ATS-12-1179

Form 3160-3
(March 2012)

HIGH CAVEKARST

SECRETARY'S POTASH

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.
NMNM 024160 & 054865

6. If Indian, Allotee or Tribe Name

TES 9/26/2012

1a. Type of work: [X] DRILL [ ] REENTER

7. If Unit or CA Agreement, Name and No.

1b. Type of Well. [X] Oil Well [ ] Gas Well [ ] Other [ ] Single Zone [ ] Multiple Zone

8. Lease Name and Well No.
PARKWAY 35 FEDERAL COM 34H

2. Name of Operator
SM ENERGY COMPANY

9. API Well No.
30-015-~~39838~~ 40734

3a. Address 3300 N "A" ST BLDG 7-200
MIDLAND, TX 79705

3b. Phone No *(include area code)*
(432)688-1709

10. Field and Pool, or Exploratory
PARKWAY BONE SPRING

4. Location of Well *(Report location clearly and in accordance with any State requirements.*)*
At surface 2090' FSL & 330 FWL (SL) UNIT L
At proposed prod. zone 1980' FSL & 330' FEL (BHL) UNIT I

11. Sec., T R. M. or Blk. and Survey or Area
SEC 35 - T19S - R29E

14. Distance in miles and direction from nearest town or post office*
8 MILES SOUTH OF LOCO HILLS, NM

12. County or Parish
EDDY

13. State
NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drlg. unit line, if any)	16. No. of acres in lease	17. Spacing Unit dedicated to this well
330'	280	160

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft	19. Proposed Depth	20. BLM/BIA Bond No. on file
330'	12521' MD 8247' TVD	NMB000805

21. Elevations (Show whether DF, KDB, RT, GL, etc.)	22. Approximate date work will start*	23. Estimated duration
3325' GL	09/14/2012	40 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)*	Date
Malcolm Kintzing	MALCOLM KINTZING	08/29/2012

Title
RESERVOIR ENGINEER

Approved by *(Signature)*	Name *(Printed/Typed)*	Date

Title	Office
STATE DIRECTOR	NM STATE 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)

CAPITAN CONTROLLED WATER BASIN

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED

DISTRICT I
1625 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

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Form C-102
Revised July 16, 2010

Submit one copy to appropriate District Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
30-015-40734	49622	Parkway Bone Spring

Property Code	Property Name	Well Number
	PARKWAY "35"	3H

OGRID No.	Operator Name	Elevation
154903	SM ENERGY	3325'

Surface Location

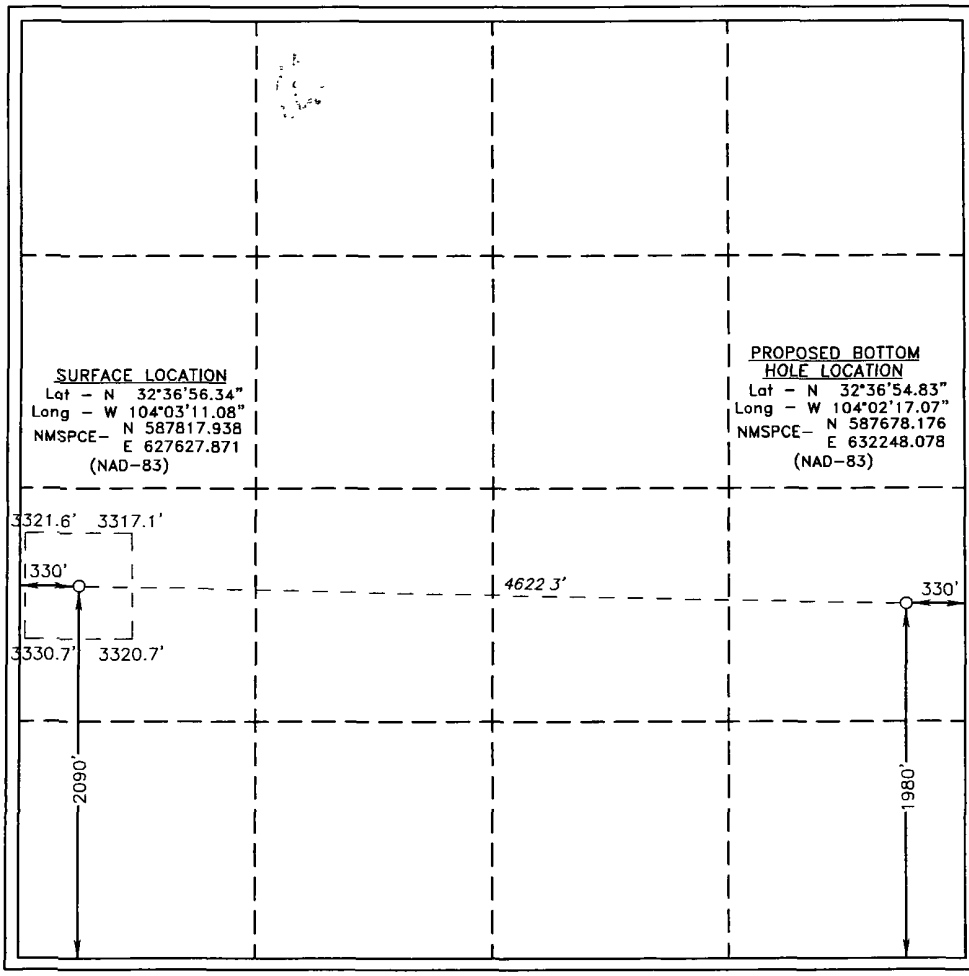
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	35	19 S	29 E		2090	SOUTH	330	WEST	EDDY

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
I	35	19 S	29 E		1980	SOUTH	330	EAST	EDDY

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160			

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 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.

Signature Date 6/26/2012

Michael Mataalii
Printed Name

mmataalii@sm-energy.c
Email Address

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 supervison, and that the same is true and correct to the best of my belief

AUGUST 28, 2009
Date Surveyed

Signature & Seal of Professional Surveyor

GARY L. JONES NEW MEXICO 7977 REGISTERED PROFESSIONAL LAND SURVEYOR

W.O. Number 24920A

Certificate No. Gary L. Jones 7977

BASIN SURVEYS 24920A

Drilling program

SM Energy Company
Parkway 35 Federal Com 3H
2090 FSL & 330 FWL (SHL)
1980 FSL & 330 FEL (BHL)
Sec 35-T19S-R29E
Eddy County, New Mexico

The estimated tops of geologic markers are as follows

Rustler	221'
Top of Salt	390'
Base of Salt	1100'
*Yates	1341'
Capitan	2336'
*Cherry Canyon	3470'
*Delaware	4061'
*Bone Spring	5706'
*Wolfcamp	9470'

Estimated depths of anticipated fresh water, oil, or gas

Fresh water is expected at 75'and will be protected by setting surface casing at 250' and cementing to surface.

Oil and gas are anticipated in the above (*) formations. These zones will be protected by casing as required.

Pressure and control equipment

A 2M diverter system will be installed after running 20" casing.
The BOP system used to drill the intermediate hole will consist of a 13-5/8" 3M Double Ram and Annular preventer. The BOP system will be tested be test by a third party as per BLM onshore oil and gas order No. 2 as a 3M system prior to drilling out the surface casing shoe. In addition to the rams and annular preventer, additional BOP accessories including a Kelly cock, floor safety valve, choke lines, and choke manifold rated at 3,000 psi work pressure will be used.

Proposed casing and cementing program

A. Casing program:

Hole Size	Casing Size	Casing #/foot	Grade	Setting Depth	Collar
26"	20" (new)	94	J55	0-250'	BTC
17.5"	13 3/8" (new)	54.5	J55	0-1500'	STC
12 ¼"	9 5/8" (new)	36	J55	0-3300'	LTC
8 ¾"	7" (new)	26	P110	0-8432'	LTC
6 1/8"	4.5" (new)	11.6	P110	8,250'-12,503'	LTC

Minimum casing design factors: Collapse 1.125, Burst 1.0, Tensile strength 1.8.
*Subject to casing availability

SM Energy Company proposes drilling an 8-3/4" vertical pilot hole to 10,000 MD and plug back to KOP. The cement plug details are included below in the Cementing program.

B. Cementing Program:

I. **Surface conductor pipe:** 190 sx class C light cement 35:65 with salt and LCM additives. Yield of 2.0cuft/sx. 280 sx Class C cement with 2% CaCl2. Yield of 1.34 cuft/sx. Cmt circulated to surface w/100% excess.

II. **Surface casing:** 525 sx 35:65 Class C light cement with salt and LCM additives. Yeild at 2.0 cuft/sx. 780 sx class C cement containing 2% CaCl. Yield 1.34 cuft/sx. Cmt circulated to surface w/100% excess.

III. **Intermediate Casing:** 550 sx 35:65 Class C light cement with salt and LCM additives. Yeild at 2.0 cuft/sx. 410 sx class C cement containing 2% CaCl. Yield 1.34 cuft/sx. Cmt circulated to surface w/50% excess.

IV. **Deep intermediate Casing:** 456 sx Class H light cement 35:65 with fluid loss, LCM, & salt additives. Yield at 2.12 cuft/sx. 205 sx class H cement containing fluid loss additives. Yield at 1.18 cuft/sx. Cmt circulated to 2000' w/25% excess.

V. **Production Casing:** plans are to use a sliding sleeve, frac port and packer system with 4 ½" liner. No cement required.

VI. **Pilot Hole Plugs:**

- i. **Plug 1:** 300 sx Class H Cement, 15.6, 1.18 cuft/sx
  1. **Top of plug** 9,000 ft
  2. **Bottom of plug** 10,000 ft
- ii. **Plug 2:** 350 sx Class H Cement, 18 ppg, 0.90 cuft/sx
  1. **Top of plug** 7,500 ft
  2. **Bottom of plug** 8,000 ft

*SM Energy Company reserves the right to change cement designs as hole conditions may warrant.

Mud Program

Interval	mud type	weight	Viscosity	Fluid loss
0-250'	Fresh water spud mud	8.6-9.4	32-34	No Control
250'-1500'	Brine	10	28-30	No Control
1500'-3300'	Fresh water	8.4	28-30	No Control
3300'-8433'	Cut bine	8.4-8.6	28-30	No Control
8433'-TD MD	Cut brine w/polymer	8.4-8.6	32-40	No Control

Evaluation Program

I. Mud log samples will be taken in 10' intervals after drilling out the surface casing.
II. Open hole logs will be run from pilot hole TD to intermediate casing. Open hole logs include a Dual laterolog, compensated neutron-density, Gamma Ray and Caliper.
III. Gamma Ray will be used to drill lateral hole.
IV. No Drill stem tests or coring is planned at this time.
V. Additional testing may be initiated based on log evaluation and geological sample shows.

Downhole Conditions

Zones of abnormal pressure:	None anticipated
Zones of lost circulation:	Anticipated in surface and intermediate holes
Maximum bottom hole temperature:	130 degrees F
Maximum bottom hole pressure:	.433 psi/ft gradient

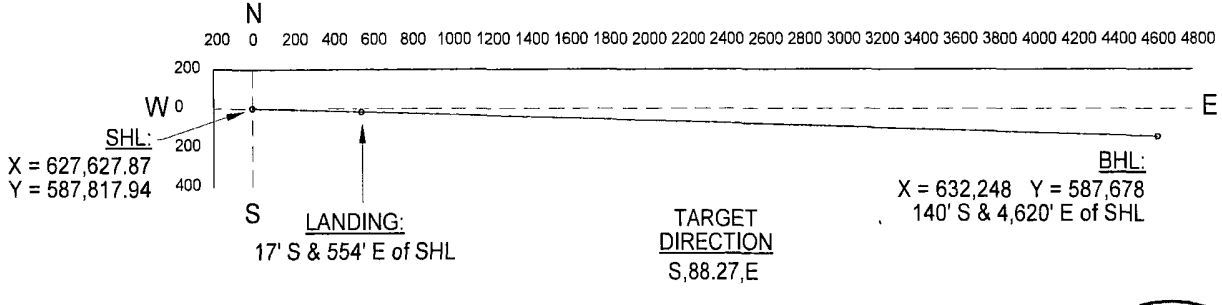
Anticipated Starting Date

SM Energy Company intends to drill this well early 2012 with approximately 40 days involved in drilling operations and an additional 10 days involved in completion operations on the project.

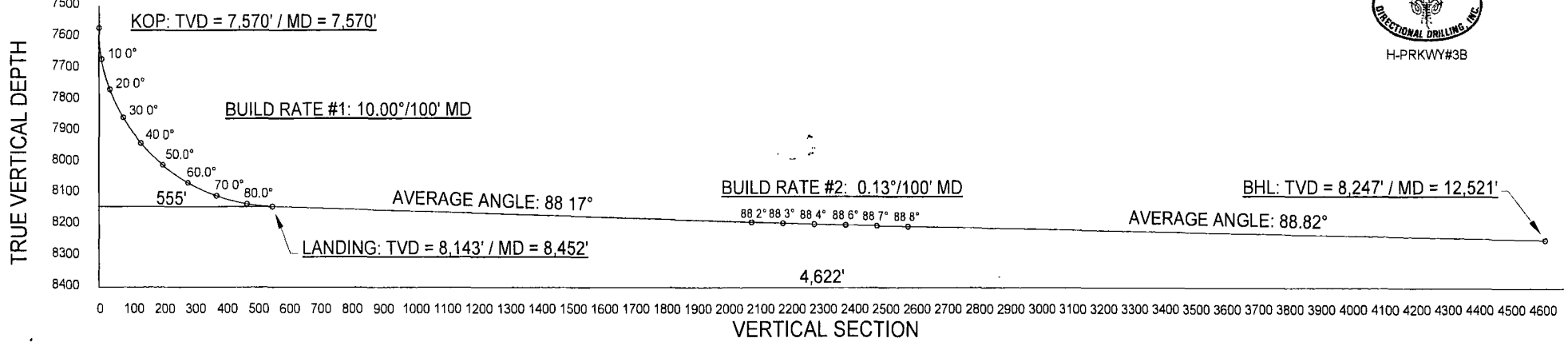
SM ENERGY COMPANY

PARKWAY 35 FEDERAL COM WELL #3-H
SECTION 35, T-19-S, R-29-E
EDDY COUNTY, NEW MEXICO
(08/28/12)

HORIZONTAL PROJECTION



VERTICAL PROJECTION



RAMCO DIRECTIONAL DRILLING, INC.
H-PRKWY#3B

SM ENERGY COMPANY

8/28/2012

PARKWAY 35 FEDERAL COM WELL #3H
SECTION 35, T-19-S, R-29-E
EDDY COUNTY, NEW MEXICO

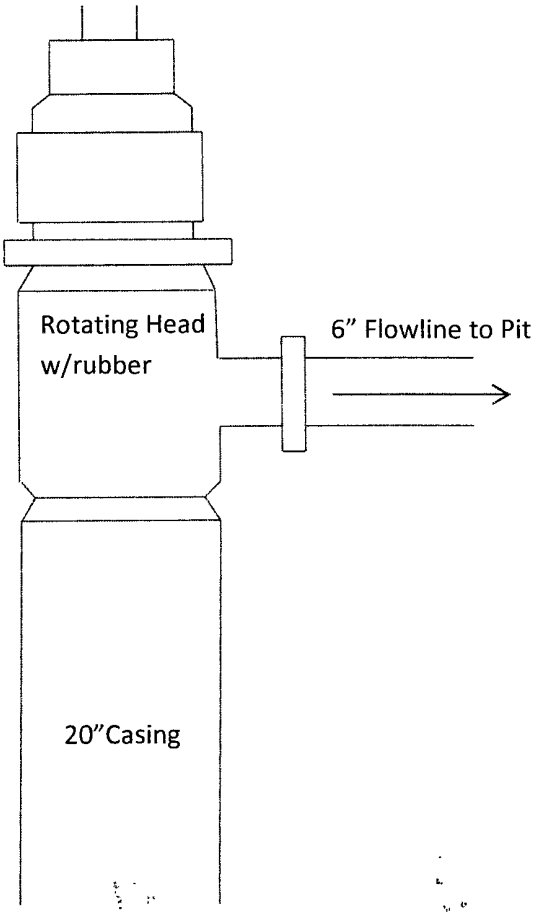
RKB = 3343' AMSL Est. (GL = 3325')

SHL: X: 627,627.87' Y: 587,817.94'
NAD 83

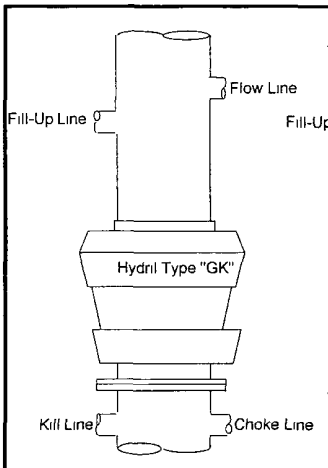
Obj = S 88.27 E

Type	#	MD	ANG	Azimuth		DIR		CL	TVD	(+)North (-)South	(+)East (-)West	Vertical Section	Dogleg /100'
		SURVEY											
9-5/8" CASING	TI-IN	3550.00	0 00	91.73	S	88.27	E	----	3550.00	0.00	0.00	0.00	TI-IN
KOP	1	7570.33	0.00	91 73	S	88.27	E	4020	7570.33	0.00	0.00	0.00	0.00
	2	7602.33	3 20	91.73	S	88 27	E	32	7602.32	-0 03	0 89	0 89	10.00
	3	7634 33	6 40	91.73	S	88 27	E	32	7634 20	-0.11	3.57	3.57	10 00
	4	7666 33	9 60	91.73	S	88 27	E	32	7665.89	-0.24	8 02	8 02	10.00
	5	7698.33	12.80	91 73	S	88.27	E	32	7697 27	-0.43	14 23	14.24	10 00
	6	7730.33	16.00	91.73	S	88 27	E	32	7728 26	-0 67	22.19	22.20	10.00
	7	7762 33	19.20	91.73	S	88.27	E	32	7758.76	-0 96	31 86	31.87	10 00
	8	7794 33	22 40	91.73	S	88.27	E	32	7788.67	-1.31	43.21	43 23	10.00
	9	7826 33	25 60	91 73	S	88 27	E	32	7817.90	-1 70	56 22	56.25	10.00
	10	7858 33	28.80	91 73	S	88 27	E	32	7846.36	-2.14	70.84	70.87	10.00
	11	7890.33	32.00	91.73	S	88.27	E	32	7873.96	-2.63	87 02	87 06	10.00
	12	7922 33	35 20	91.73	S	88.27	E	32	7900.61	-3.17	104 72	104.77	10 00
	13	7954 33	38 40	91 73	S	88.27	E	32	7926.23	-3 75	123.88	123.93	10.00
	14	7986.33	41.60	91.73	S	88 27	E	32	7950.74	-4 37	144.44	144 50	10.00
	15	8018.33	44.80	91.73	S	88.27	E	32	7974.06	-5.03	166 33	166 40	10 00
	16	8050.33	48.00	91.73	S	88.27	E	32	7996 12	-5.73	189.49	189.57	10.00
	17	8082.33	51.20	91.73	S	88.27	E	32	8016.86	-6 47	213.84	213 94	10.00
	18	8114.33	54 40	91 73	S	88 27	E	32	8036.21	-7 24	239 32	239.43	10.00
	19	8146 33	57 60	91 73	S	88.27	E	32	8054 10	-8.04	265.83	265 95	10.00
	20	8178.33	60.80	91.73	S	88.27	E	32	8070 48	-8 87	293.30	293.43	10.00
	21	8210.33	64.00	91.73	S	88 27	E	32	8085 31	-9.73	321 64	321.79	10.00
	22	8242 33	67.20	91.73	S	88 27	E	32	8098 52	-10 61	350.77	350.93	10.00
	23	8274.33	70 40	91 73	S	88 27	E	32	8110.09	-11.51	380 58	380 76	10 00
	24	8306 33	73.60	91.73	S	88 27	E	32	8119 98	-12.43	411.00	411.19	10.00
	25	8338.33	76 80	91.73	S	88.27	E	32	8128.15	-13 37	441.92	442.12	10 00
	26	8370 33	80 00	91.73	S	88 27	E	32	8134.59	-14 32	473.25	473 46	10.00
	27	8402.33	83.20	91.73	S	88.27	E	32	8139.26	-15.27	504.89	505 12	10.00
	28	8434.33	86.40	91 73	S	88.27	E	32	8142 16	-16.24	536 74	536.98	10.00
LANDING	29	8452.03	88.17	91.73	S	88.27	E	18	8143.0000	-16.77	554.41	554.66	10 00
	30	8484.03	88.17	91.73	S	88 27	E	32	8144.02	-17.74	586 38	586.64	0.00
	31	8984.03	88.17	91.73	S	88 27	E	500	8159.99	-32.85	1085 89	1086.39	0.00
	32	9484 03	88.17	91.73	S	88 27	E	500	8175 97	-47 96	1585.41	1586.13	0 00
	33	9984 03	88 17	91 73	S	88.27	E	500	8191.94	-63.07	2084.93	2085 88	0.00
	34	10484.03	88 82	91.73	S	88.27	E	500	8205.08	-78.18	2584 52	2585.70	0.13
	35	10984 03	88.82	91.73	S	88.27	E	500	8215 37	-93.30	3084.19	3085.60	0 00
	36	11484 03	88.82	91.73	S	88.27	E	500	8225 67	-108.41	3583.85	3585.49	0 00
	37	11984.03	88.82	91.73	S	88 27	E	500	8235.96	-123.53	4083.52	4085 39	0.00
	38	12484.03	88.82	91.73	S	88 27	E	500	8246 26	-138.64	4583.18	4585 28	0.00
BHL	39	12521.08	88.82	91.73	S	88.27	E	37	8247.02	-139.76	4620.21	4622.32	0 00
LATERAL		4069.05								-139.76	4620.21	4622.32	

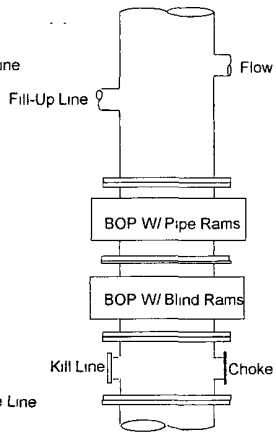
Diverter System



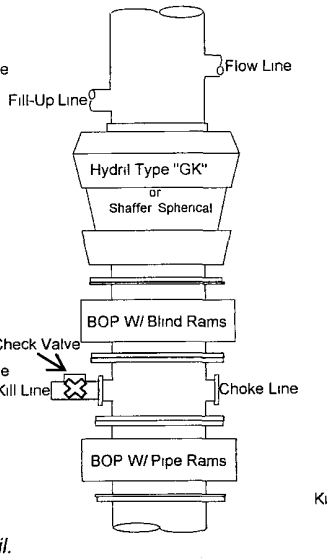
SM Energy Company
MINIMUM BLOWOUT PREVENTER REQUIREMENTS



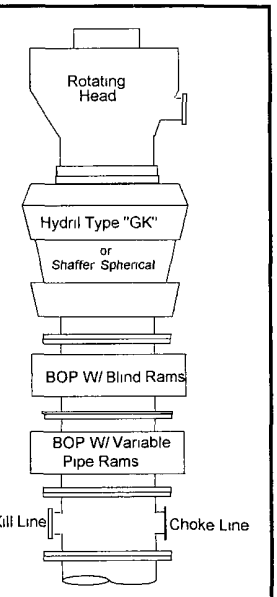
CASE I



CASE II



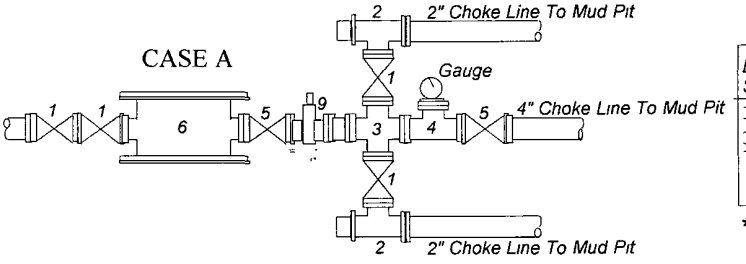
CASE III



CASE IV

A1" valve will be installed on the closing line to the Hydril. This valve will on a short nipple next to the Hydril. The Hydril closing line must be equipped with a 1" - 3000 psi WP plug valve on the nipple into the Hydril.

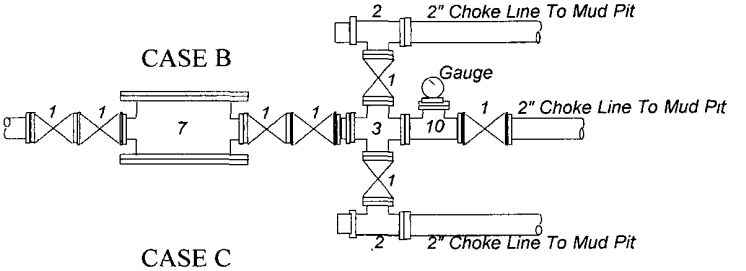
CASE A



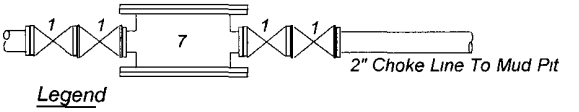
BOP SIZE	BOP CASE	WORKING PRESSURE	CHOKE CASE
13-3/8"	II	2000 psi	B
9-5/8"	III	3000 psi	B

**Rotating head required*

CASE B



CASE C



Legend

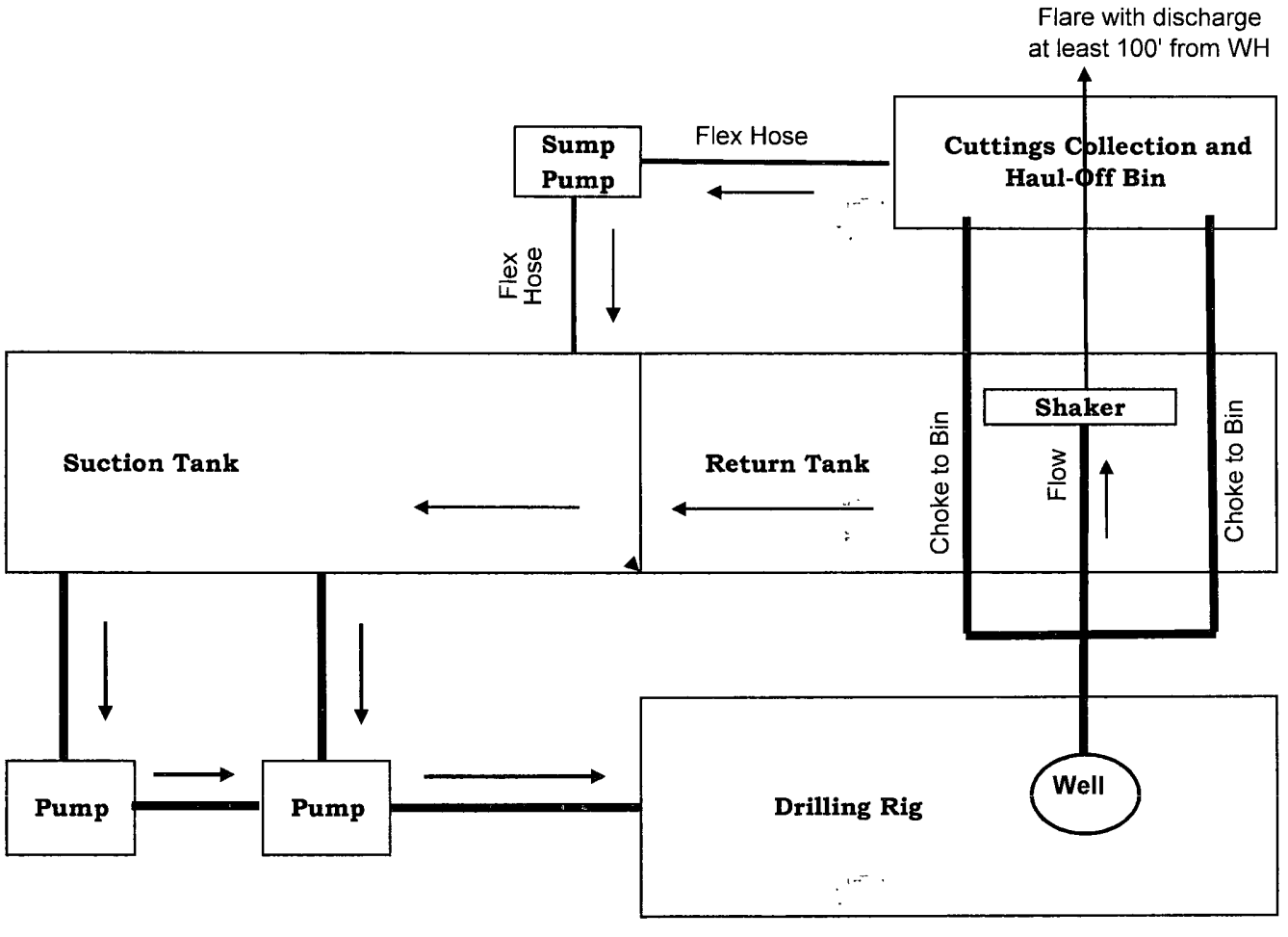
1 2" flanged all steel valve must be either Cameron "F", Halliburton Low Torque or Shaffer Flo-Seal
2 2" flanged adjustable chokes, min. 1" full opening & equiped with hard trim
3 4" x 2" flanged steel cross
4. 4" flanged steel tee
5 4" flanged all steel valve (Type as in no. 1)
6 Drilling Spool with 2" x 4" flanged outlet
7 Drilling Spool with 2" x 2" flanged outlet
8. 2" x 2" flanged steel cross
9. 4" pressure operated gate valve.
10. 2" flanged steel tee.

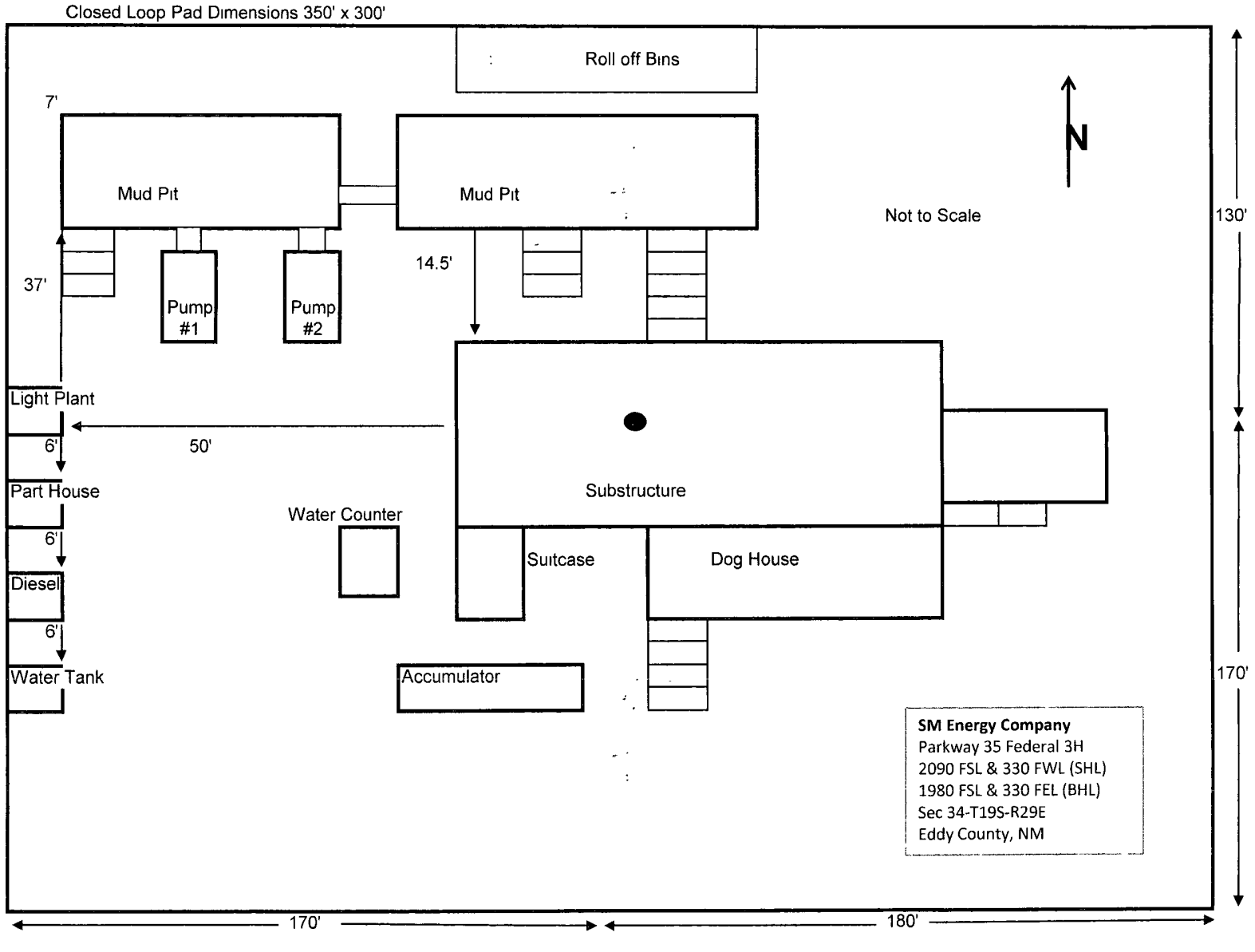
Notes

Choke manifold may be located in any convenient position. Use all steel fittings throughout. Make 90° turns with bull plugged tees only. No field welding will be permitted on any of the components of the choke manifold and related equipment upstream of the chokes. The choke spool and all lines and fittings must be at least equivalent to the test pressure of the preventers required. Independent closing control unit with clearly marked controls to be located on derrick floor near driller's position.

(10-31-96) WTXBOPS PPT

Choke Manifold Schematic for Closed Loop System




Closed Loop Pad Dimensions 350' x 300'
Roll off Bins
7'
Mud Pit
Mud Pit
N
Not to Scale
130'
37'
Pump #1
Pump #2
14.5'
Light Plant
6'
50'
Part House
6'
Diesel
6'
Water Tank
Water Counter
Substructure
Suitcase
Dog House
Accumulator
170'
SM Energy Company
Parkway 35 Federal 3H
2090 FSL & 330 FWL (SHL)
1980 FSL & 330 FEL (BHL)
Sec 34-T19S-R29E
Eddy County, NM
170'
180'

SM Energy Company
3300 N. A Street, Suite 200
Midland, TX 79705
(432) 688-3125 (Office)
(432) 682-1701 (Fax)

Parkway 35Federal 3H
2090 FSL & 330 FWL (SHL)
1980 FSL & 330 FEL (BHL)
Sec 35-T19S-R29E
Eddy County, New Mexico
Rule 118 H2S Exposure

SM Energy Company has evaluated this well and we do not expect to encounter hydrogen sulfide. However, we will employ a third party monitoring system. We will begin monitoring prior to the Yates Formation and will continue monitoring the remainder of the well.

Please contact me if you have any additional questions.

Sincerely,

Malcolm Kintzing
Engineer

Hydrogen Sulfide Drilling Operations Plan

1. Company and Contract personnel admitted on location should be trained by a qualified H_2S safety instructor to the following:
   A. Characteristics of H_2S.
   B. Physical Effects and Hazards.
   C. Proper Use of Safety Equipment and Life Support Systems.
   D. Principle and Operation of H_2S Detectors, Warning System and Briefing.
   E. Evacuation Procedure, Routes and First Aid.
   F. Proper Use of 30 minute Pressure Demand Air Pack.

2. H_2S Detection and Alarm Systems
   A. H_2S Detectors and Audio Alarm System to be Located at Bell Nipple, End of Blooie Line (mud pit) and on Derrick floor or doghouse.

3. Windsock and/or Wind Streamers
   A. Windsock at Mud Pit Area Should be High Enough to be Visible.
   B. Windsock at Briefing Area Should be High Enough to be Visible.
   C. There Should be a Windsock at Entrance to Location.

4. Condition Flags and Signs
   A. Warning Sign on Access Road to Location.
   B. Flags to be Displayed on Sign at Entrance to Location.
      1. Green Flag, Normal Safe Condition.
      2. Yellow Flag, Indicates Potential Pressure and Danger.
      3. Red Flag, Danger H_2S Present in Dangerous Concentration Only Emergency Personnel Admitted to Location.

5. Well Control Equipment
   A. See Attached Diagram.

6. Communication
   A. While Working Under Masks Chalkboards Will be Used for Communication.
   B. Hand Signals will be Used Where Chalk Board is Inappropriate.
   C. Two Way Radio or Cell Phone will be Used to Communicate off Location in Case of Available at Most Drilling Foreman's Trailer or Living Quarters.

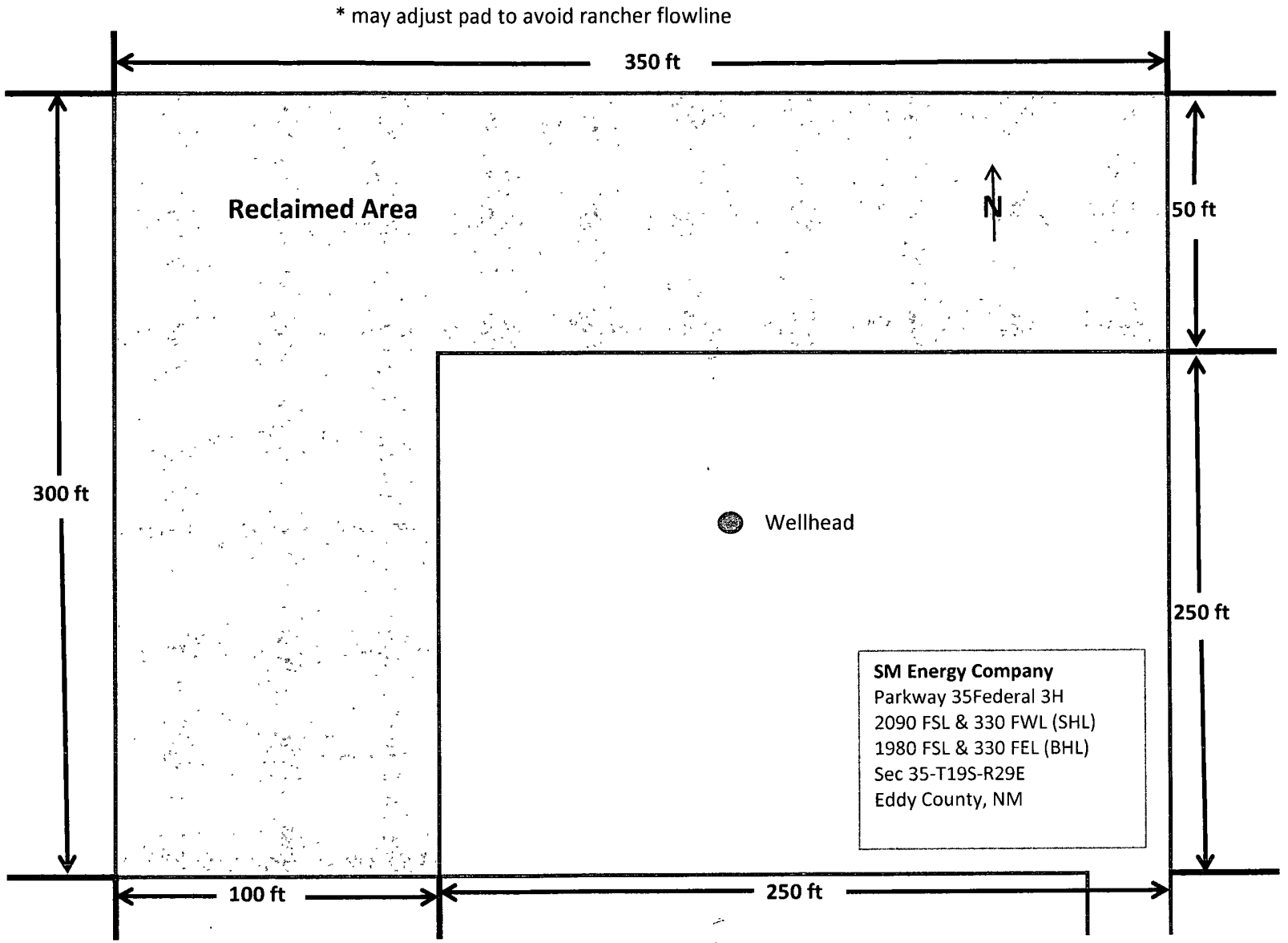
7. Drillstem Testing
   A. Exhausts will be Watered.
   B. Flare Line will be Equipped with an Electric Igniter or a propane pilot light in case gas reaches the surface.
   C. If Location is near any Dwelling a Closed DST will be Performed.

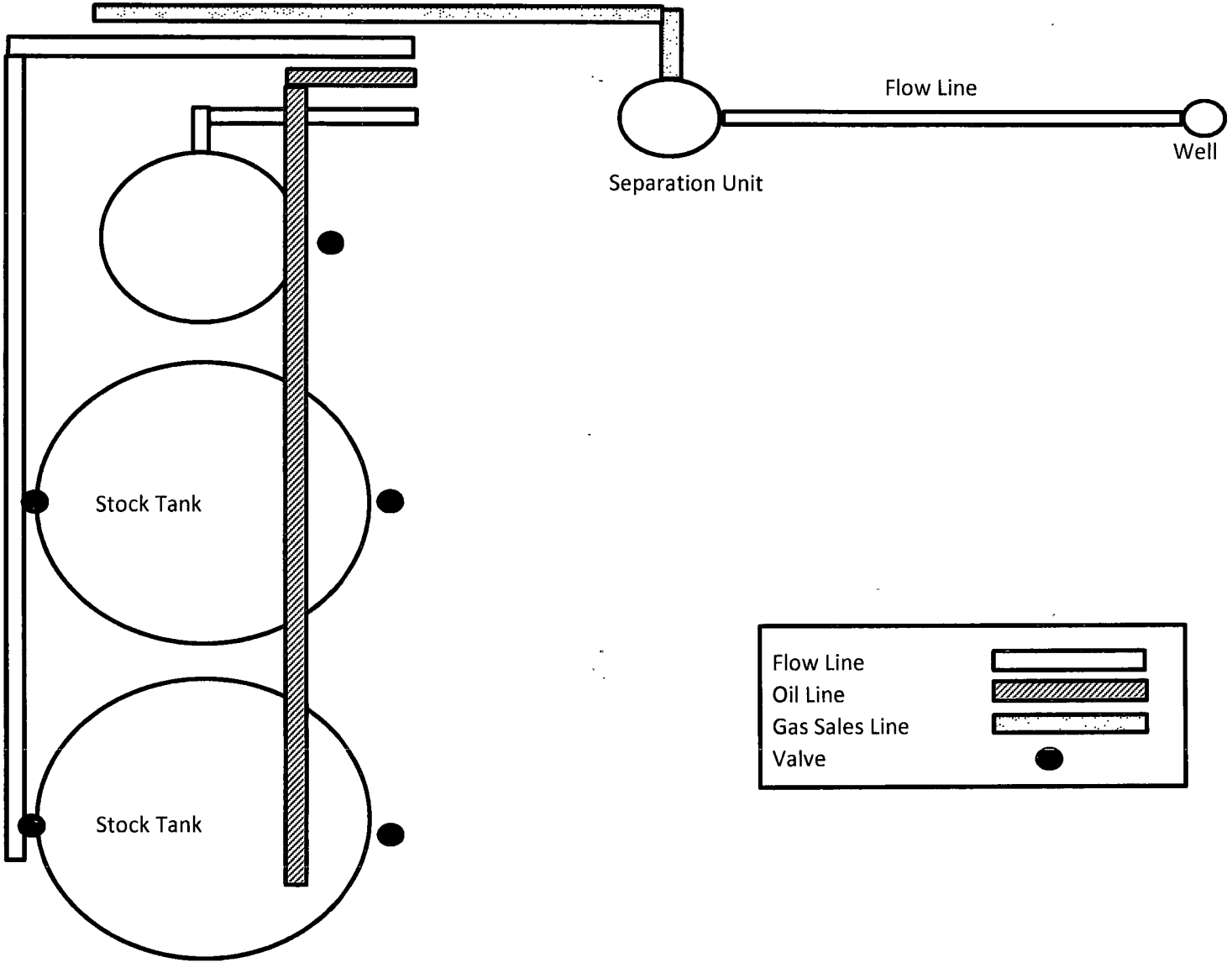
8. Drilling Contractor Supervisor will be Required to be Familiar with the Effects H_2S has on tubular goods and other mechanical equipment.

9. If H_2S Encountered, Mud system will be Altered if Necessary to Maintain Control of Formation. A Mud Gas Separator will be Brought into Service Along with H_2S Scavengers if Necessary.

Emergency Contacts

Eddy County Sheriff's Office		911 or 575-887-7551
Carlsbad Fire Department		911 or 575-885-2111
Columbia Medical Center of Carlsbad		575 or 575-677-3266
SM Energy Company (Midland office)		
Phone 432-688-1700		
Fax 432-688-1701		
Contract Pumper	Jackie Herron	575-746-7601
Field Superintend	Bill Hearne	432-230-6054
Operations Manager	Mark Bondy	432-557-9049


* may adjust pad to avoid rancher flowline
350 ft
Reclaimed Area
N
50 ft
300 ft
Wellhead
250 ft
SM Energy Company
Parkway 35Federal 3H
2090 FSL & 330 FWL (SHL)
1980 FSL & 330 FEL (BHL)
Sec 35-T19S-R29E
Eddy County, NM
100 ft
250 ft


Flow Line
Well
Separation Unit
Stock Tank
Stock Tank
Flow Line
Oil Line
Gas Sales Line
Valve

PECOS DISTRICT
CONDITIONS OF APPROVAL

OPERATOR'S NAME:	SM ENERGY COMPANY
LEASE NO.:	NM-54865
WELL NAME & NO.:	PARKWAY 35 FEDERAL COM #3H
SURFACE HOLE FOOTAGE:	2090' FSL & 330' FWL
BOTTOM HOLE FOOTAGE	1980' FSL & 330' FEL
LOCATION:	Section 35, T.19 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.