

MC ELVAIN ENERGY, INC.

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DENVER, COLORADO 80265-2080

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February 1, 2017

OCD – HOBBS
06/26/2017
RECEIVED

Mr. Cullen Ingram
Targa Midstream Services LLC
6 Desta Drive, Suite 3300
Midland, TX 79705

Dear Mr. Ingram,

Pursuant to the Gas Purchase Agreement dated effective September 1, 2016 ("Agreement") by and between McElvain Energy, Inc. ("McElvain") and Versado Gas Processors, L.L.C. ("Versado"), this letter is to provide notice of McElvain's intention to bring Versado additional gas volumes in 2017 from wells previously dedicated under the Agreement.

All anticipated volumes outlined below will be delivered by McElvain to Versado at the Central Delivery Point defined the Agreement and located in the SE/4 of Section 30, T18S-R34W.

Well Name	Est. Completion Date	Est. First Delivery Date	Est. Initial Volume (mcf)
EK 30 BS2 Federal Com #1H	November 17, 2017	December 7, 2017	500
EK 30 BS2 Federal Com #2H	November 17, 2017	December 7, 2017	500
EK 31 BS2 Federal Com #1H	November 17, 2017	December 7, 2017	500

Please let me know if you have any questions on the information contained above.

Sincerely,

MC ELVAIN ENERGY, INC.



Joe H. Kelloff
Vice President, Production and Business Development

SURFACE USE PLAN OF OPERATIONS

EK 30 BS2 FEDERAL COM #2H and EK 31 BS2 Federal COM #1H

Surface Location: SESE Section 30,
T18S, R34E, N.M.P.M.

McElvain Energy, Inc.
1050 17th St., Suite
2500
Denver, CO 80265

Summary

A Surface Use Plan of Operations has been submitted and approved for the EK 30 BS2 FEDERAL COM #1H well located on the same proposed pad as this well. This Surface Use Plan of Operations is designed to provide the information required under Bureau of Land Management (SLM) Onshore Oil and Gas Order No. 1. Please refer also to the attached supporting documents:

Supporting Documents:

Attachment A - Access Route Map
Attachment B - Location of Existing Wells
Attachment C - Topographic Map of Well Location
Attachment D - Well Pad Layout during drilling phase
Attachment E - Operator Certification

1. Existing and Proposed Roads with Directions to Location:

- a. Attachment A is a reproduction of a general highway map showing existing roads. Attachment C is a reproduction of a USGS topographic map showing the existing roads and proposed roads. All existing roads will be maintained in equal or better than current conditions. All new roads will be constructed to BLM specifications.
- b. Attachment D shows the proposed well site as staked.
- c. Directions to Location: From the intersection of US 62 and State Highway 529, West of Hobbs, New Mexico, take Highway 529 west to mile marker 17. Turn left (South) on to lease road and follow road 12 miles. Bear right (Southwest) and travel 1.8 miles to location on the East side of the road. Turn left (East) and travel 1.1 miles. Bear left (Northeast) and travel 0.4 miles. Turn right (Southwest) and travel 0.5 miles to location.

2. Planned Access Roads: *Note: This road has already been approved as part of the APO permit for the EK 30 BS2 Federal Com 1H well.*

- a. Approximately 375' of new road will be constructed. The access roads will be crowned and ditched to a 14' wide travel surface, within a 30' Right-Of-Way.
- b. Gradient of all roads will be less than 5%.
- c. Turn-outs will be constructed where necessary.
- d. As required, all new access roads will be surfaced with a minimum of 4-8" of caliche. This material will be obtained from a local source.

- e. The center line of roads will be flagged and road construction will be done as field conditions allow.
- f. Culverts will be placed in the access roads as drainage conditions require. Roads will be constructed to use low water crossings for drainage as topographic features required to keep erosion to a minimum.

3. Existing Wells within a One Mile Radius of the Location:

- a. Water Wells: 1 well 0.5 miles Southwest of location
- b. Disposal Wells: none known
- c. Drilling Wells: none known
- d. Producing Wells: As shown on Attachment B
- e. Abandoned Wells: As shown on Attachment B

4. Production Facilities:

If on completion this well is a success, the operator will complete it as a producer. The operator will construct production facilities and tank battery on location. The electric power infrastructure for the well pad has already been approved as part of the APO permit for the EK 30 BS2 Federal Com 1H well.

5. Location and type of Water Supply:

Fresh water used for drilling and fracturing operations will be produced from a McElvain owned exploratory water well that is currently in the process of acquiring appropriations from the NMOSE. The McElvain water well is located in the NW¼ of section 29 18S 34E. If appropriations for the fresh water from the McElvain well are not successful then the fresh water will be purchased locally from a commercial source such as Intrepid Potash or Rockwater LLC. The water may be transported by truck or piped to the well pad through the use of above ground plastic transport lines.

6. Source of Construction Material:

If possible, construction material will be obtained from the leveling of the drill site. Additional caliche (if necessary) will either be purchased locally from Kenneth Smith Ranch or McElvain may have its own source from the excavation of a proposed produced water recycle containment facility in section 25 18S 33E. If additional material is required, it will be obtained from a local source and transported over access roads shown on Attachment A.

7. Methods of Handling Waste Material:

- a. This well will be drilled using a closed loop mud system. The cuttings will be collected in containers located on location and disposed of in a state approved disposal site. Drilling fluids will likewise be contained in tanks and disposed of in state approved disposal facilities.
- b. All trash, junk and other waste material will be contained in trash cages or trash bins to prevent scattering. When job is complete, all contents will be taken from location and disposed of in a state approved disposal site.
- c. Salts and other mud material remaining after completion of the well will be collected by the supplier and be removed from the location.
- d. Waste water from living quarters will be directed into an onsite sewage treatment unit and when well is completed removed and disposed of in a state approved disposal site. Portable toilets will be on location for location construction, drilling, completion and production facilities construction. These portable toilets will be properly maintained and when all operations are

complete they will be removed and disposed of in a state approved disposal site by the supplier.

- e. Any fluids produced during the completion phase will be separated. The oil will be sold and the water will be disposed of in an approved disposal site.

8. **Ancillary Facilities:**

No camps, airstrips or staging areas will be constructed on location

9. **Well Site Layout:**

Attachment D shows the generic well site for a well drilled using a closed loop mud system.

10. **Plans for restoration of surface:**

Interim Reclamation

If the well is a producer, then surface production facilities will be constructed on the location. McElvain Energy Inc. will:

- Use the minimum amount of space needed for drilling and production operations
- Perform Interim reclamation within 6 months after the final well is drilled on the well pad.
- Contour the interim reclamation area to its original topography
- Rip, disk, redistribute some of the topsoil, and plant the interim reclamation area with a BLM approved seed mixture
- Control storm water and erosion on site
- Close all unnecessary roads that were used for the construction phase of the project
- Use BLM Best Management Practices whenever possible.

Final Reclamation

If, in the case, this well is unsuccessful, the drilling pad and the access road will be reclaimed according to best practices set forth by the Bureau of Land Management. Caliche or other road material will be removed for the possible use in another location or deposited in an approved reclamation site. Drill cuttings and mud used to drill this well will be removed and disposed of at an approved disposal site. All trash and any other debris will be collected and disposed of as detailed above. The site will be contoured back to its original topography; then ripped, disked, the topsoil redistributed, and planted with a SLM approved seed mixture for the desired vegetation community. The site will be monitored until 80% native vegetation has been established at which time a Sundry requesting final abandonment status for the well will be submitted to the SLM for approval.

10. **Additional Information**

The surface of the area is used for livestock grazing and the production of oil and gas. The dip is low gentle dip to the Southwest. Soil consists of sand dunes and sandy soils. The vegetation consists of typical desert scrub mainly sand shinnery oak, sand sage, mesquite and native grasses. The area is bisected by various lease roads for the use in producing oil and gas.

This proposed location had an On-Site inspection performed in November 2014 with Trishia Bad Bear.

OPERATOR CERTIFICATION

I hereby certify that I or someone under my direct supervision have inspected the drill site and the access route proposed herein; and that I am familiar with the conditions that currently exist; that I have full knowledge of state and Federal laws applicable to this operation; that the statements made in this APO package are, to the best of my knowledge, true and correct, and that the work associated with the operations proposed herein will be performed in conformity with this APO package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, are responsible for the operations conducted under this application. These statements are subject to the provisions of 18 U.S.C 1001 for the filing of false statements.

OPERATORS REPRESENTATIVES:

MC ELVAIN ENERGY, INC.

CHRIS CAPLIS

1050 17th Street, Suite 2500
Denver, CO 80265

Office Phone: 303-962-6475
Cell Phone: 303-601-4884





U.S. Department of the Interior
BUREAU OF LAND MANAGEMENT

PWD Data Report

06/22/2017

30-025-43884

Section 1 - General

Would you like to address long-term produced water disposal? NO

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Section 2 - Lined Pits

Would you like to utilize Lined Pit PWD options? NO

Produced Water Disposal (PWD) Location:

PWD surface owner:

PWD disturbance (acres):

Lined pit PWD on or off channel:

Lined pit PWD discharge volume (bbl/day):

Lined pit specifications:

Pit liner description:

Pit liner manufacturers information:

Precipitated solids disposal:

Describe precipitated solids disposal:

Precipitated solids disposal permit:

Lined pit precipitated solids disposal schedule:

Lined pit precipitated solids disposal schedule attachment:

Lined pit reclamation description:

Lined pit reclamation attachment:

Leak detection system description:

Leak detection system attachment:

Lined pit Monitor description:

Lined pit Monitor attachment:

Lined pit: do you have a reclamation bond for the pit?

Is the reclamation bond a rider under the BLM bond?

Lined pit bond number:

Section 3 - Unlined Pits

Would you like to utilize Unlined Pit PWD options? NO

Produced Water Disposal (PWD) Location:

PWD surface owner:

PWD disturbance (acres):

Unlined pit PWD on or off channel:

Unlined pit PWD discharge volume (bbl/day):

Unlined pit specifications:

Precipitated solids disposal:

Describe precipitated solids disposal:

Precipitated solids disposal permit:

Unlined pit precipitated solids disposal schedule:

Unlined pit precipitated solids disposal schedule attachment:

Unlined pit reclamation description:

Unlined pit reclamation attachment:

Unlined pit Monitor description:

Unlined pit Monitor attachment:

Do you propose to put the produced water to beneficial use?

Beneficial use user confirmation:

Estimated depth of the shallowest aquifer (feet):

Does the produced water have an annual average Total Dissolved Solids (TDS) concentration equal to or less than that of the existing water to be protected?

TDS lab results:

Geologic and hydrologic evidence:

State authorization:

Unlined Produced Water Pit Estimated percolation:

Unlined pit: do you have a reclamation bond for the pit?

Is the reclamation bond a rider under the BLM bond?

Unlined pit bond number:

Unlined pit bond amount:

Additional bond information attachment:

Section 4 - Injection

Would you like to utilize Injection PWD options? NO

Produced Water Disposal (PWD) Location:

PWD surface owner:

PWD disturbance (acres):

Injection PWD discharge volume (bbl/day):

Injection well type:

Injection well number:

Injection well name:

Assigned Injection well API number?

Injection well API number:

Injection well new surface disturbance (acres):

Minerals protection information:

Mineral protection attachment:

Underground Injection Control (UIC) Permit?

UIC Permit attachment:

Section 5 - Surface Discharge

Would you like to utilize Surface Discharge PWD options? NO

Produced Water Disposal (PWD) Location:

PWD surface owner:

PWD disturbance (acres):

Surface discharge PWD discharge volume (bbl/day):

Surface Discharge NPDES Permit?

Surface Discharge NPDES Permit attachment:

Surface Discharge site facilities information:

Surface discharge site facilities map:

Section 6 - Other

Would you like to utilize Other PWD options? NO

Produced Water Disposal (PWD) Location:

PWD surface owner:

PWD disturbance (acres):

Other PWD discharge volume (bbl/day):

Other PWD type description:

Other PWD type attachment:

Have other regulatory requirements been met?

Other regulatory requirements attachment:



U.S. Department of the Interior
BUREAU OF LAND MANAGEMENT

Bond Info Data Report

06/22/2017

Bond Information

Federal/Indian APD: FED

BLM Bond number: COB000010

BIA Bond number:

Do you have a reclamation bond? NO

Is the reclamation bond a rider under the BLM bond?

Is the reclamation bond BLM or Forest Service?

BLM reclamation bond number:

Forest Service reclamation bond number:

Forest Service reclamation bond attachment:

Reclamation bond number:

Reclamation bond amount:

Reclamation bond rider amount:

Additional reclamation bond information attachment: