

ATS-12-629

OCD Hobbs

Form 3160-3
(March 2012)

HOBBS OCD

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

Split Estate

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

AUG 14 2012

APPLICATION FOR PERMIT TO DRILL OR REENTER

RECEIVED

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		7. If Unit or CA Agreement, Name and No.
1b. Type of Well: <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		8. Lease Name and Well No. Jefe BSJ Federal Com #1H-393987
2. Name of Operator Yates Petroleum Corporation		9. API Well No. 30-025-40722
3a. Address 105 S. Fourth Street Artesia, NM 88210	3b. Phone No. (include area code) 575-748-4120	10. Field and Pool, or Exploratory Bone Spring Uppasshale 97838
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 330' FSL & 1980' FEL, Sec. 32, T25S-R32E Unit 0 At proposed prod. zone 2310' FSL & 1980' FEL, Sec. 29, T25S-R32E Unit J		11. Sec., T, R. M. or Blk. and Survey or Area SHL: Sec. 32, T25S-R32E BHL: Sec. 29, T25S-R32E
14. Distance in miles and direction from nearest town or post office* 45 Miles		12. County or Parish Lea
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig. unit line, if any) 330'		13. State NM
16. No. of acres in lease 320/320/320	17. Spacing Unit dedicated to this well W2E2 of Section 32, W2SE4 of Section 29	
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 0.8 of a mile	19. Proposed Depth 8888' TVD 15942' MD	20. BLM/BIA Bond No. on file NATIONWIDE BOND #NMB000434
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3297	22. Approximate date work will start* 08/31/2012	23. Estimated duration 45 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. | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above). |
| 2. A Drilling Plan. | 5. Operator certification |
| 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) | 6. Such other site specific information and/or plans as may be required by the BLM. |

25. Signature <i>[Signature]</i>	Name (Printed/Typed) Travis Hahn	Date 04/18/2012
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Title

Land Regulatory Agent

Approved by (Signature) <i>/s/ Don Peterson</i>	Name (Printed/Typed) <i>/s/ Don Peterson</i>	Date AUG 10 2012
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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)

Approval Subject to General Requirements
& Special Stipulations Attached

Carlsbad Controlled Water Basin

*KC 08/14/12*SEE ATTACHED FOR
CONDITIONS OF APPROVAL

AUG 16 2012

YATES PETROLEUM CORPORATION

Jefe BSJ Federal Com #1H

330' FSL & 1980' FEL; Surface Hole, Section 32 -T25S-R32E

2310' FSL & 1980' FEL, Bottom Hole, Section 29 -T25S-R32E

Eddy County, New Mexico

- 1 The estimated tops of geologic markers are as follows:

Rustler	1022'	Cherry Canyon	5515'
Top of Salt	1368'	Brushy Canyon	6873'
Base of Salt	4274'	Bone Springs	8578'
Bell Canyon	4540'	Avalon Shale	8639' Oil MD
		Avalon Shale Target	9161' Oil MD
		Lateral TD	15942'

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

Water: Approx. 0' - 650'

Oil or Gas: Oil Zones: 8639', 9161'

3. Pressure Control Equipment: 3000 PSI BOPE with a 13.625" opening will be installed on the 13.375 casing and also 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. 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 B.

4. Auxiliary Equipment:

- A. 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.

1. THE PROPOSED CASING AND CEMENTING PROGRAM:

- A. Casing Program: (All New)

Hole Size	Casing Size	Wt./Ft	Grade	Coupling	Interval	Length
17 1/2"	13 3/8"	48#	J-55 Hybrid	ST&C	0-1050'	1050'
12 1/4"	9 5/8"	40#	HCK-55	LT&C	0-100'	100'
12 1/4"	9 5/8"	36#	J-55	LT&C	100-3200'	3100'
12 1/4"	9 5/8"	40#	HCK-55	LT&C	3200-4590'	1390'
8 3/4"	5 1/2"	20#	L-80	LT&C	0-8400'	8400'
8 1/2"	5 1/2"	20#	L-80	Buttress Thread	8400'-15942'	7542'

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

B. CEMENTING PROGRAM:

Surface Casing: Lead with 590 sacks of PozC 35:65:6 (YLD 2.00 WT.12.50). Tail with 200 sacks Class C + 2% CaCl₂ (WT 14.80, YLD 1.34). Casing designed with 100% excess. TOC-Surface

Intermediate Casing: Lead with 1310 sacks of PozC 35:65:6 (YLD 2.00 WT 12.50). Tail with 200 sacks Class C + 2% CaCl₂ (YLD 1.34 WT. 14.80). Casing designed with 100% excess. TOC-Surface

Production Casing: Cement to be done in two stages with a DV Tool being set at 8000'.

Stage 1 from 8000'-15942': Lead with 190 sacks of PozC 35:65:6 (YLD 2.00 WT 12.50). Tail with 1655 sacks of Pecos Valley Lite (YLD 1.41 WT. 13.00), 30%CaCO₃, 3.2% Expansion additive, 2% Antifoam, .8% Retarder, 15 Fluid loss. Casing is designed with 35% excess. TOC-8000'

Stage 2 from 4090'-8000': Lead with 530 sacks of PozC 35:65:6 (YLD 2.00 WT 12.50). Tail with 200 sacks of Pecos Valley Lite (WT 13.00, YLD 1.41), 30%CaCO₃, 3.2% Expansion additive, 2% Antifoam, .8% Retarder, 15 Fluid loss. Casing is designed with 35% excess. TOC-4090'

Well will be drilled vertically depth to 8411'. Well will be kicked off at approximately 8411' and directionally drilled at 12 degrees per 100' with an 8 3/4" hole to 9161' MD (8888' TVD). Hole will then be reduced to 8 1/2" and drilled to 15942' MD (8888' TVD) where 5 1/2" casing will be set and cemented. Penetration point of producing zone will be encountered at 807' FSL & 1982' FEL, Section 32-25S-32E. Deepest TVD is 8888' in the lateral.

5. Mud Program and Auxiliary Equipment:

Interval	Type	Weight	Viscosity	Fluid Loss
0-1050' <i>1225</i>	Fresh Water	8.6-9.2	32-34	N/C
1050'-4590'	Brine Water	10.0-10.20	28-29	N/C
4590'-15942'	Cut Brine	8.8-9.2	28-32	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. Mud will be checked hourly by rig personnel.

6. Evaluation Program:

Samples: 30' Samples to 4400', then 10' Samples from 4400' to TD.

Logging: Platform Express through curve.

CNL/LDT/NGT – TD to Intermediate casing

CNL/GR – TD to surface

DLL-MSFL – TD to surface casing

BHC Sonic – TD to surface casing

MWD-GR – Horizontal

Coring: None

DST's: None

Mudlogger: Out from under surface casing to TD.

7. Abnormal Conditions, Bottom hole pressure and potential hazards:
Anticipated BHP:

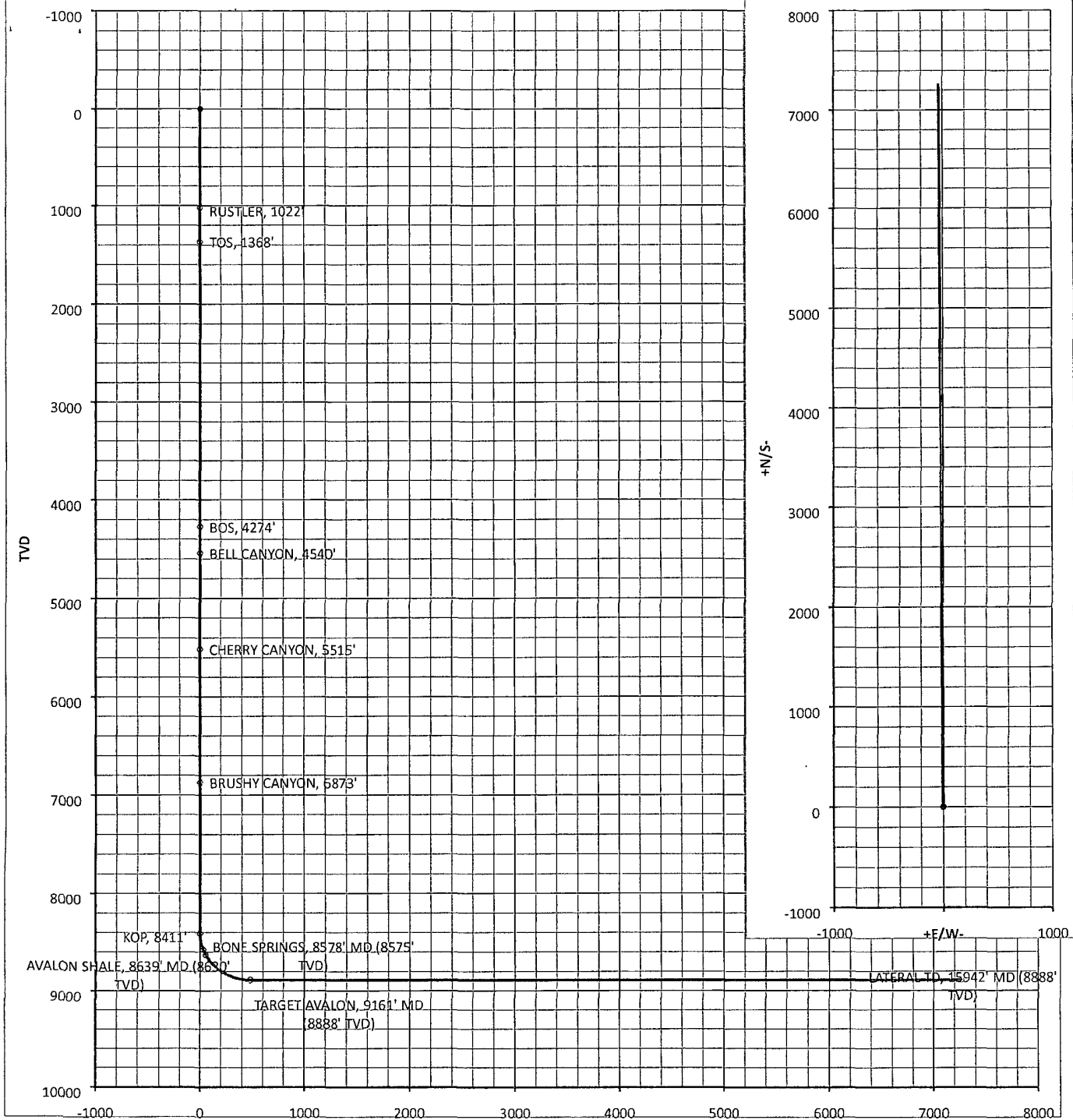
From: 0	TO: 1050'	Anticipated Max. BHP:	502	PSI
From: 700'	TO: 4350'	Anticipated Max. BHP:	2435	PSI
From: 4590'	TO: 8888'	Anticipated Max. BHP:	4252	PSI

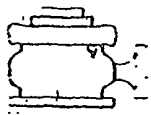
No abnormal pressures or temperatures are anticipated.
H2S may be encountered on this well.

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 65 days to drill the well with completion taking another 30 days.

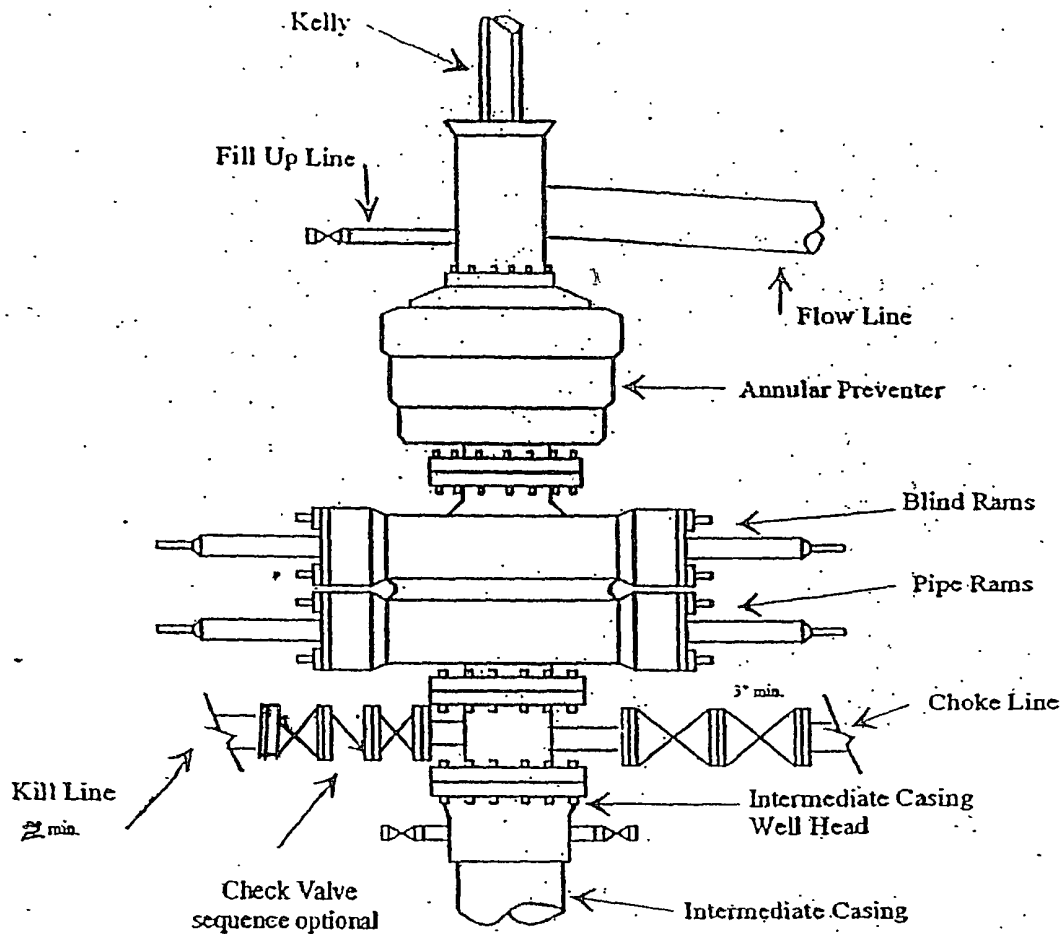
Co: Yates Petroleum Corporation					Units: Feet, °, %100ft		VS Az: 359.75		Method: Minimum Curvature			
Drillers: 0					Elevation:		Map System: NAD83, St. Plane, Wyoming West					
Well Name: Jefe BSJ Federal Com #1H					Northing:		Latitude:					
Location: Sec. 32, 25S-32E					Easting:		Longitude:					
Yates Petroleum Corporation: Jefe BSJ Fed. Com #1H												
No.	MD	CL	Inc.	Azi	TVD	VS	+N/S	+E/W	BR	WR	DLS	Comments
0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
1	1022.00	1022.00	0.00	360.00	1022.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 RUSTLER, 1022'
2	1368.00	346.00	0.00	360.00	1368.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 TOS, 1368'
3	4274.00	2906.00	0.00	360.00	4274.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 BOS, 4274'
4	4540.00	266.00	0.00	360.00	4540.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 BELL CANYON, 4540'
5	5515.00	975.00	0.00	360.00	5515.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 CHERRY CANYON, 5515'
6	6873.00	1358.00	0.00	360.00	6873.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00 BRUSHY CANYON, 6873'
7	8410.54	1537.54	0.00	359.75	8410.54	0.01	0.01	0.00	0.00	0.00	0.00	0.00 KOP, 8411'
8	8500.00	89.46	10.74	359.75	8499.48	8.37	8.37	-0.04	12.01	0.00	12.01	
9	8578.35	78.35	20.15	359.75	8574.91	29.21	29.21	-0.13	12.01	0.00	12.01	0.00 BONE SPRINGS, 8578' MD (8575' T
10	8600.00	21.65	22.75	359.75	8595.06	37.13	37.13	-0.16	12.00	0.00	12.00	
11	8638.56	38.56	27.38	359.75	8629.99	53.46	53.46	-0.23	12.00	0.00	12.00	0.00 AVALON SHALE, 8639' M
12	8700.00	61.44	34.75	359.75	8682.58	85.13	85.13	-0.37	12.00	0.00	12.00	
13	8800.00	100.00	46.74	359.75	8758.20	150.28	150.28	-0.66	12.00	0.00	12.00	
14	8900.00	100.00	58.74	359.75	8818.63	229.73	229.73	-1.01	12.00	0.00	12.00	
15	9000.00	100.00	70.74	359.75	8861.22	320.01	320.00	-1.40	12.00	0.00	12.00	
16	9100.00	100.00	82.74	359.75	8884.12	417.16	417.16	-1.83	12.00	0.00	12.00	
17	9160.53	60.53	90.00	359.75	8888.00	477.47	477.47	-2.09	12.00	0.00	12.00	0.00 TARGET AVALON, 9161'
18	15942.44	6781.91	90.00	359.75	8888.01	7259.38	7259.31	-31.79	0.00	0.00	0.00	0.00 LATERAL TD, 15942' MD



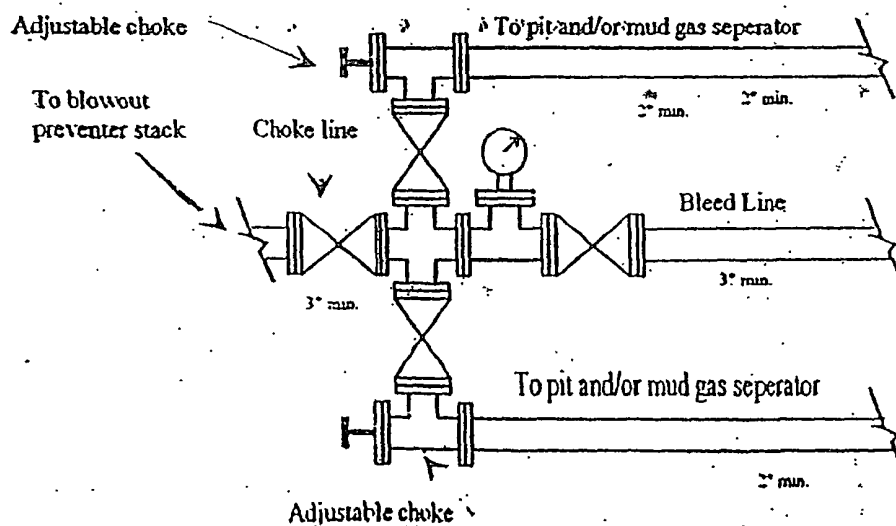


Yates Petroleum Corporation
Typical 3,000 psi Pressure System
Schematic
Annular with Double Ram Preventer Stack

BOP-3

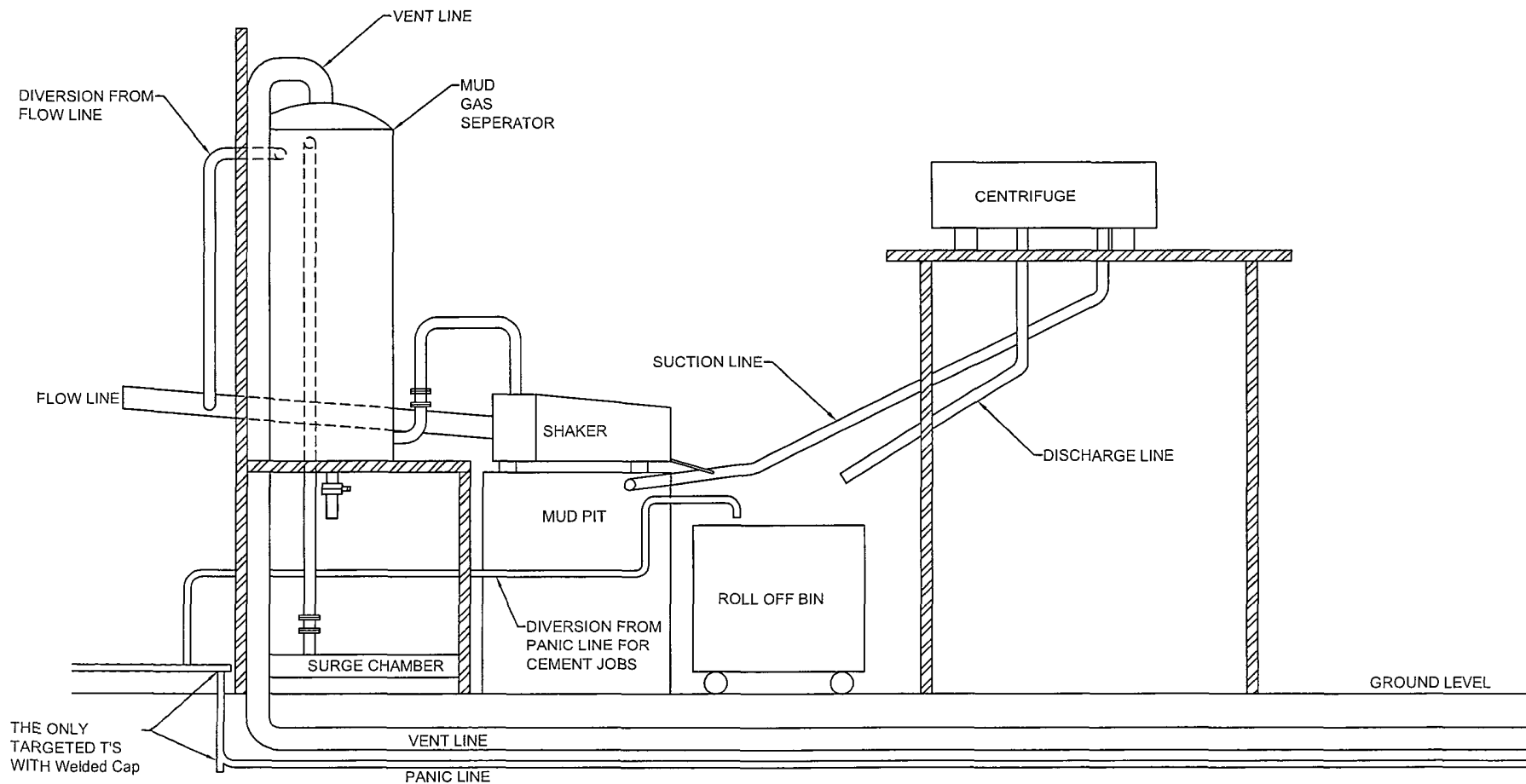


Typical 3,000 psi choke manifold assembly with at least these minimum features



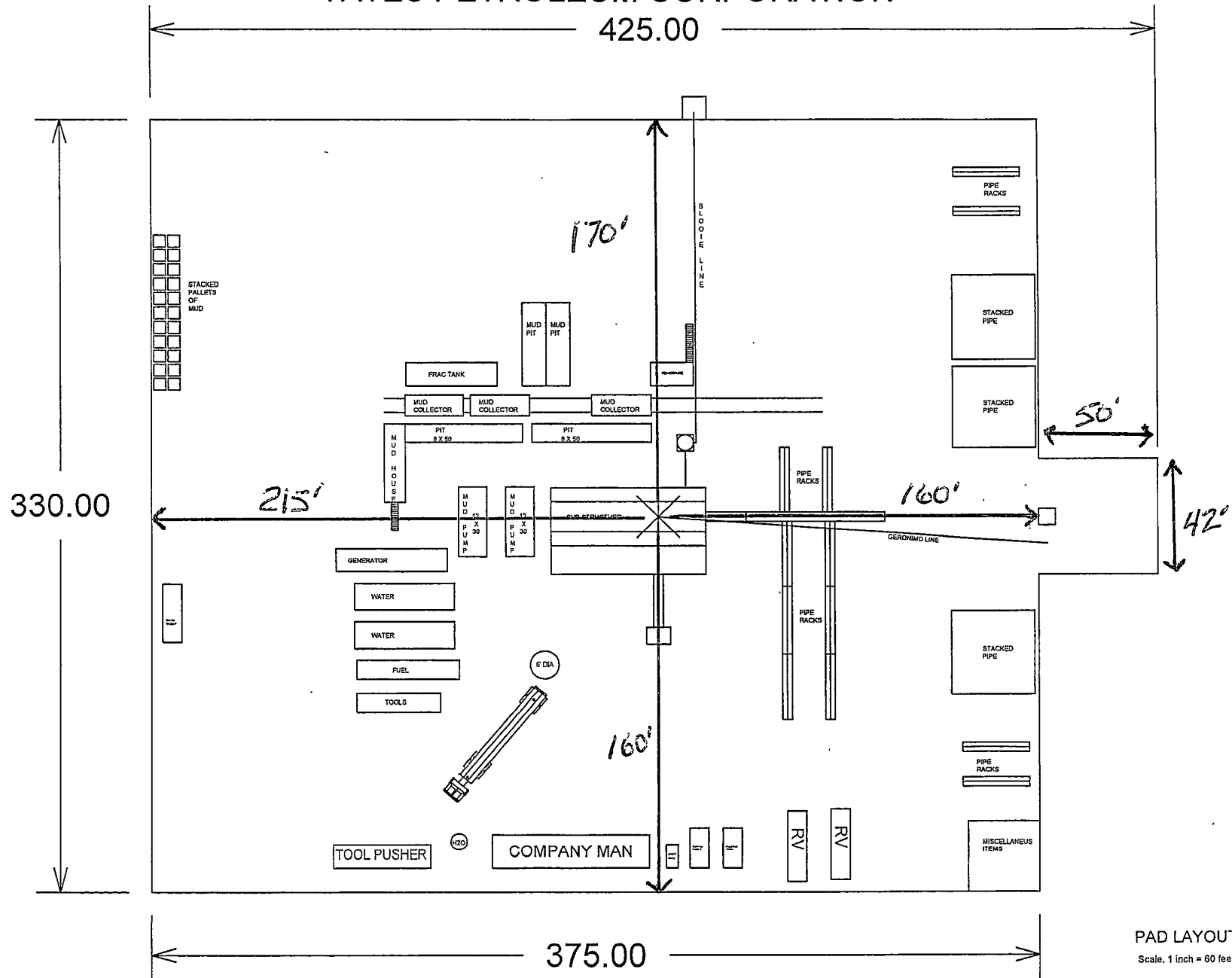
YATES PETROLEUM CORPORATION

Piping from Choke Manifold to the Closed Loop Drilling Mud System



The flare discharge must be 100' from wellhead for non H2S wells and 150' from wellhead for wells expected to encounter H2S.

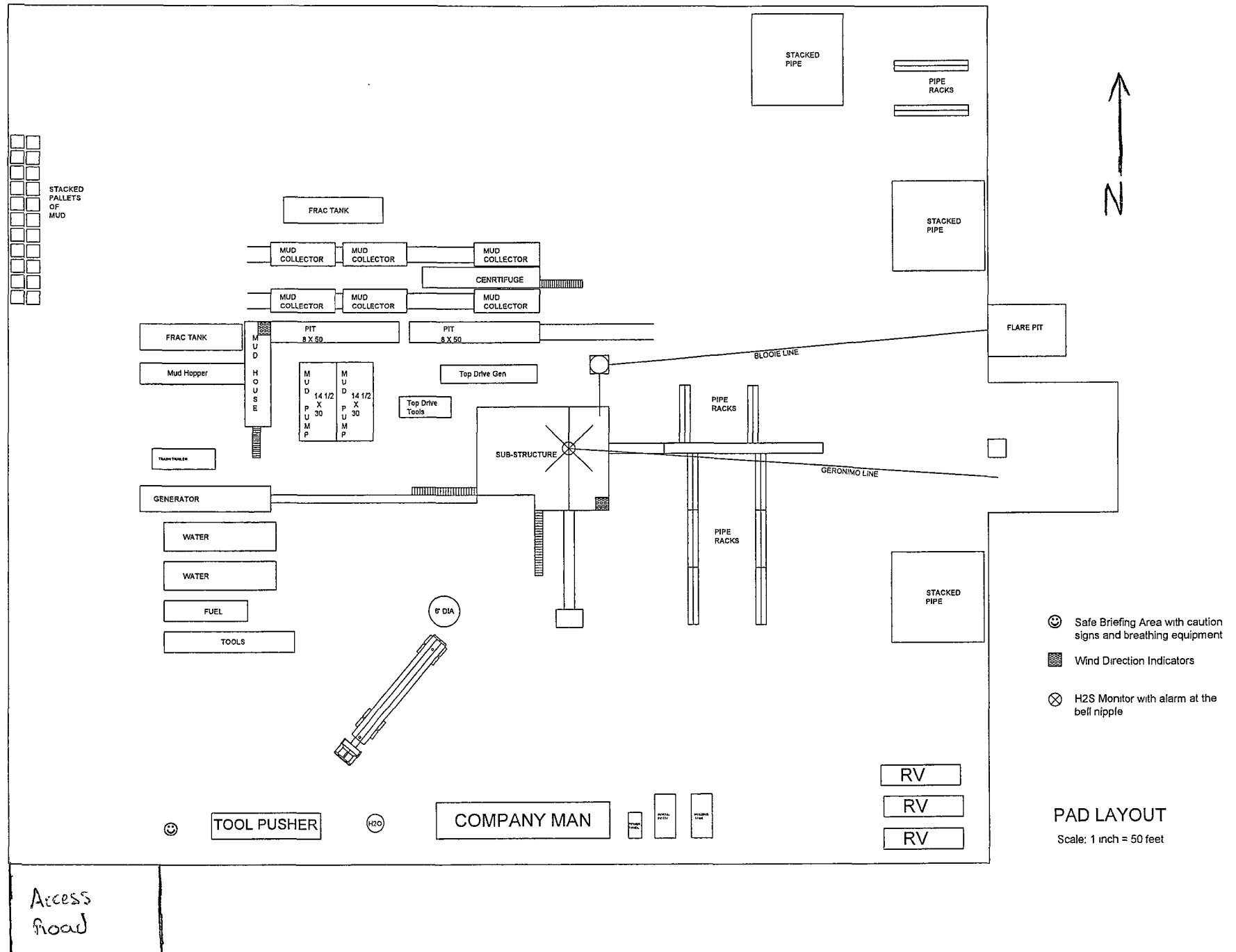
YATES PETROLEUM CORPORATION



PAD LAYOUT

Scale: 1 inch = 60 feet

YATES PETROLEUM CORPORATION



Yates Petroleum Corporation**HOBBS OCD****Hydrogen Sulfide Drilling Operation Plan****AUG 14 2012****RECEIVED****I. HYDROGEN SULFIDE TRAINING**

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

1. The hazards and characteristics of hydrogen sulfide (H₂S).
2. The proper use and maintenance of personal protective equipment and life support systems.
3. The proper use of H₂S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
4. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

1. The effects of H₂S on metal components. If high tensile tubular are to be used, personnel will be trained in their special maintenance requirements.
2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
3. The contents and requirements of the H₂S Drilling Operations Plan and H₂S Contingency Plan.

There will be an initial training session just prior to encountering a known or probable H₂S zone (within 3 days or 500 feet) and weekly H₂S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H₂S Drilling Operation Plan and the H₂S Contingency Plan. **The location of this well does not require a Public Protection Plan.**

II. H2S SAFETY EQUIPMENT AND SYSTEMS

NOTE: All H2S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H2S.

1. Well Control Equipment:

- A. Flare line
- B. Choke manifold
- C. Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit
- D. Auxiliary equipment may include if applicable: annular preventer & rotating head.

2. Protective equipment for essential personnel:

- A. Mark II Survive Air (or equivalent) 30-minute units located in the doghouse and at briefing areas, as indicated on well site diagram.

3. H2S detection and monitoring equipment:

- A. 3 portable H2S monitors positioned at: Shale Shaker, Bell Nipple, and Rig Floor. These units have warning lights and audible sirens when H2S levels of 10 PPM are reached.

4. Visual warning systems:

- A. Wind direction indicators as shown on well site diagram (attached).
- B. Caution/Danger signs (attached) shall be posted on roads providing direct access to location. Signs will be painted with high visibility yellow with black lettering of a sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used, when appropriate. See example attached.

5. Mud program:

- A. The mud program has been designed to minimize the volume of H2S circulated to the surface. Proper mud weight, safe drilling practices and the use of H2S scavengers will minimize hazards when penetrating H2S bearing zones.

6. Metallurgy:

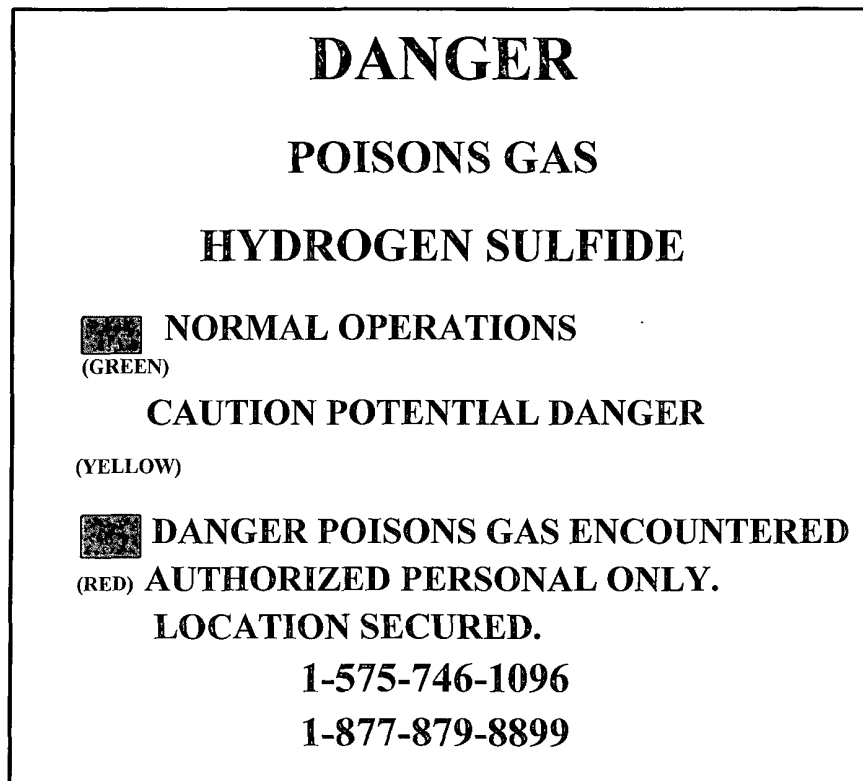
- A. All drill strings, casings, tubing, wellhead, blowout preventer, drilling spool, kill lines, choke manifold and lines, and valves shall be suitable for H2S service.
- B. All elastomers used for packing and seals shall be H2S trim.

7. Communication:

- A. Cellular communications in company vehicles.
- B. Land line (telephone) communication at the Office.

8. Well testing:

- A. There will be no drill stem testing.

EXHIBITEDDY COUNTY EMERGENCY NUMBERS

ARTESIA FIRE DEPT. 575-746-5050
ARTESIA POLICE DEPT. 575-746-5000
EDDY CO. SHERIFF DEPT. 575-746-9888

LEA COUNTY EMERGENCY NUMBERS

HOBBS FIRE DEPT. 575-397-9308
HOBBS POLICE DEPT. 575-397-9285
LEA CO. SHERIFF DEPT. 575-396-1196