

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez
Governor

David Martin
Cabinet Secretary

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

David R. Catanach, Division Director
Oil Conservation Division



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.

Operator Signature Date: 3/17/15

Well information;

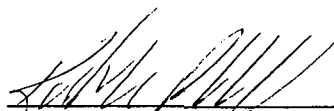
Operator McKay, Well Name and Number McKay #1R

API# 30-045-35349, Section 19, Township 29N, Range 10E

Conditions of Approval:

(See the below checked and handwritten conditions)

- ☒ Notify Aztec OCD 24hrs prior to casing & cement.
 - ☐ Hold C-104 for directional survey & "As Drilled" Plat
 - ☐ Hold C-104 for NSL, NSP, DHC
 - ☐ Spacing rule violation. Operator must follow up with change of status notification on other well to be shut in or abandoned
 - ☐ Regarding the use of a pit, closed loop system or below grade tank, the operator must comply with 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
- ☒ Once the well is spud, to prevent ground water contamination through whole or partial conduits from the surface, the operator shall drill without interruption through the fresh water zone or zones and shall immediately set in cement the water protection string
- ☒ Regarding Hydraulic Fracturing, review EPA Underground Injection Control Guidance 84
- ☒ Oil base muds are not to be used until fresh water zones are cased and cemented providing isolation from the oil or diesel. This includes synthetic oils. Oil based mud, drilling fluids and solids must be contained in a steel closed loop system.
- ☒ Well-bore communication is regulated under 19.15.29 NMAC. This requires well-bore Communication to be reported in accordance with 19.15.29.8.


NMOCD Approved by Signature

3/27/15
Date RV

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.

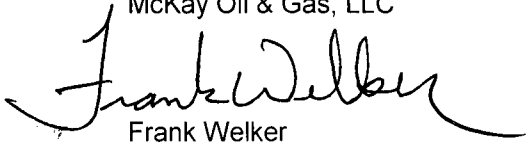
Looking forward to calendar year 2016 McKay doesn't see natural gas prices reaching desirable levels to support drilling and completing the McKay #1R. McKay has invested lots of time and money permitting the McKay #1R and wants to avoid unwanted costs associated with re-permitting this Well.

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

District I
4625 N. French Dr., Hobbs, NM 88240
Phone: (505) 393-6461 Fax: (505) 393-0720
District II
811 S. 4th St., Artesia, NM 88210
Phone: (505) 748-1283 Fax: (505) 748-9720
District III
1000 Rio Breros Road, Aztec, NM 87410
Phone: (505) 334-6178 Fax: (505) 334-6170
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico
Energy Minerals and Natural Resources

OIL CONS. DIV. DIST. 3

Form C-101
Revised December 16, 2011

Oil Conservation Division

MAR 19 2015

Permit

1220 South St. Francis Dr.

Santa Fe, NM 87505

RCVD JAN 18 '12

OIL CONS. DIV.

DIST. 3

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address McKay Oil & Gas, LLC P. O. Box 14738, Albuquerque, NM 87191-4738		OGRID Number 10715
Property Code 35675 6719		API Number 30-045-35349
Property Name McKay		Well No 1 R

Surface Location

UL - Lot N	Section 19	Township 29 N	Range 10 W	Lot Ida	Feet from 381	N/S Line South	Feet From 2255	E/W Line West	County San Juan
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Pool Information

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Additional Well Information

Work Type N	Well Type G	Cable/Rotary R	Lease Type P	Ground Level Elevation 5,465'
Multiple Yes	Proposed Depth 1,900'	Formation Fruit. Coal & PC	Contractor	Spud Date
Depth to Ground water ~3'		Distance from nearest fresh water well 1,637'		Distance to nearest surface water 180'

Proposed Casing and Cement Program

Type	Hole Size	Casing Size	Casing Weight/lb	Setting Depth	Sacks of Cement	Estimated TOC
Surf.	8-3/4"	7"	20	120'	120 sx	GL
Prod.	6-1/4"	4-1/2"	10.5	1,900'	290 sx	GL

Casing/Cement Program: Additional Comments

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Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
	2,000	500	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief
I further certify that the drilling pit will be constructed according to NMOCD guidelines ☐, a general permit ☐, or an (attached) alternative OCD-approved plan ☐.

Signature:

Brian Wood

Printed name: Brian Wood

Title: Consultant

E-mail Address: brian@permitswest.com

Date: Jan. 14, 2012

Phone: (505) 466-8120

OIL CONSERVATION DIVISION

Approved By:

Chant

Title: SUPERVISOR DISTRICT #3

Approved Date: JAN 26 2012

Expiration Date: JAN 26 2014

Conditions of Approval Attached

Requires DHC old to conduct

JAN 26 2012 ca

Requires Downhole Assembly to

NOTIFY AZTEC OGD 24 HRS PRIOR TO CASING & CEMENT

Submit a copy to appropriate district
Office
District I - (575) 393-6161
1625 N. French Dr., Hobbs, NM 88240
District II - (575) 748-1283
811 S. First St., Artesia, NM 88210
District III - (505) 334-6178
1000 Rio Brazos Rd., Aztec, NM 87410
District IV - (505) 476-3460
1220 S. St. Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources

Form C-103
Revised August 1, 2011

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

ELL API NO. 30-045-35349

5. Indicate Type of Lease

STATE ☐ FEE ☒

6. State Oil & Gas Lease No.

7. Lease Name or Unit Agreement Name
Property Name: McKay

8. Well Number 1R

9. OGRID Number 10715

10. Pool name or Wildcat
Basin Fruitland Coal, Aztec Pictured Cliffs

SUNDRY NOTICES AND REPORTS ON WELLS

(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well: Oil Well ☐ Gas Well ☒ Other OIL CONS. DIV DIST. 3

2. Name of Operator
McKay Oil and Gas, LLC

MAR 19 2014

3. Address of Operator
P.O. Box 14738 Albuquerque, NM 87191-4738

4. Well Location

Unit Letter N : 381 feet from the South line and 2,255 feet from the West line

Section 19 Township 29N Range 10W NMPM San Juan County

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
5,465 feet GR

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☐
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐
DOWNHOLE COMMINGLE ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐ OIL CONS. DIV DIST. 3

OTHER: Extension of Application for Permit to Drill ☒

OTHER: OCT 23 2014 ☐

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 19.15.7.14 NMAC. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

McKay Oil and Gas, LLC (McKay) is respectfully requesting an additional 1-year extension of the approved Application for Permit to Drill (APD) McKay 1R Basin Fruitland Coal and Aztec Pictured Cliffs Gas Well. McKay's request for APD extension and delay of drilling this gas well is due to current economic conditions, specifically low natural gas prices. Attached for your information are pages 1 through 4 of the approved APD McKay 1R Well.

Final APD Extension (1) year to 1-26-2016

Spud Date:

Rig Release Date:

Comply with APD conditions

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: Frank Welker

TITLE: Petroleum Engineer

DATE: 10-21-2014

Type or print name: Frank Welker

E-mail address: frank@mckayoilandgas.com

PHONE: 505.296.5508

For State Use Only

APPROVED BY: Charles

TITLE

SUPERVISOR DISTRICT #3

DATE OCT 30 2014

Conditions of Approval (if any):

AV

Submit 1 Copy To Appropriate District Office

District I - (575) 393-6161
1625 N. French Dr., Hobbs, NM 88240
District II - (575) 748-1283
811 S. First St., Artesia, NM 88210
District III - (505) 334-6178
1000 Rio Brazos Rd., Aztec, NM 87410
District IV - (505) 476-3460
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-103

Revised August 1, 2011

SUNDRY NOTICES AND REPORTS ON WELLS (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)		WELL API NO. 30-045-35349
1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other		5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input checked="" type="checkbox"/>
2. Name of Operator McKay Oil and Gas, LLC		6. State Oil & Gas Lease No.
3. Address of Operator P.O. Box 14738 Albuquerque, NM 87191-4738		7. Lease Name or Unit Agreement Name Property Name: McKay
4. Well Location Unit Letter N : 381 feet from the South line and 2,255 feet from the West line Section 19 Township 29N Range 10W NMPM San Juan County		8. Well Number 1R
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 5,465 feet GR		9. OGRID Number 10715
		10. Pool name or Wildcat Basin Fruitland Coal, Aztec Pictured Cliffs
		RCVD DEC 5 '13 OIL CONS. DIV. DIST. 3

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☐
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐
DOWNHOLE COMMINGLE ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: Extension of Application for Permit to Drill ☒

OTHER: ☐

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 19.15.7.14 NMAC. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

McKay Oil and Gas, LLC is respectfully requesting a 2-year extension of the approved Application for Permit to Drill (APD) McKay 1R Basin Fruitland Coal and Aztec Pictured Cliffs Gas Well. If natural gas prices increase significantly by the third quarter of 2014 McKay Oil and Gas, LLC may move forward with the drilling of the McKay #1R Well. If natural gas prices are at current levels in the third quarter of 2014 McKay Oil and Gas, LLC will wait until the third quarter of 2015 to drill the McKay 1R Well. Attached for your information are pages 1 through 4 of the approved APD McKay 1R Well.

APD EXTENDED ONE (1) YEAR TO 1/26/2015

Spud Date:

Rig Release Date:

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE:

Frank Welker

TITLE: Petroleum Engineer

DATE:

12-3-2013

Type or print name: Frank Welker

E-mail address: frank@mckayoilandgas.com

PHONE: 505.296.5508

For State Use Only

APPROVED BY:

W. H. H.

TITLE

Deputy Oil & Gas Inspector,
District #3

DATE

DEC 18 2013

Conditions of Approval (if any):

PV