

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



*Celero Energy II, LP
 Sutterland #1*

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**
 [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD
- Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR
- [D] Other: Specify _____
- [2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**
 [A] Working, Royalty or Overriding Royalty Interest Owners
 [B] Offset Operators, Leaseholders or Surface Owner
 [C] Application is One Which Requires Published Legal Notice
 [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] Waivers are Attached
- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate and complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

David Catanach
 Print or Type Name

David Catanach
 Signature

Agent for Celero Energy II, LP
 Title

9/12/12
 Date

drctanach@netscape.com
 E-Mail Address

September 12, 2012

Hand Delivered

New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87505

Attention: Ms. Jami Bailey, CPG
Division Director

Re: Application for Unorthodox Well Location
Setterlund Well No. 1
API No. (30-025-24597)
2630' FSL & 1330' FEL (Unit J)
Section 7, T-13 South, R-32 East, NMPM,
Lea County, New Mexico

Dear Ms. Bailey:

Pursuant to Division Rule 19.15.15.13, Celero Energy II, LP ("Celero") respectfully requests administrative approval of an unorthodox oil well location for the existing Setterlund Well No. 1 in the Caprock-Queen Pool (8553).

The Caprock-Queen Pool is currently governed by Division Rule 19.19.15.9 which requires standard 40-acre oil spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the spacing unit.

The Setterlund Well No. 1 was drilled in 1974 and completed as a producing well in the Caprock-Queen Pool within the North Caprock Queen Unit Area. Division Order No. R-4317 dated May 31, 1972 authorized the drilling of producing and injection wells at unorthodox well locations within the North Caprock Queen Unit provided that such wells were drilled no closer than 330 feet to the outer boundary of the North Caprock Queen Unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary. It is believed that the authority to drill the Setterlund Well No. 1 at an unorthodox location was originally granted by Order No. R-4317. The North Caprock Queen Unit has since terminated and the subject well was plugged and abandoned in 2002.

Celero proposes to re-enter this well and complete it as a producing well in the Caprock-Queen Pool. The well will be dedicated to a standard 40-acre oil spacing and proration unit in the Caprock-Queen Pool comprising the NW/4 SE/4 of Section 7.

The affected offset tracts are the NE/4 SE/4 and the S/2 NE/4 of Section 7.

The Setterlund Well No. 1 is located on the Setterlund Fee Lease which comprises the E/2 of Section 7 and the W/2 of Section 8, Township 13 South, Range 32 East, NMPM. There are currently no producing wells on the drill tract or the affected offset tracts. Please note that the interest ownership between the drill tract and the three affected offset tracts is common throughout. Consequently notice of this application is not required to any party.

Attached is a Form C-102 showing the proposed well and acreage dedication, a wellbore diagram showing the current wellbore configuration, and a proposed re-entry procedure.

In summary, approval of the application will provide Celero the opportunity to recover additional oil and gas reserves from the Caprock-Queen Pool underlying the NW/4 SE/4 of Section 7 that may not have been previously recovered, thereby preventing waste, and will not violate correlative rights.

Celero requests that this application be expedited to the extent possible due to severe time deadlines associated with this re-entry operation.

If you should have any questions, please call me at (505) 690-9453.

Sincerely,



David Catanach, Agent
Celero Energy II, LP
400 W. Illinois
Suite 1601
Midland, Texas 79701

Xc: OCD-Hobbs Via E-Mail

District I
1625 N. French Dr., Hobbs, NM 88240
Phone: (575) 393-6161 Fax: (575) 393-0720
District II
811 S. First St., Artesia, NM 88210
Phone: (575) 748-1283 Fax: (575) 748-9720
District III
1000 Rio Brazos Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

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

Form C-102
Revised August 1, 2011
Submit one copy to appropriate
District Office

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-025-24597	² Pool Code 8559	³ Pool Name Caprock, Queen
⁴ Property Code SETTERLUND	⁵ Property Name	
⁷ OGRID No. 247128	⁸ Operator Name Celero Energy II, LP.	⁶ Well Number 1
⁹ Elevation 4380		

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	7	13-S	32-E		2630	SOUTH	1330	EAST	LEA

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

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

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

¹⁶ 	¹⁷ 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 or has a right to drill this well at this 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. Lisa Hunt 9/10/12 Signature Date Lisa Hunt Printed Name lhunt@celeroenergy.com E-mail Address
	¹⁸ 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. Date of Survey Signature and Seal of Professional Surveyor:
	Certificate Number

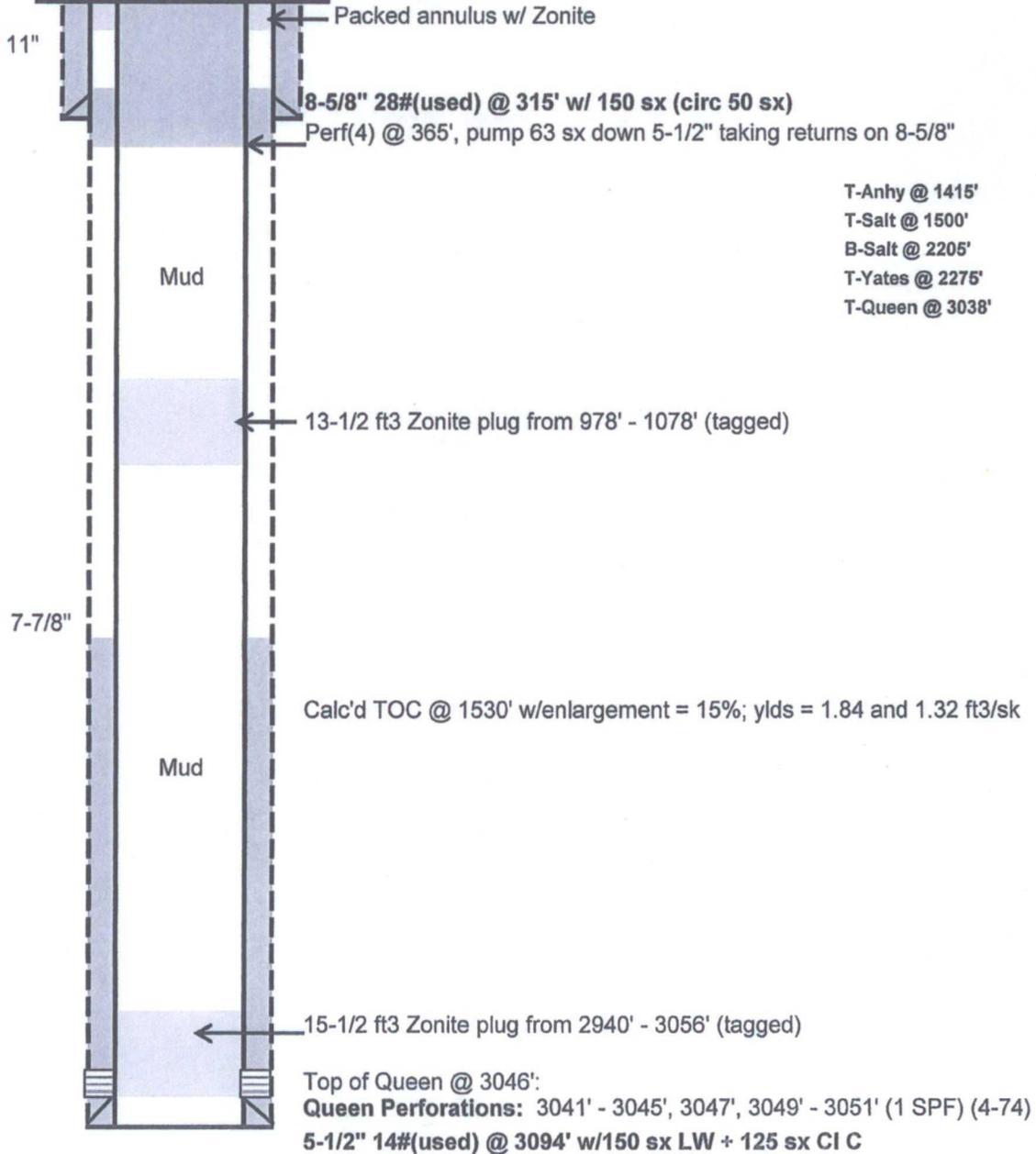
CELERO ENERGY

FIELD: Caprock
LEASE/UNIT: Setterlund #1 (formerly NCQU 1 TR 27 #10-Y)
COUNTY: Lea

DATE: 7-Sep-12
BY: MWM
WELL: 1
STATE: New Mexico

Location: 2630' FSL & 1330' FEL, Sec 7J, T13S, R32E
 SPUD: 1/74 COMP: 4/74
 CURRENT STATUS: P&A Producer
 Original Well Name: Thunderbird Oil Co. NCQU 1 TR 27 #10Y

KB = 4,387'
GL = 4,380'
API = 30-025-24597



PBTD - 3080'
 TD - 3094'

Celero Energy II LP
Setterlund #1
API 30-025-24597
2630 FSL & 1330 FE
Unit J, Section 7, T-13S, R-32E
Lea County, N. Mexico

Procedure to re-enter plugged well and return to production.

1. Blade off a 200'-by-200' location as shown on the attached location diagram.
2. Dig out well head and install cellar. Dress off casing stubs and install risers for 8-5/8" and 5-1/2" casing. Install 8-5/8"-by-5-1/2", minimum 2000 psi WP, SOW, Larkin-style casing head with two outlets. Install minimum 2000 psi WP Larkin-style casing head on 5-1/5" casing.
3. RU pulling unit. Install manually-operated, dual-ram (blinds on bottom) 3000 psi BOPE and test to 1000 psi. RU tubing swivel and reverse unit pump taking returns off 5-1/2" casing head outlet with single line to return tank. Open and monitor the 5-1/2"-by-8-5/8" outlet for returns during drill out.
4. RIH with 4-3/4" bit, bit sub, (6) 2-3/8" regular DC's(3-1/8" OD) on 2-7/8", 6.5#, J-55, 8rd EUE workstring. Drill out cement from surface to 350' and pressure test to 500 psi (discuss w/office before proceeding). Continue drilling out surface plug, tag next (Zonite) plug at 978', and pressure test to 500 psi (discuss w/office before proceeding). Drill out Zonite plug at 978', tag next (Zonite) plug at 2940' and pressure test to 500 psi (discuss w/office before proceeding). Continue drilling out plug and clean out to original PBD of 3080'. Circulate hole clean using produced water from the Rock Queen Unit 10-ppg water tank. POOH standing back workstring.
5. RU wireline unit and run a casing inspection log from 3060' to surface. Run a cement bond log from 3040' to top of primary cement and also from 450' to surface. Discuss results with office before proceeding. Run a GR/CCL/CNL from PBD to 2000'.
6. RIH with retrievable treating packer and acidize the existing perforations with 1500 gals inhibited 7-1/2% NEFE HCL containing 10% toluene at maximum rate without exceeding 4000 psi surface treating pressure. Pump 10 gals gelled 10-ppg brine water containing 750# of graded rock salt after the first 750 gals of acid/toluene mixture. Flush with tubing volume plus 20 bbls of freshwater. Record initial, 15-minute, and 30-minute shut-in pressures.
7. Swab back load recording initial and final fluid levels. TOOH w/treating packer LD workstring. RIH with 2-3/8", 4.7#, J-55, 8rd EUE production tubing and tubing anchor. Run pump and rods and a pump unit capable of lifting 200 BPD. Shut well in waiting on electricity and completion of tank battery.