OCD

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SEP 21 2016

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Form 3160-3
(March 2012)

~~Operator Copy~~

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.
NM-110838

6. If Indian, Allotee or Tribe Name
AB-13-683

7 If Unit or CA Agreement, Name and No.

1a. Type of work: ☑ DRILL ☐ REENTER

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

8. Lease Name and Well No.
Audacious BTL Federal #1H (318813)

2. Name of Operator Yates Petroleum Corporation (25575)

9. API Well No.
30-025-43429 (97903)

3a. Address 105 S. Fourth St.
Artesia, NM 88210

3b. Phone No. *(include area code)*
575-748-4120

10. Field and Pool, or Exploratory
2nd Bone Springs WC-025 G-08 S253235G; Lower BS

4. Location of Well *(Report location clearly and in accordance with any State requirements.*)*
At surface 2590' FNL & 2200' FEL Sec. 19, T25S-R33E
At proposed prod. zone 330' FNL & 2200' FEL Sec. 18, T25S-R33E

UNORTHODOX LOCATION

11. Sec., T. R. M. or Blk. and Survey or Area
Section 19, T25S-R33E SHL
Section 18, T25S-R33E BHL

14. Distance in miles and direction from nearest town or post office*
40 miles west of Jal, NM

12. County or Parish
Lea County

13. State
NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)
2200' FEL

16. No. of acres in lease
1761.04

17. Spacing Unit dedicated to this well
Section 18 W2/E2, Section 19 W2/NE4

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.
N/A

19. Proposed Depth
Pilot Hole 11200', TVD in
Lateral 10999', TD, 18335' MD

20. BLM/BIA Bond No. on file
NMB000434
NMB000920

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
3451'

22. Approximate date work will start*
08/31/2013

23. Estimated duration
60 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)*: Travis Hahn — Date: 07/01/2013

Title: Land Regulatory Agent

Approved by *(Signature)*: /s/Cody Layton — Name *(Printed/Typed)*: — Date: SEP 14 2016

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.

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)

KZ
09/21/16

Carlsbad Controlled Water Basin

SEE ATTACHED FOR
CONDITIONS OF APPROVAL

Approval Subject to General Requirements
& Special Stipulations Attached

YATES PETROLEUM CORPORATION
Audacious BTL Federal #1H
2590' FNL & 2200' FEL, Surface Hole, Section 19 –T25S-R33E
330' FNL & 2200' FEL, Bottom Hole, Section 18 –T25S-R33E
Lea County, New Mexico

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

Rustler	920'	Brushy Canyon	7850' Oil
Salado	1270'	Bone Springs	9080' Oil
Castile	3730'	Upper Avalon	9130' Oil
Base of Salt	4700'	Lower Avalon	9450'
Delaware	4930'	Bone Spring SD/1	10050' Oil
Bell Canyon	4950' Oil	Bone Spring SD/2	10630' Oil
Cherry Canyon	6000' Oil	Target SBSG	11000'
		Base SBSG	11050'

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

Water: Approx. 100' - 350'
Oil or Gas: Oil Zones: 4950', 6000', 7850', 9080', 9130', 10050', 10630'

3. Pressure Control Equipment: 3000 PSI BOPE with a 13.625" opening will be installed on the 13.375 casing and a 5000 PSI BOPE will be installed on the 9.625" 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" on each segment of the system tested. Any leaks will be repaired at the time of 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.

See COA

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)

See COA

Hole Size	Casing Size	Wt./Ft	Grade	Coupling	Interval	Length
17 1/2"	13 3/8"	48#	H-40/J-55 Hybrid	ST&C	0'-~~945'~~ 975	~~945'~~ 975
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'-~~5100'~~ 4850, 750	~~1000'~~
8 3/4"	5 1/2"	17#	P-110	Buttress Thread	0'-18335'	18335'

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

B. CEMENTING PROGRAM:

Surface Casing: Lead with 640 sacks of Class H, 10% expanding agent and 2% CaCl2 (WT.14.20 YLD 1.62). 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 1455 sacks of PozC 35:65:6 (WT 12.50 YLD 2.00). Tail with 200 sacks of Class C + 2% CaCl2 (WT. 14.80 YLD 1.34). Casing designed with 100% excess. TOC-Surface

Production Casing: Cement to be done in three stages with a DV/Stage Packer tool from 9950'-10450' and 7250'-7750', calculations completed using DV tool depths of 10450' and 7500'. Cement volumes will be adjusted proportionately if DV tool is moved.

Stage 1 from 10450'-18335': Cement with 1905 sacks of Pecos Valley Lite (WT. 13.00 YLD 1.41), 30%CaCO, 3.2% Expansion additive, 2% Antifoam, .8% Retarder, 15 Fluid loss. Casing is designed with 35% excess. TOC-10450'.

Stage 2 from 7500'-10450': Lead with 360 sacks of PozC 35:65:6 (WT 12.50 YLD 2.00). Tail with 200 sacks of Pecos Valley Lite (WT 13.00, YLD 1.41), 30%CaCO, 3.2% Expansion additive, 2% Antifoam, .8% Retarder, 15 Fluid loss. Casing is designed with 35% excess. TOC-7500'.

Stage 3 from 4600'-7500': Lead with 355 sacks of PozC 35:65:6 (WT 12.50 YLD 2.00). Tail with 200 sacks of Pecos Valley Lite (WT 13.00, YLD 1.41), 30%CaCO, 3.2% Expansion additive, 2% Antifoam, .8% Retarder, 15 Fluid loss. Casing is designed with 35% excess. TOC-4500'.

Pilot hole will be drilled vertically to 11200'. Pilot hole will then be plugged with a 200' plug using Class H (YLD 0.94 WT 17.5) 100 sacks with 10% excess, and the additives being; Fresh Water 3.352 gal/sk, Dispersant 0.030 gal/sk, Retarder 0.070 gal/sk, Antifoam 0.020 gal/sk. A 600' kick off plug will then be placed from 10800' to 10200', plug will be Class H (YLD 0.94 WT 17.5) 360 sacks with 35% excess and the additives being; Fresh Water 3.352 gal/sk, Dispersant 0.030 gal/sk, Retarder 0.070 gal/sk, Antifoam 0.020 gal/sk. Well will be kicked off at approximately 10522' and directionally drilled at 12 degrees per 100' with an 8.75" hole to 11275' MD (10999' TVD). Hole will then be reduced to 8.5" and drilled to 18335' MD (10950' TVD) where 5.5" casing will be set and cemented. Penetration point of producing zone will be encountered at 2110' FNL & 2203' FEL, Section 24-25S-32E. Deepest TVD in the pilot hole is 11200' and in the lateral 10999'.

5. Mud Program and Auxiliary Equipment:

Interval	Type	Weight	Viscosity	Fluid Loss
~~0-945'~~ 975	Fresh Water	8.6-9.2	28-32	N/C
~~945'-5000'~~ 48 50'	Brine Water	10.0-10.20	28-30	N/C
~~5100'~~-11200'	Cut Brine	8.8-9.0	30-34	N/C
10522'-18335'	Cut Brine	8.8-9.0	30-34	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. Mud will be checked hourly by rig personnel. Mud level monitoring: 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 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.

6. Evaluation Program: See COA

Samples: 30' Samples to 5000', then 10' Samples from 5000' to TD.
Logging: Platform Express – curve
CNL/LDT/NGT: Intermediate casing to TD
CNL/GR: Surface to TD
DLL-MSFL: Intermediate casing to TD
CMR: Intermediate casing to TD
Horizontal-MWD-GR: 10000' MD to TD
Mudlogging: 2000' to TD

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

Anticipated BHP:

From:	0'	TO:	~~945'~~ 975'	Anticipated Max. BHP:	452	PSI
From:	~~945'~~	TO:	~~5100'~~ 4850'	Anticipated Max. BHP:	2705	PSI
From:	~~5100'~~	TO:	11200'	Anticipated Max. BHP:	5358	PSI

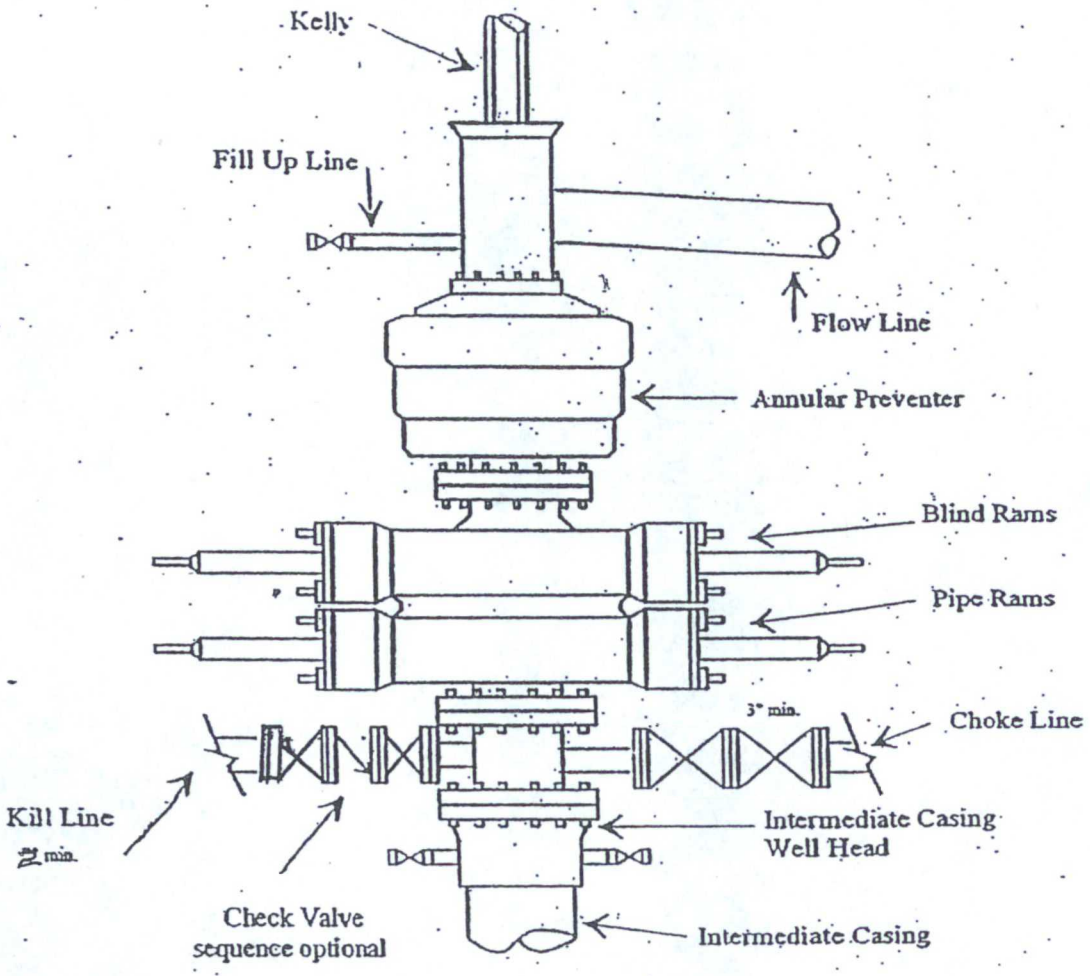
No abnormal pressures or temperatures are anticipated.
H2S is not anticipated

8. ANTICIPATED STARTING DATE:

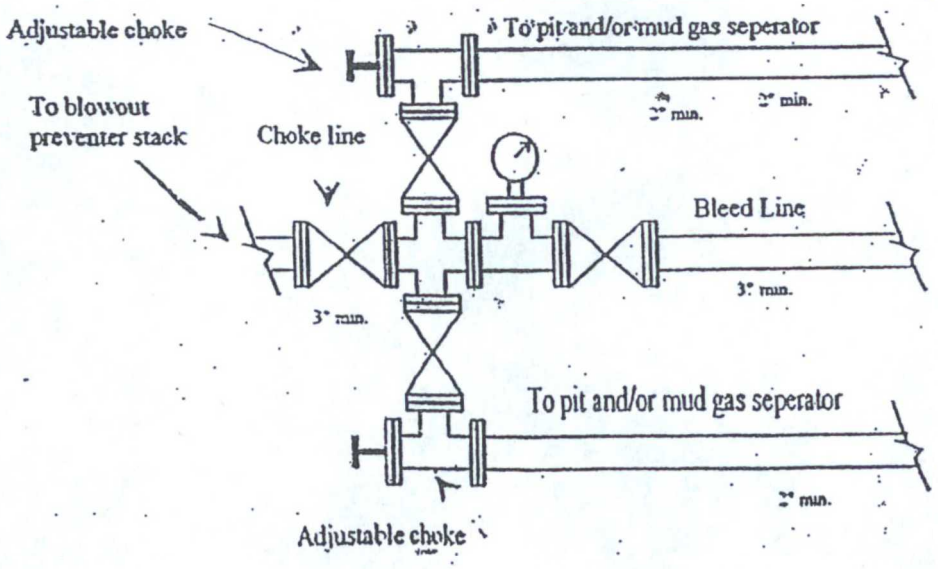
Plans are to drill this well as soon as possible after receiving approval. It should take approximately 65 days to drill the well with completion taking another 30 days.

Yates Petroleum Corporation

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

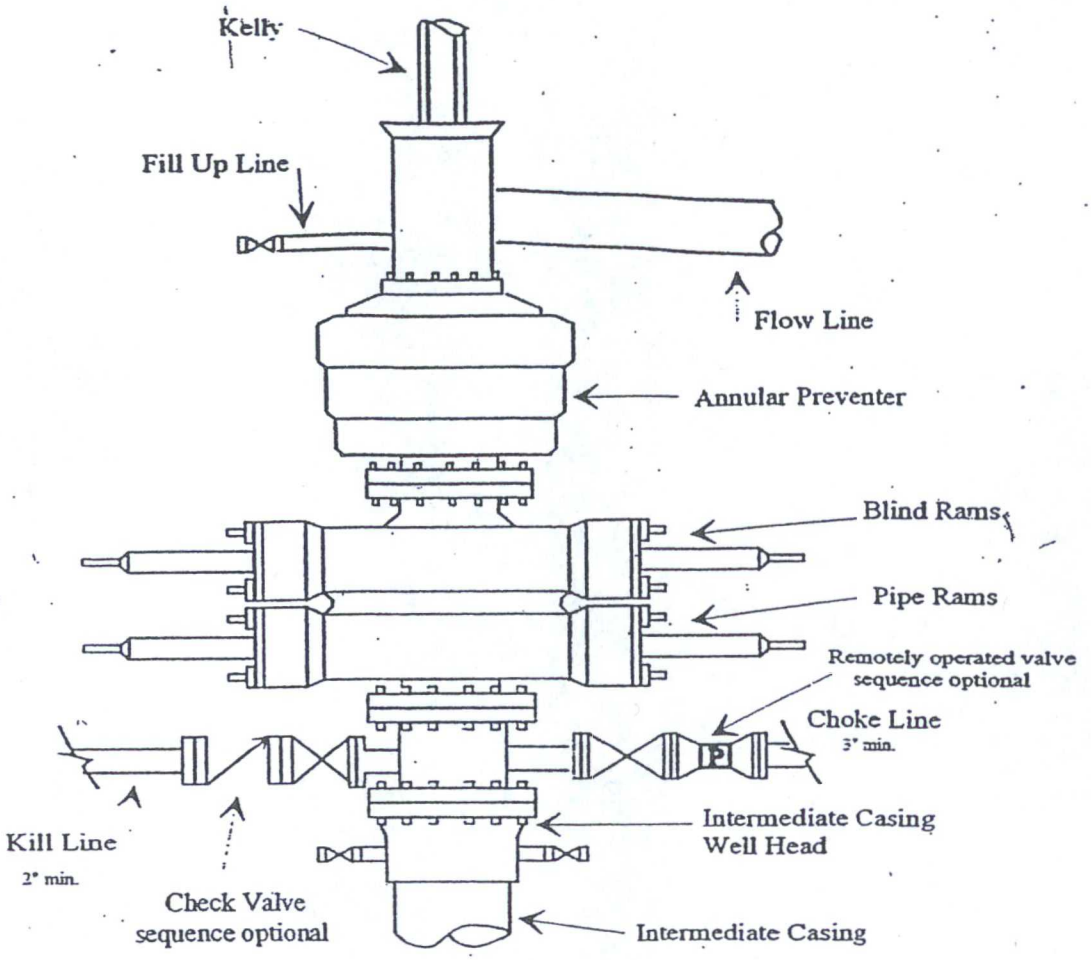


Typical 3,000 psi choke manifold assembly with at least these minimun features

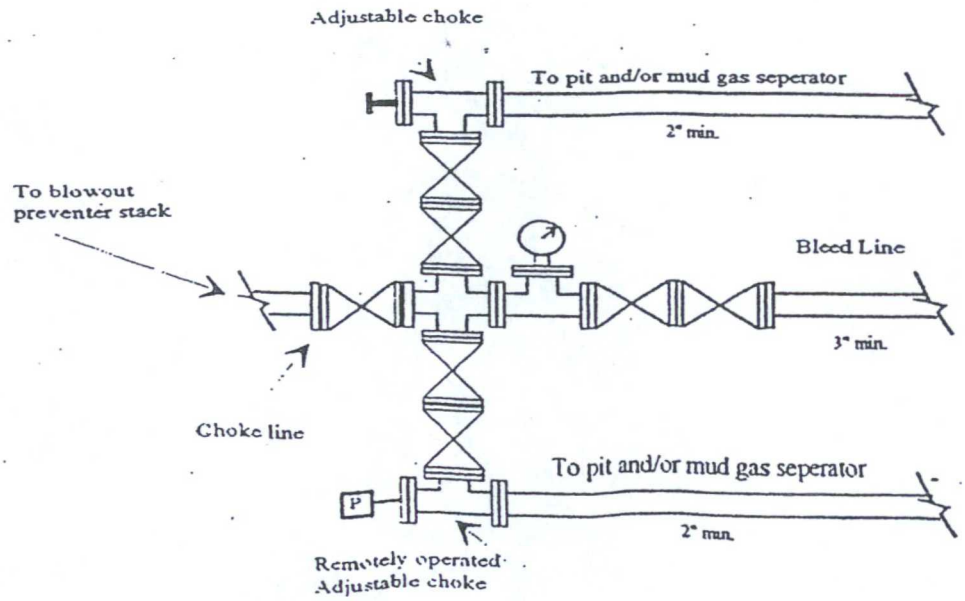


Yates Petroleum Corporation

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

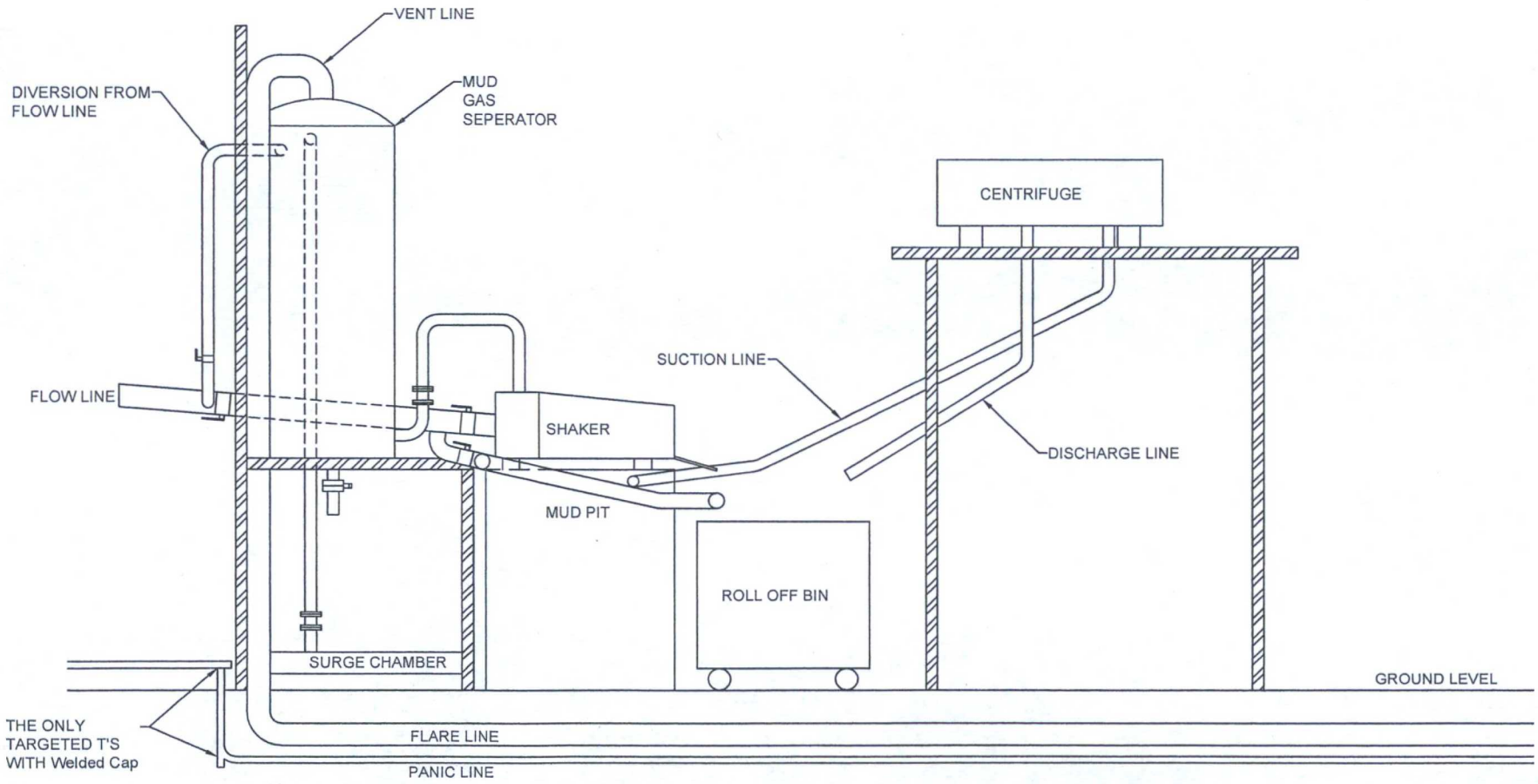


Typical 5,000 psi choke manifold assembly with at least these minimun features



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.

District I
1625 N. French Dr., Hobbs, NM 88240
District II
811 S. First St., Artesia, NM 88210
District III
1000 Rio Brazos Road, 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, NM 87505

Form C-144 CLEZ
Revised August 1, 2011

For closed-loop systems *that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure*, submit to the appropriate NMOCD District Office.

Closed-Loop System Permit or Closure Plan Application

(that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure)

Type of action: ☒ Permit ☐ Closure

Instructions: Please submit one application (Form C-144 CLEZ) per individual closed-loop system request. For any application request other than for a closed-loop system that only use above ground steel tanks or haul-off bins and propose to implement waste removal for closure, please submit a Form C-144.

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

1.

Operator: Yates Petroleum Corporation OGRID #: 025575

Address: 105 South 4th St. Artesia, NM 88210

Facility or well name: Audacious BTL Federal #1H

API Number: _____ OCD Permit Number: _____

U/L or Qtr/Qtr G Section 19 Township 25S Range 33E County: Eddy

Center of Proposed Design: Latitude N 32.1162278 Longitude W 103.609944 NAD: ☐1927 ☒ 1983

Surface Owner: ☒ Federal ☐ State ☐ Private ☐ Tribal Trust or Indian Allotment

2.

☒ **Closed-loop System:** Subsection H of 19.15.17.11 NMAC

Operation: ☒ Drilling a new well ☐ Workover or Drilling (Applies to activities which require prior approval of a permit or notice of intent) ☐ P&A

☐ Above Ground Steel Tanks or ☒ Haul-off Bins

3.

Signs: Subsection C of 19.15.17.11 NMAC

☐ 12"x 24", 2" lettering, providing Operator's name, site location, and emergency telephone numbers

☒ Signed in compliance with 19.15.16.8 NMAC

4.

Closed-loop Systems Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

☒ Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC

☒ Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC

☒ Closure Plan (Please complete Box 5) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

☐ Previously Approved Design (attach copy of design) API Number: _____

☐ Previously Approved Operating and Maintenance Plan API Number: _____

5.

Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only: (19.15.17.13.D NMAC)

Instructions: Please indentify the facility or facilities for the disposal of liquids, drilling fluids and drill cuttings. Use attachment if more than two facilities are required.

Disposal Facility Name: Gandy Marley Disposal Facility Permit Number: NM – 01-0019

Disposal Facility Name: CRI Disposal Facility Permit Number: R-1966

Disposal Facility Name: Lea Land Farm Disposal Facility Permit Number: WM – 1-035

Disposal Facility Name: Sundance Services Inc. Disposal Facility Permit Number: NM – 01-0003

Will any of the proposed closed-loop system operations and associated activities occur on or in areas that *will not* be used for future service and operations?

☐ Yes (If yes, please provide the information below) ☒ No

Required for impacted areas which will not be used for future service and operations:

☐ Soil Backfill and Cover Design Specifications - - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC

☐ Re-vegetation Plan - based upon the appropriate requirements of Subsection I of 19.15.17.13 NMAC

☐ Site Reclamation Plan - based upon the appropriate requirements of Subsection G of 19.15.17.13 NMAC

6.
Operator Application Certification:

I hereby certify that the information submitted with this application is true, accurate and complete to the best of my knowledge and belief.

Name (Print): Travis Hahn Title: Land Regulatory Agent

Signature: T. Hahn Date: 7/1/2013

e-mail address: thahn@yatespetroleum.com Telephone: 575-748-4120

7.
OCD Approval: ☐ Permit Application (including closure plan) ☐ Closure Plan (only)

OCD Representative Signature: _____ **Approval Date:** _____

Title: _____ **OCD Permit Number:** _____

8.
Closure Report (required within 60 days of closure completion): Subsection K of 19.15.17.13 NMAC

Instructions: Operators are required to obtain an approved closure plan prior to implementing any closure activities and submitting the closure report. The closure report is required to be submitted to the division within 60 days of the completion of the closure activities. Please do not complete this section of the form until an approved closure plan has been obtained and the closure activities have been completed.

☐ **Closure Completion Date:** _____

9.
Closure Report Regarding Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only:

Instructions: Please indentify the facility or facilities for where the liquids, drilling fluids and drill cuttings were disposed. Use attachment if more than two facilities were utilized.

Disposal Facility Name: _____ Disposal Facility Permit Number: _____

Disposal Facility Name: _____ Disposal Facility Permit Number: _____

Were the closed-loop system operations and associated activities performed on or in areas that *will not* be used for future service and operations?

☐ Yes (If yes, please demonstrate compliance to the items below) ☐ No

Required for impacted areas which will not be used for future service and operations:

☐ Site Reclamation (Photo Documentation)
☐ Soil Backfilling and Cover Installation
☐ Re-vegetation Application Rates and Seeding Technique

10.
Operator Closure Certification:

I hereby certify that the information and attachments submitted with this closure report is true, accurate and complete to the best of my knowledge and belief. I also certify that the closure complies with all applicable closure requirements and conditions specified in the approved closure plan.

Name (Print): _____ Title: _____

Signature: _____ Date: _____

e-mail address: _____ Telephone: _____

Yates Petroleum Corporation
Closed Loop System

Equipment Design Plan

Closed Loop System will consist of:
1 – double panel shale shaker
1 – (minimum) Centrifuge, certain wells and flow rates may require 2 centrifuges
On certain wells, the Centrifuge will be replaced by a Clackco Settling Tank System
1 – minimum centrifugal pump to transfer fluids
2- 500 bbl. FW Tanks
1 – 500 bbl. BW Tank
1 – half round frac tank – 250 bbl. capacity as necessary to catch cement / excess mud returns generated during a cement job.
1 Set of rail cars / catch bins
Certain wells will use an ASC Auger Tank

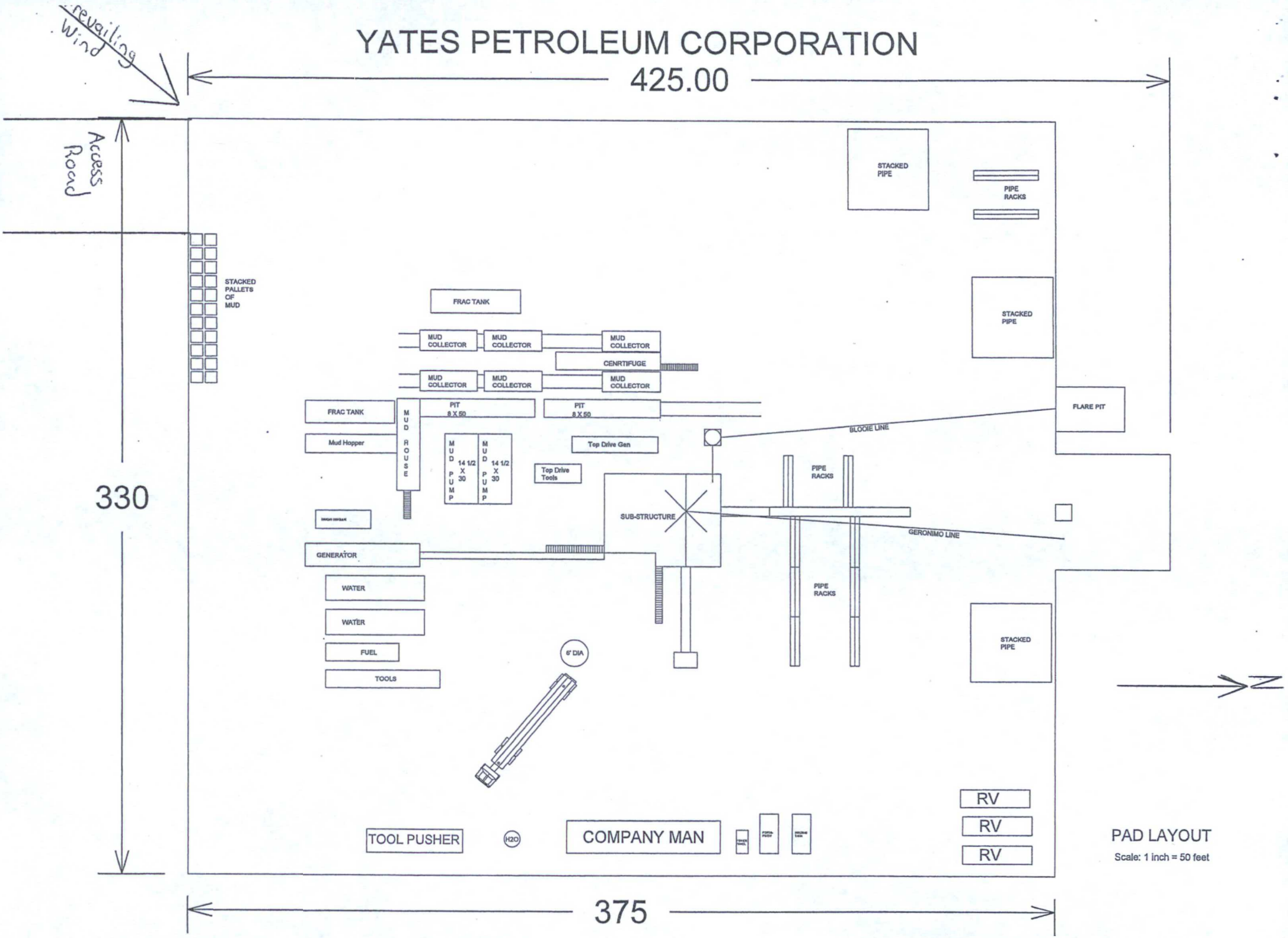
Operation Plan

All equipment will be inspected at least hourly by rig personnel and daily by contractors' personnel.
Any spills / leaks will be reported to YPC, NMOCD, and cleaned up without delay.

Closure Plan

Drilling with Closed Loop System, haul off bins will be taken to Gandy Marley, Lea Land Farm, CRI or Sundance Services Inc.

YATES PETROLEUM CORPORATION



PAD LAYOUT

Scale: 1 inch = 50 feet

Interim Reclamation Well Pad Layout Example*

*dimensions and locations will vary and are not intending to be actual representations.