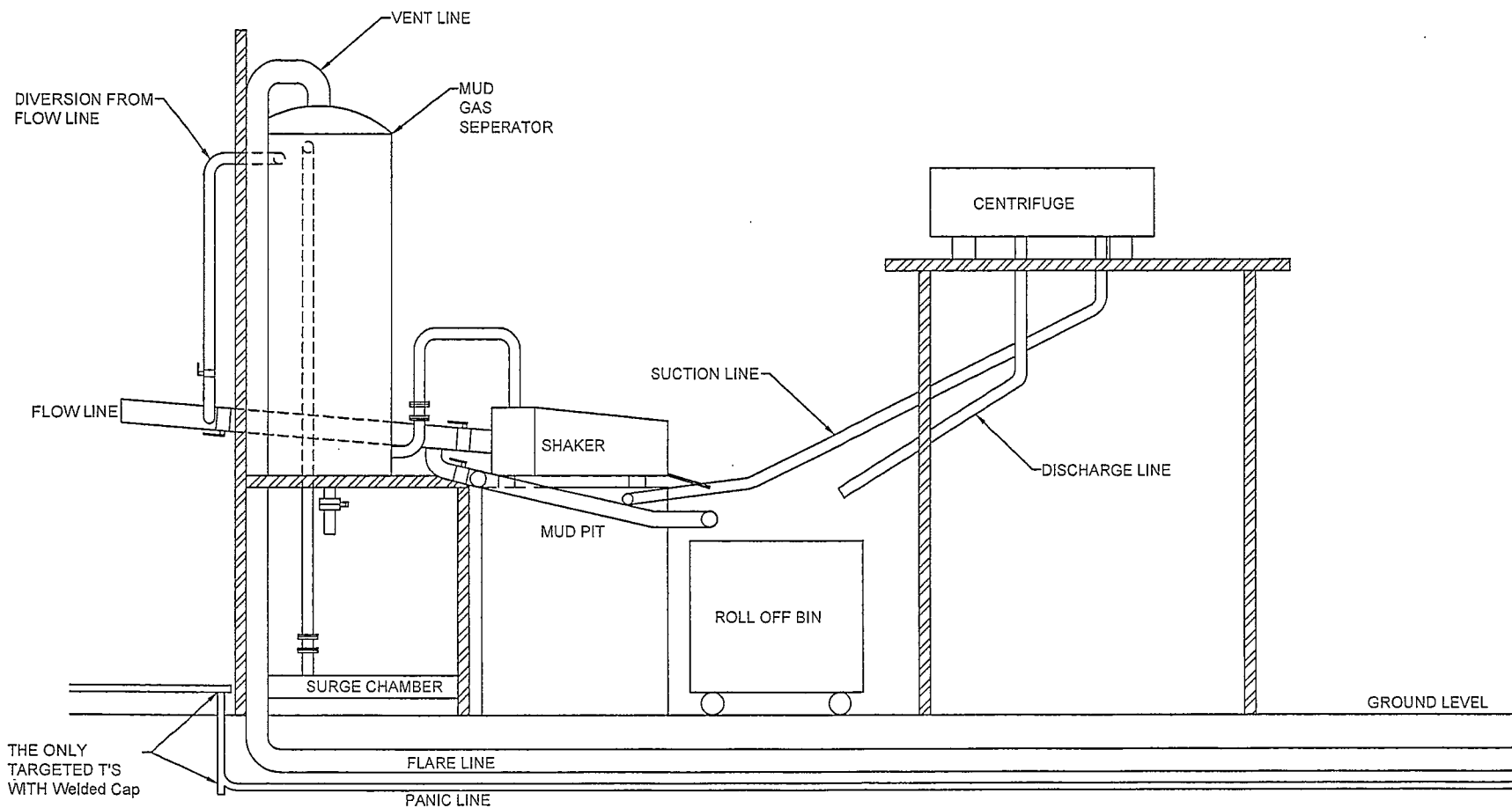




Exhibit

# YATES PETROLEUM CORPORATION

Piping from Choke Manifold  
to the Closed Loop Drilling Mud System



The flare discharge must be 100' from wellhead for non H<sub>2</sub>S wells and 150' from wellhead for wells expected to encounter H<sub>2</sub>S.