

N.M. GOVT. DIV. 11.2
1301 W. Grand Avenue
Artesia, NM 88210

Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

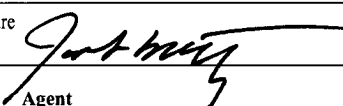

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM 36193
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator McKay Oil Corporation		7. If Unit or CA Agreement, Name and No.
3a. Address PO Box 2014 Roswell NM, 88202-2014		8. Lease Name and Well No. Four Mile Draw C Federal 7H 36409
3b. Phone No. (include area code) 505-623-4735		9. API Well No. 30-005-63921
4. Location of Well (Report location clearly and in accordance with any State requirements.)* At surface 660' FNL & 820' FWL Sec. 22, T6S, R22E At proposed prod. zone 1072' FSL & 1799' FWL Sec. 15, T6S, R22E		10. Field and Pool, or Exploratory W. Pecos ABO Slope
11. Sec., T. R. M. or Blk. and Survey or Area T6S, R22E		12. County or Parish Chaves
13. State NM		14. Distance in miles and direction from nearest town or post office* Approximately 25 miles
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of acres in lease 927.51	17. Spacing Unit dedicated to this well 160'
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 2000'	19. Proposed Depth 3,200'	20. BLM/BIA Bond No. on file
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4316'	22. Approximate date work will start* 02/09/2007	23. Estimated duration 7 - 10 days

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature 	Name (Printed/Typed) James Schultz	Date 01/25/2007
Title Agent		
Approved by (Signature) 	Name (Printed/Typed) LARRY D. BRAY	Date 01/25/2007
Title Assistant Field Manager, Lands And Minerals	Office ROSWELL	

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.

*(Instructions on page 2)

DECLARED WATER BASIN

COMMENT BEHIND THE 95'
CASING MUST BE CIRCULATED

WITNESS

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

DISTRICT I

1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II

1901 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 October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code 82740	Pool Name Pecos Slope; Abe, West
Property Code	Property Name FOUR MILE DRAW C FEDERAL	Well Number 7H
OGRID No.	Operator Name McKAY OIL CORPORATION	Elevation 4324'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	22	6-S	22-E		660	NORTH	820	WEST	CHAVES

Bottom Hole Location If Different From Surface

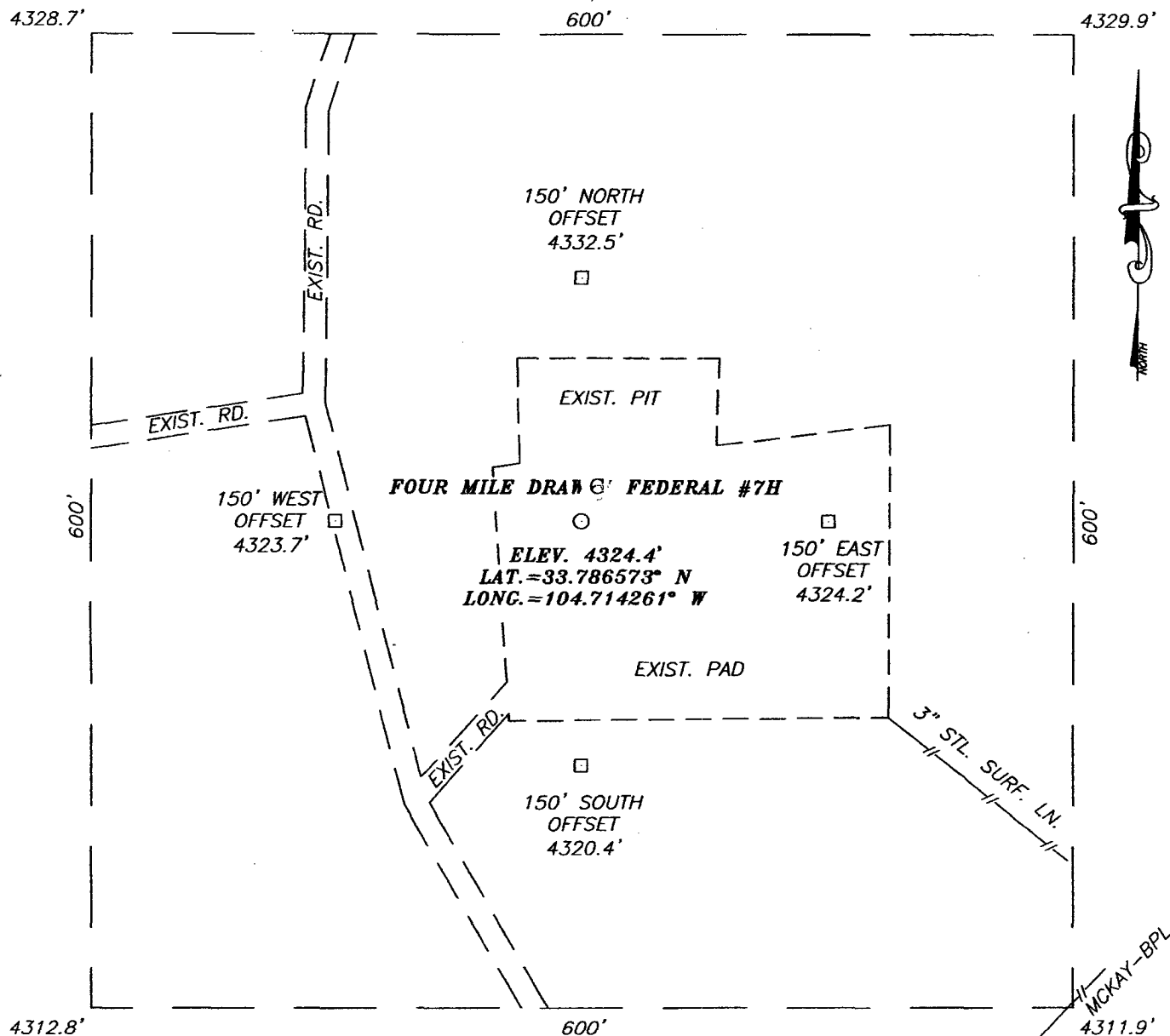
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	15	6-S	22-E		1072	SOUTH	1799	WEST	CHAVES

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

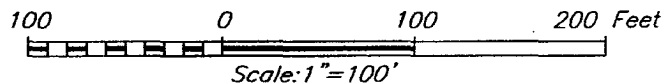
		<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>James C. Schultz</i> 1-25-07 Signature Date James C. Schultz Printed Name</p>
<p>SURVEYOR CERTIFICATION</p> <p>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.</p> <p>JANUARY 09, 2007</p> <p>Date Surveyed AR Signature & Seal of Professional Surveyor <i>Gary J. Edson</i> 1/17/07 06.11.2034 Certificate No. GARY EDSON 12641</p>		<p>GEODETIC COORDINATES NAD 27 NME SURFACE LOCATION Y=101391.8 N X=384260.8 E LAT.=33.786573° N LONG.=104.714261° W</p>

SECTION 22, TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. #285 AND CO. RD. #40 (STARGRASS RD.), GO WEST ON CO. RD. #40 APPROX. 8.5 MILES. TURN LEFT AND GO SOUTH APPROX. 0.1 MILE. THIS LOCATION IS APPROX. 150 FEET EAST.



McKAY OIL CORPORATION

FOUR MILE DRAW C FEDERAL #7H
 LOCATED 660 FEET FROM THE NORTH LINE
 AND 820 FEET FROM THE WEST LINE OF SECTION 22
 TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

Survey Date: 01/09/07	Sheet 1 of 1 Sheets
W.O. Number: 06.11.2034	Dr By: AR
Date: 01/12/07	Disk: CD#5
06112034	Scale: 1"=100'

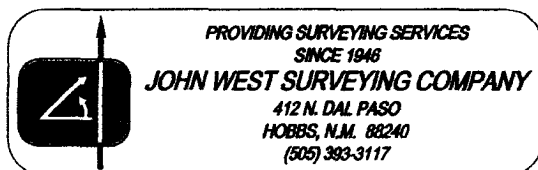
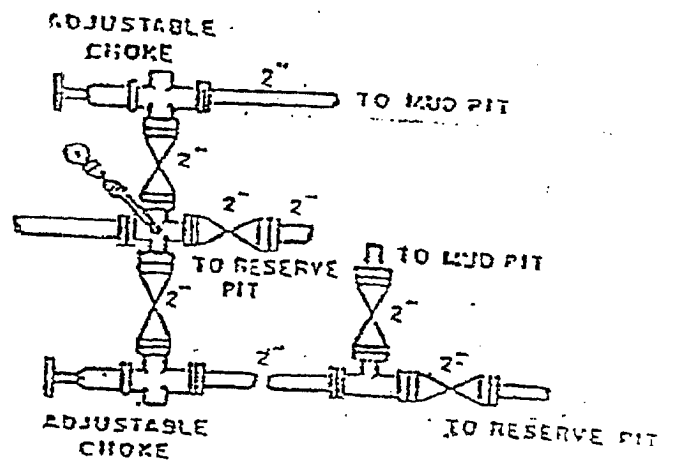
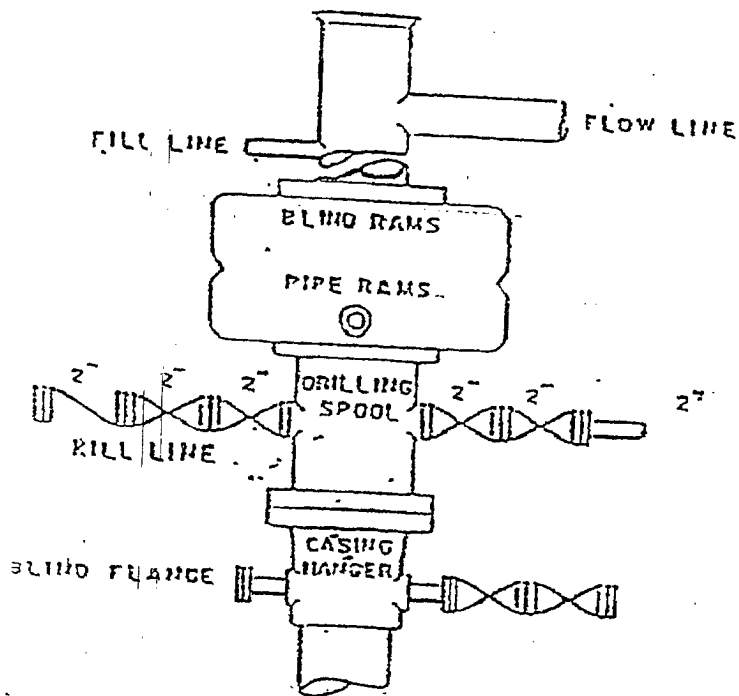


Exhibit "D"



SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION

FOUR MILE DRAW C FEDERAL #7H

Surface Location: 660'FNL & 820'FWL, Sec. 22, T6S, R22E

Bottom Hole Location: 1072'FSL & 1799 FWL, Sec. 15, T6S, R22E

Chaves County, New Mexico

The following items supplement Form 3160-3 in accordance with instruction contained in Onshore Oil and Gas Order No. 1:

1. SURFACE FORMATION: San Andres

2. ESTIMATED TOPS OF GEOLOGICAL MARKERS:

Yeso - 876'
Tubb - 2372'
Abo - 2700'

3. ESTIMATED DEPTHS TO WATER, OIL OR GAS FORMATIONS:

Fresh Water - In surface formation above 600'
Gas - In Abo Formation below 2700'

4. PROPOSED CASING PROGRAM:

<u>Hole Size</u>	<u>Casing Size</u>	<u>Weight</u>	<u>Depth</u>
12-1/4"	9-5/8" J-55	#32	950' ±
8-3/4"	7" J-55	#23	3300' ±
6-1/4"	4-1/2" J-55	#15.5	4,140' ±

5. PROPOSED CEMENTING PROGRAM:

9-5/8" - 395 sks Class C and 180 sks Class H cemented and circulated to surface.

7" - 150 sks 50/50 poz Class C

4-1/2" - 380 sks 50/50 2C

6. PROPOSED DRILLING PROGRAM:

McKay Oil Corporation proposes to horizontally drill and test the ABO formation. Approximately 950' of surface casing will be set and cemented to surface. 7" intermediate casing will be set and cemented with adequate cover through the curve from vertical to horizontal. 4-1/2" liner will be run and cemented with adequate cover through the entire length of the vertical and horizontal hole, perforated and stimulated as needed for production.

7. PRESSURE CONTROL EQUIPMENT: Blowout preventer will consist of 2 ram, 2M system. A sketch of the BOP is attached.
8. CIRCULATION MEDIUM: Air Drilling
9. AUXILIARY EQUIPMENT: Full-opening drill string safety valve fit for the drill string in use, will be kept on the rig floor at all times.
10. TESTING, LOGGING AND CORING PROGRAM:
 - Samples: Catch samples from surface to TD.
 - DST's: None.
 - Logging: GR-CNL, Dual Lateral MSFL from surface to TD.
 - Coring: None.
11. ABNORMAL PRESSURES, TEMPERATURES OR HYDROGEN SULFIDE:
None anticipated.
12. ANTICIPATED STARTING DATE: On or before February 9, 2007
Drilling should be completed within 10 days. Completion operations (perforations and stimulation) will follow drilling operations.

**Southwest Petroleum
Land Services, LLC**

100 N. Pennsylvania
Roswell, NM 88203
(505) 622-6713
(505) 622-9282 fax

January 25, 2007

Oil Conservation Division
Bryan Arrant
1301 W. Grand Avenue
Artesia, NM

Re: H2S Contingency Plan-Four Mile Draw C Federal 7H

Bryan,

Please see attached Contingency Plan-H2S for the Four Mile Draw C Federal #7H located at Surface Location: 660'FNL & 820'FWL, Sec. 22, T6S, R22E, Bottom Hole Location: 1072'FSL & 1799 FWL, Sec. 15, T6S, R22E in Chaves County. Should you need any further information, please contact me at 505-626-6879.

Sincerely,



Jim Schultz
Agent for McKay Oil Corporation

MCKAY OIL CORPORATION
PO BOX 2014
ROSWELL, NM 88202-2014
505-623-4735

HYDROGEN SULFIDE (H₂S) CONTINGENCY PLAN FOR THE
FOUR MILE DRAW C FEDERAL 7H
Surface Location: 660'FNL & 820'FWL, Sec. 22, T6S, R22E
Bottom Hole Location: 1072'FSL & 1799 FWL, Sec. 15, T6S, R22E
CHAVES COUNTY, NEW MEXICO

NO HYDROGEN SULFIDE OR OTHER HAZARDOUS GASES OR FLUIDS HAVE
BEEN ENCOUNTERED, REPORTED OR KNOWN TO EXIST AT THIS DEPTH IN
THIS AREA.

FOUR MILE DRAW C FEDERAL #7H

Surface Location: 660'FNL & 820'FWL, Sec. 22, T6S, R22E

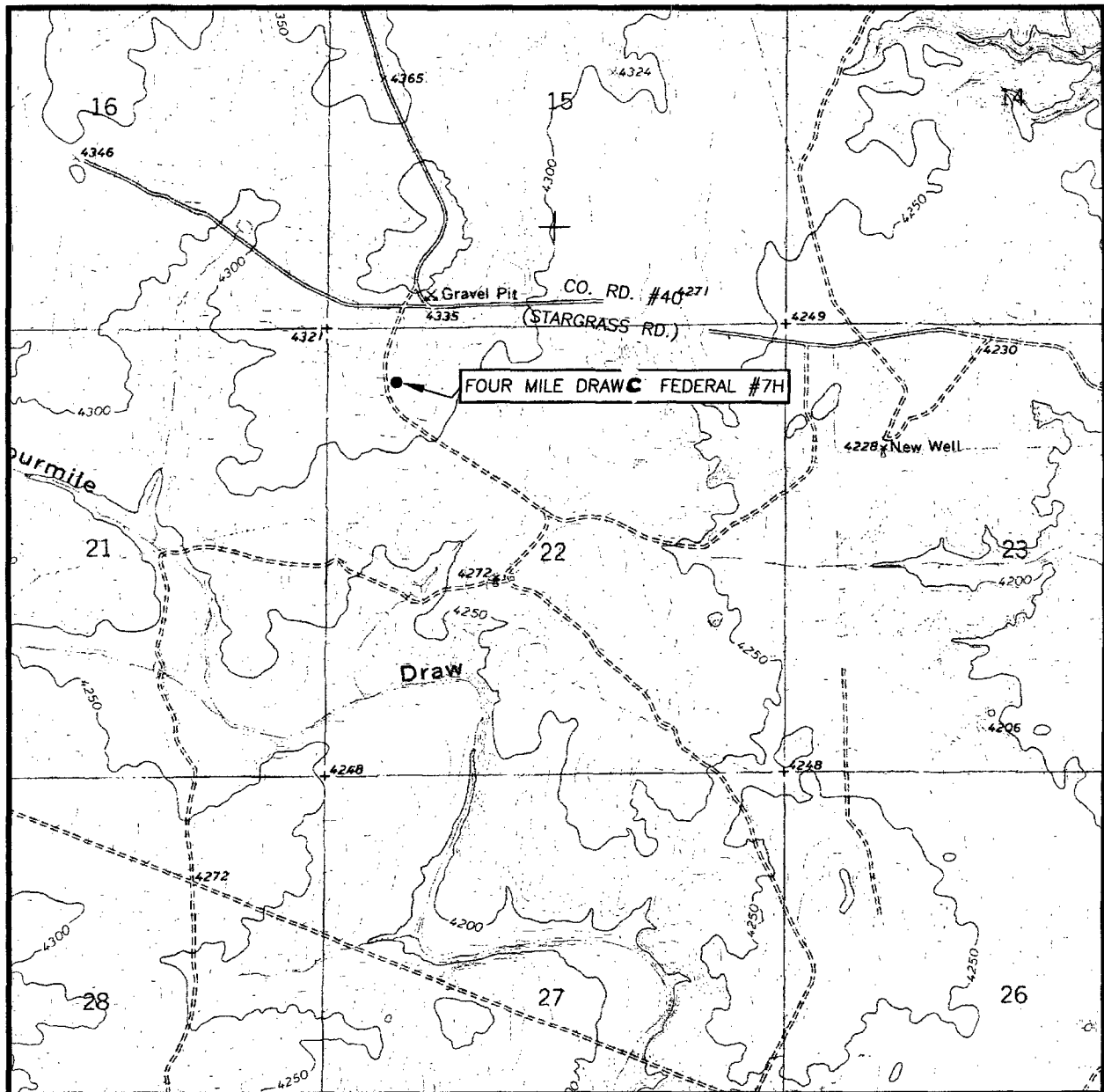
Bottom Hole Location: 1072'FSL & 1799 FWL, Sec. 15, T6S, R22E

Chaves County, New Mexico

This is an open drilling Site. H2S monitoring equipment and emergency response equipment will be used within 500' of zones known to contain H2S, including warning signs, wind indicators and H2S monitor. Pumpers carry (MICROPACKS) H2S pocket testers at all times. Pulling units have an H2S indicator that puts off light and alarm on any indication of H2S being present.

MAPS – SEE ATTACHED

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
MESA SW, N.M. - 10'

SEC. 22 TWP. 6-S RGE. 22-E

SURVEY _____ N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

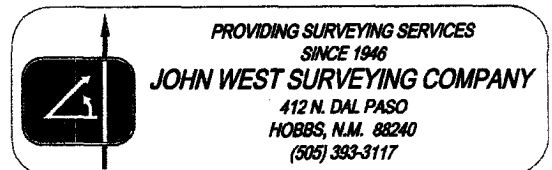
DESCRIPTION 660' FNL & 820' FWL

ELEVATION 4324'

OPERATOR McKAY OIL CORPORATION

LEASE FOUR MILE DRAW B FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
MESA SW, N.M.



EMERGENCY PROCEDURES

In the case of a release of gas containing H₂S, the first responder must isolate the area and prevent entry by other persons into the 100 ppm ROE. Additionally the first responder must evacuate any public spaces encompassed by the 100 ppm ROE. First responder must take care not to injure themselves during this operation. Company and or local officials must be contacted to aid in this operation. Evacuation of the public should be beyond the 100 ppm ROE.

All responders must have training in the detection of H₂S measures for protection against the gas, equipment used for protection and emergency response. Additionally, responders must be equipped with H₂S monitors and air packs in order to control the release. Use the "buddy system" to ensure no injuries occur during the response.

IGNITION OF GAS SOURCE

Should control of the well be considered lost and ignition considered, take care to protect against exposure of sulfur Dioxide (SO₂). Intentional ignition must be coordinated with the NMOCD and local officials. Additionally the NM State Police may become involved. NM State Police shall be the Incident Command on scene of any major release. Take care to protect downwind whenever there is an ignition of the gas.

CHARACTERISTICS OF H₂S & SO₂

COMMON NAME	CHEMICAL FORMULA	SPECIFIC GRAVITY	THRESHOLD LIMIT	HAZARDOUS LIMIT	LETHAL CONCENTRATION
HYDROGEN SULFIDE	H ₂ S	1.189 AIR=1	10 PPM ₄	100 PPM/HR	600 PPM
SULFUR DIOXIDE	SO ₂	2.21 AIR=1	2 PPM	N/A	1000 PPM

CONTACTING AUTHORITIES

McKay Oil Corporation personnel must liaison with local and state agencies to ensure a proper response to a major release. Additionally, the OCD must be notified of the release as soon as possible but no later than 4 hours. Agencies will ask for information such as type and volume of release, wind direction, location of release, etc. be prepared with all information available. The following call list of essential and potential responders must be in coordination with the State of New Mexico's Hazardous Materials Emergency Response Plan (HMER).

MCKAY OIL CORPORATION CALL LIST

Chaves County (505)	OFFICE	CELL PHONE	HOME PHONE
Matt Murphy	623-4735	840-8909	840-8909
Jim Robinson	623-4735	626-8579	624-1093
Roy L. McKay	623-4735	626-8571	623-4735

CHAVES COUNTY (505)

ROSWELL

STATE POLICE	622-7200
CITY POLICE	911 or 624-6770
SHERIFF'S OFFICE	624-6500
AMBULANCE	911
FIRE DEPARTMENT	624-6800
LEPC (Local Emergency Planning Committee)	Teresa Barncastle 624-6770
	Ext. 129
NMOCD	748-1283
ENMMC (Hospital)	622-8170

III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at (505) 627-0272 in sufficient time for a representative to witness:
 - a. Spudding
 - b. Cementing casing: 9-5/8 inch 7 inch 4-1/2 inch
2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
3. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.
4. A Communitization Agreement covering the acreage dedicated to this well must be filed for approval with the BLM. The effective date of the agreement shall be prior to any sales.

B. CASING:

1. 9-5/8 inch surface casing should be set at approximately 950 feet, below usable water and circulate cement to the surface. If cement does not circulate to the surface, the BLM Roswell Field Office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.
2. Minimum required fill of cement behind the 7 inch intermediate casing is sufficient to tie back 500 feet above the uppermost perforation in the pay zone.
2. Minimum required fill of cement behind the 4-1/2 inch production liner is sufficient to tie back 200 feet into the 7 inch intermediate casing set at approximately 3300 feet MD.

C. PRESSURE CONTROL:

1. Before drilling below the 9-5/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve.
2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.
3. The BOPE shall be installed before drilling below the 9-5/8 inch surface casing and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
 - a. The results of the test shall be reported to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201-1287.
 - b. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
 - c. Testing must be done in a safe workman like manner. Hard line connections shall be required.