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OCT 21 2008

Bureau of Land Management
Farmington Field Office

Form 3160-3
(August 2007)

FORM APPROVED
OMB No. 1004-0137
Expires July 31, 2010

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.
NMNM067988

6. If Indian, Allotee or Tribe Name

1a. Type of work: ☑ DRILL ☐ REENTER

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

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

8. Lease Name and Well No.
Foster No. 2R

2. Name of Operator McElvain Oil & Gas Properties, Inc.

9. API Well No.
30-039-30578

3a. Address 1050 17th St., Suite 1800
Denver, CO 80265-1801

3b. Phone No. *(include area code)*
303.893.0933X375

10. Field and Pool, or Exploratory
South Blanco Pictured Cliffs

4. Location of Well *(Report location clearly and in accordance with any State requirements.*)*
At surface 1888' FSL-2315' FWL, Section 17, T26N, R7W, NMPM
At proposed prod. zone same

11. Sec., T. R. M. or Blk. and Survey or Area
Section 17, T26N, R7W, NMPM
K

14. Distance in miles and direction from nearest town or post office*
19 miles southeast of Blanco, New Mexico

12. County or Parish
Rio Arriba

13. State
NM

15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig. unit line, if any) 1888 / 311	16. No. of acres in lease 1759.31	17. Spacing Unit dedicated to this well SW/4 - 160.0 acres
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 2000	19. Proposed Depth 2850'	20. BLM/BIA Bond No. on file NM0253
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 6696' GL	22. Approximate date work will start* 12/01/2008	23. Estimated duration 10 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 Robert E. Fielder	Name *(Printed/Typed)* Robert E. Fielder	Date 10/17/2008
Title Agent		
Approved by *(Signature)* /s/ Manuel Lovato	Name *(Printed/Typed)*	Date 12/15/08
Title AFM	Office FFO	

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)

NOTIFY AZTEC OCD 24 HRS. PRIOR TO CASING & CEMENT

BLM'S APPROVAL OF THIS ACTION DOES NOT RELIEVE THE LESSEE AND OPERATOR FROM OBTAINING ANY OTHER AUTHORIZATION REQUIRED FOR OPERATIONS ON FEDERAL AND INDIAN LANDS

NMOCD

DEC 18 2008

DRILLING OPERATIONS AUTHORIZED ARE SUBJECT TO COMPLIANCE WITH ATTACHED "GENERAL REQUIREMENTS".

NSL-5886

This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4

RCVD DEC 17 '08
OIL CONS. DIV.
DIST. 3

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 & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies
☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number	2 Pool Code	3 Pool Name
30-039-30578	72439	So. Blanco Pictured Cliffs

4 Property Code	5 Property Name	6 Well Number
301787	FOSTER	2R

7 OGRID No.	8 Operator Name	9 Elevation
22044	McELVAIN OIL & GAS PROPERTIES	6696

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
K	17	26N	7W		1888	South	2315	West	Rio Arriba

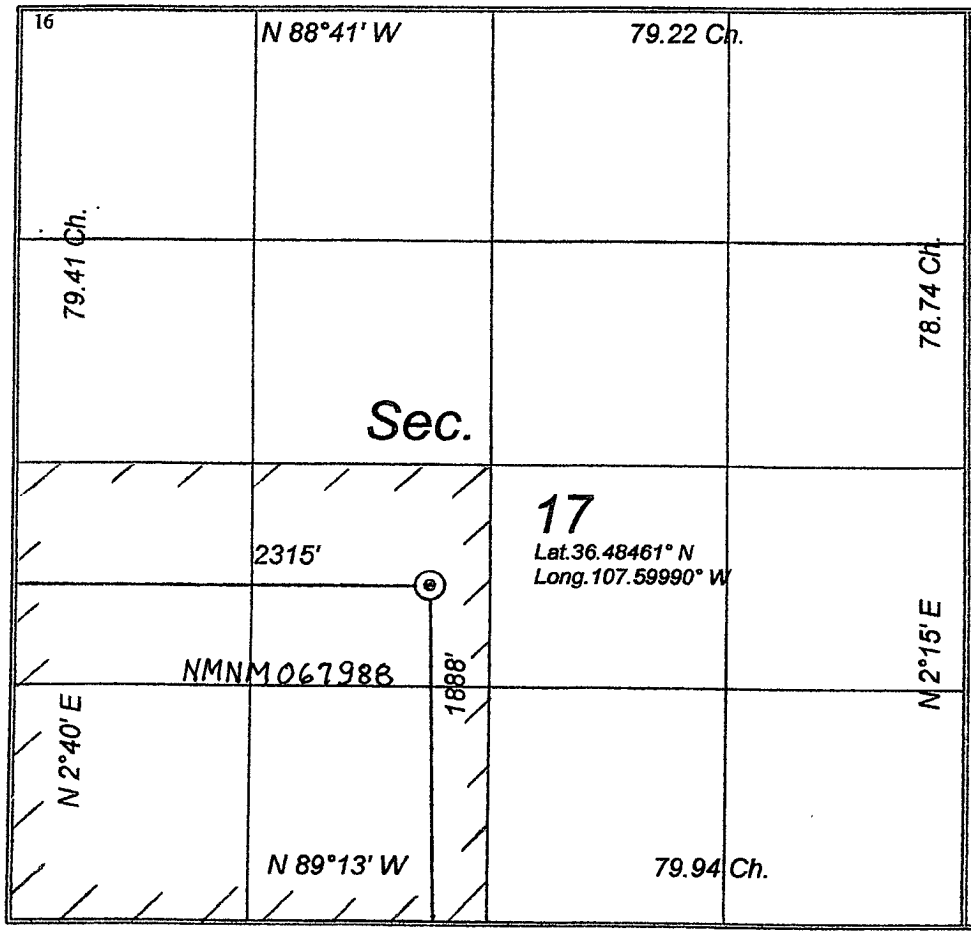
11 Bottom Hole Location If Different From Surface

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.
160			NSL5886

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.

1367.13



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.

Robert E. Fielder 10/17/08
Signature Date

Robert E. Fielder
Printed Name

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.

02 Nov 2007
Date of Survey

Signature and Seal of Professional Surveyor:

William E. Mahnke II
Certificate Number 8466

1319.91

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division

July 25, 2008
Administrative Order NSL-5886

McElvain Oil & Gas Properties, Inc.
Attention: Ms. Linnea C. Hill, CPL, Senior Landman
1050 17th Street
Suite 1800
Denver, Colorado 80265

Re: **Foster Well No. 2-R**
South Blanco Pictured Cliffs Pool (72439)
1888' FSL & 2315' FWL, Unit K,
Section 17, T-26 North, R-7 West, NMPM,
Rio Arriba County, New Mexico

Dear Ms. Hill:

Reference is made to the following:

(a) McElvain Oil & Gas Properties, Inc.'s ("McElvain") application for a non-standard well location (***administrative application reference No. pKVR0818331273)*** for the Foster Well No. 2-R that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on June 30, 2008; and

(b) the Division's records pertinent to McElvain's request.

McElvain requests approval of an unorthodox gas well location in the South Blanco Pictured Cliffs Formation 1888 feet from the South line and 2315 feet from the West line (Unit K) of Section 17, Township 26 North, Range 7 West, NMPM, Rio Arriba County, New Mexico. The SW/4 of Section 17 is to be dedicated to the well forming a standard 160-acre gas spacing and proration unit.

According to Division records, the Foster Well No. 2-R will be the only well producing from the Blanco Pictured Cliffs Formation within the SW/4 of Section 17.

It is our understanding that the above referenced well was originally proposed to be located 668' FWL and 1841' FSL however, it was determined that location was on a talus slope. McElvain then tried to stake the well at a standard location on top of a mesa toward the east side of the unit and it was discovered that the entire east side of the unit was covered with archeological sites. It was also reported that the BLM notified McElvain that the captioned location is the only location on which they could put this well.

The well is therefore subject to Division Rule No. 19.15.3.104.C.(3), which requires standard 160-acre gas spacing and proration units with wells to be located no closer than 660 feet to the outer boundary of the spacing unit, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

The applicant has provided notice of this application to all interest owners within the affected offset acreage. No interest owner has objected to the subject application.

Pursuant to the authority granted under the provisions of Division Rule19.15.3.104.F(2), the above-described unorthodox gas well location in the Blanco Pictured Cliffs Gas Pool is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Mark E. Fesmire, P.E.
Division Director

MEF/tw

cc: New Mexico Oil Conservation Division - Aztec
Bureau of Land Management - Farmington

McElvain Oil & Gas Properties, Inc.
Foster No. 2R
1888' FSL & 2315' FWL
Section 17, T26N, R7W, NMPM
Rio Arriba County, New Mexico

TEN POINT DRILLING PROGRAM

1. **Surface Formation:** San Jose

2. **Surface Elevation:** 6696'GL.

3. **Estimated Formation Tops:**

Formation	Top - feet	Expected Production
Ojo Alamo	1950	
Kirtland	2100	
Fruitland	2450	GAS
Pictured Cliffs	2700	GAS
TOTAL DEPTH	2850	

4. **Surface Hole Program:**

Bit: Drill an 12¼" hole to 200' using a retip mill tooth, IADC Class 115 or 116, bit. WOB: all. RPM: 70 - 100.
Mud: Use a fresh water base spud mud with the following properties:

Interval (ft)	Weight (ppg)	Ph	Vis(sec/qt)	Water Loss
0 - 200	8.6 or less	9.0-9.5	40 - 50	No Control

Casing and Cementing: A string of 8⅝" 24 ppf J-55 or K-55 ST&C casing will be set and cemented to the surface in a single stage with 140 sacks (165.2 cf) of Class "B" cement (yield = 1.18 cf/sk) containing 2% $CaCl_2$ and 1/4 lb/sack celloflake. Slurry volume assumes 100% excess over calculated hole volume. If cement does not circulate to surface, cement will be topped off using 1" pipe down the 12¼" by 8⅝" annulus. Minimum clearance between couplings and hole is 1.3125". Prior to drilling out the shoe, casing and BOPE will be tested to a minimum of 600 psig. Safety factors utilized in the design of this casing string were: burst = 1.1; collapse = 1.125; and tension = 1.8.

WOC 12 HOURS. Nipple up 11" 2000# BOPE. Pressure test BOPE to full working pressure using a test plug. Drill out cement to within five feet of surface casing shoe. Test surface casing and BOPE to a minimum of 600 psig for 15 minutes.

Centralizers: Run two (2) 8⅝" X 12¼" regular bowspring centralizers. Install first one on stop ring in middle of shoe joint.

Float Equipment: Cement nose guide shoe thread locked. Thread lock connection between first and second joint run.

5. Production Hole Program:

Bit: Drill a 7⅞" hole to 2850' using a TCI, IADC Class 447 bit. WOB: 30-35K. RPM: 60 - 75. Hold RPM at 55 - 65 through Ojo Alamo.

Mud: Use a fresh water base polymer and water system to drill this section. If hole conditions dictate, mud up with a fresh water base LSND mud with the following properties:

Interval (ft)	Weight (ppg)	Ph	Vis(sec/qt)	Water Loss
200 - 2850	8.6 - 8.8	9.0-9.5	28 - 35	10 - 12

Fresh water will be used for dilution and building volume. Sufficient materials will be on location at all times to maintain mud properties and to control any lost circulation problem or unforeseen abnormal pressures. The mud volume in the surface pit will be visually monitored and recorded on a routine basis.

Note: If mud up is required, raise **viscosity** to 55 - 60 for logging. Thin to 40 - 45 viscosity to run casing.

pH is to be maintained with lime or caustic soda at the recommended levels to assure drill pipe corrosion protection.

Drispac will be used for control of fluid loss.

Lost Circulation can occur in the Fruitland Coal and Pictured Cliffs formation. Mud weights should be controlled as low as possible with water dilution.

Pressure Control: A 2M psi BOP well control system will be utilized. BOP's and choke manifold will be installed and pressure tested to full working pressure. Surface casing and BOPE will be tested to a minimum of 600 psig before drilling out from under surface casing. Mechanical operation of pipe rams will be checked daily and blind rams will be checked on each trip out of hole. 5½" rams will be installed before running production casing. A full opening internal blowout preventor or drill pipe safety valve will be on the drill floor at all times and will be capable of fitting all connections.

Logging Program: Dual Induction and Epithermal Neutron/Formation Density logs will be run from TD to the surface casing shoe.

Casing and Cementing Program: Run 5½" 15.5 ppf J-55 production casing from surface to TD and cement in a single stage with 250 sacks (637.5 cf) of Class B containing 3% sodium metasilicate extender, 5 pps Gilsonite and 1/4 pps celloflake. Lead slurry mixed at 11.8 PPG to yield 2.55 cf/sk. Tail in with 90 sacks (107.1 cf) of Class B with 0.25 pps celloflake, 0.3% FLA and 5 pps gilsonite mixed at 15.6 PPG to yield 1.19 cf/sk.

5. **Production Hole Program:** -continued

Slurry volumes assume a 50% excess over gauge hole volume to circulate to surface. Minimum clearance between couplings and hole is 0.9125". Safety factors utilized in the design of this casing string were: burst = 1.1; collapse = 1.125; and tension = 1.8.

Centralizers: 5 - 5½" X 7⅞" bowspring centralizers will be run across all prospective pays and 3 - 5½" X 7⅞" turbolizers will be spaced such that one (1)is just below the base of the Fruitland coal, one just below the base of the Ojo Alamo and one (1) in the Ojo Alamo.

Float Equipment: Cement nose guide shoe, 1 joint 5½" casing, and float collar.

6. **Auxiliary Equipment:**

An upper kelly cock will be utilized. The handle will be available on rig floor at all times

7. **Logging Program:**

Dual Induction and Epithermal Neutron / Formation Density will be run from TD to surface casing shoe. Bulk density will be presented on a 5 " scale through the coals. Deep induction curve will be merged onto the porosity log.

Coring and Testing Program:

No cores or drill stem tests are planned.

8. **Abnormal Pressure:**

Although not expected, abnormal pressures are possible in the Fruitland formation.

Estimated Bottom Hole Pressure:

250 - 300 psig.

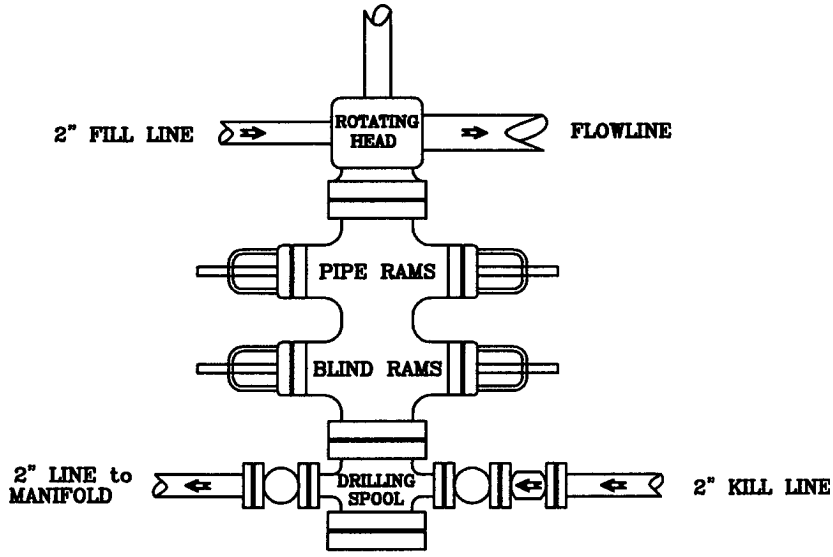
9. **Anticipated Starting Date:**

December 1, 2008

Duration of Operations: It is estimated a total of 6 days will be required for drilling operations and 5 days for the completion operation.

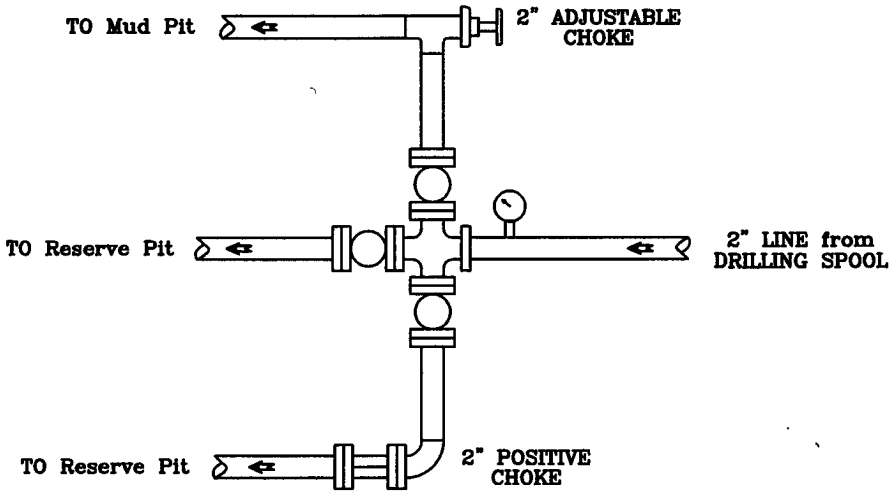
PRESSURE CONTROL

Wellhead Assembly



Preventer and Spools are to have a
6" Bore or larger and a 2000 PSI
or higher Pressure Rating

Choke Manifold



McElvain Oil & Gas Properties, Inc.

Foster No. 2R

1888' FSL – 2315' FWL

Section 17, T26N, R07W, NMPM

Rio Arriba County, New Mexico