State of New Mexico Energy, Minerals and Natural Resources Department

Susana Martinez

Governor

David Martin
Cabinet Secretary

David R. Catanach, Division Director Oil Conservation Division



Brett F. Woods, Ph.D. Deputy Cabinet Secretary

New Mexico Oil Conservation Division approval and conditions listed below are made in accordance with OCD Rule 19.15.7.11 and are in addition to the actions approved by BLM on the following 3160-3 APD form.

	8
Well info	Signature Date: 3/17/15 rmation; McLey , Well Name and Number McLay #//C
	-045-35349, Section 19, Township 29 NS, Range 10 E/W
	ns of Approval:
	pelow checked and handwritten conditions)
	otify Aztec OCD 24hrs prior to casing & cement.
	old C-104 for directional survey & "As Drilled" Plat
	old C-104 for NSL, NSP, DHC
_	pacing rule violation. Operator must follow up with change of status notification on other well be shut in or abandoned
	egarding the use of a pit, closed loop system or below grade tank, the operator must comply ith the following as applicable:
	• A pit requires a complete C-144 be submitted and approved prior to the construction or use of the pit, pursuant to 19.15.17.8.A
	• A closed loop system requires notification prior to use, pursuant to 19.15.17.9.A
	• A below grade tank requires a registration be filed prior to the construction or use of the below grade tank, pursuant to 19.15.17.8.C
fro	once the well is spud, to prevent ground water contamination through whole or partial conduits om the surface, the operator shall drill without interruption through the fresh water zone or ones and shall immediately set in cement the water protection string
✓ _{Re}	egarding Hydraulic Fracturing, review EPA Underground Injection Control Guidance 84
iso	il base muds are not to be used until fresh water zones are cased and cemented providing olation from the oil or diesel. This includes synthetic oils. Oil based mud, drilling fluids and olids must be contained in a steel closed loop system.
	Vell-bore communication is regulated under 19.15.29 NMAC. This requires well-bore communication to be reported in accordance with 19.15.29.8.
AMOCD	Approved by Signature Date

McKay Oil & Gas, LLC

P.O. Box 14738 Albuquerque, NM 87191-4738 (505) 296-5508

State of New Mexico

March 17, 2015

Oil Conservation Division District III

OIL CONS. DIV DIST. 3

Attention: Ms. Kate Pickford, District Geologist

MAR 19 2015

1000 Rio Brazos Rd.

Aztec, NM 87410

RE: McKay Oil & Gas, LLC Permitted McKay #1R Pictured Cliffs & Fruitland Coal Well.

Dear Kate,

I am writing you today to present a proposal of our desired plans for the McKay #1R Pictured Cliffs & Fruitland Coal commingled Well. McKay Oil & Gas, LLC (McKay) originally permitted the McKay #1R on January 26, 2012. The original Application for Permit to Drill was set to expire on January 26, 2014 so McKay did the following. McKay submitted a Sundry Notice to your office in December 2013 asking for a two-year extension of the APD. This action was taken by McKay due to low natural gas prices resulting in unacceptable new-well economics. A 1-year APD extension was approved by your office with an APD expiration date of January 26, 2015. McKay submitted a second Sundry Notice in December 2014 asking to extend the APD for another year. This extension of the McKay #1R APD was requested entirely due to economic reasons. The final APD extension (1-year) was approved with an expiration date of January 26, 2016.

Looking forward to calendar year 2016 McKay doesn't see natural gas prices reaching desirable levels to support drilling and completing the McKay #1R. McKay has invested lots of time and money permitting the McKay #1R and wants to avoid unwanted costs associated with re-permitting this Well.

McKay proposes to initiate drilling actions on the McKay #1R Well this year with the drilling and setting of surface casing as per specifications provided in the original approved McKay #1R APD. Following drilling of surface hole, setting 7-inch diameter surface casing, cementing casing in place, a surface casing wellhead and master valve will be installed to secure the well. Operations will stop for now and the McKay #1R will remain shut-in until natural gas prices recover to desirable levels. Once gas prices recover the McKay #1R will be drilled to total depth, production casing installed and cemented in place. We are requesting the approval of the above stated actions to fully utilize the current approved APD.

Please consider approving our request. We look forward hearing back from you regarding this important matter.

Respectfully Submitted,

McKay Oil & Gas, LLC

Frank Welker

Petroleum Engineer

751: 1. Prints Dr., Hobbs. NM 88240 Phone: (375) 393:6461 Fax (375) 393-0720 District II: 811 S - 15 Till St., Artesia, NM 88210 Phone: (375) 748-1283 Fax (375) 748-9720 District III 1000 Rio Briscos Road, Actor, NM 87410 Phone (\$05) 334-6178 Fax (\$05) 334-6170

State of New Mexico

Energy Minerals and Natural Resources CONS. DIV DIST. 3 Rev

Oil Conservation Division

MAR 19 2015

1220 South St. Francis Dr.

RCVD JAN 18'12

Phone. (505) 47	cii Dr., Santa Fc, NM 87505 6-3460 Fax (505) 476-3462			Fe, NM 87505			CONS. DIV. DIST. 3
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McKay	Oil & Gas	, LLC			10715		
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E-mail Add	dress: brian	@permitswe	st.com				
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<u>District 1</u> – (575) 393-6161 1625: N. French Dr., Hobbs, NM 88240 <u>District 11</u> – (575) 748-1283	non: Minopola and National Pagarinaan	Y
District 11 - (575) 748-1283	ergy, Minerals and Natural Resources	Revised August 1 WELL API NO. 30-045-35349
	OH GOVERNAL EVOLUTION	
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District III - (505) 334-6178 1000 Rio Brazos Rd., Aztec, NM 87410	1220 South St. Francis Dr.	6. State Oil & Gas Lease No.
District IV - (505) 476-3460 1220 S. St. Francis Dr., Santa Fe, NM 87505	Santa Fe, NM 87505	o. State on the das Bease No.
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(DO NOT USE THIS FORM FOR PROPODIFFERENT RESERVOIR. USE "APPL	OSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A ICATION FOR PERMIT" (FORM C-101) FOR SUCH DIST. 3	Property Name: McKay
1. Type of Well: Oil Well	Gas Well 🛛 Other	8. Well Number 1R
2. Name of Operator McKay Oil and Gas, LLC	MAR 1 9 2015	9. OGRID Number 10715
3. Address of Operator		10. Pool name or Wildcat
P.O. Box 14738 Albuquerque, 1	NM 87191-4738	Basin Fruitland Coal, Aztec Pictured
4. Well Location		RCVD DEC 5'13
	from the South line and 2.255 feet from the West line	OIL CONS. DIV.
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