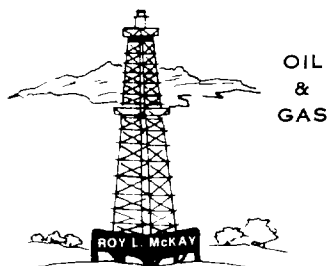


McKay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505 / 624 - 2202



December 18, 1989

Case: 9851

State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87504-2088

Attention: Victor Lyon

RE: Application for Hearing
Unorthodox location
Rule 104, Well Spacing (F) Unorthodox Locations
Directional Drilling
Rule 111, Directional Drilling

Gentlemen:

This letter is to serve as an official application that it is the intent of McKay Oil Corporation (Applicant) to reenter two wells located in Chaves County, New Mexico, for the purpose of directional drilling in the Abo formation. The directional drilling will be in two directions from the present wellbore for a length of approximately 300 feet. These two wells, which are described below:

Well Name:	McKay Harvey Federal #1
Surface Location:	660 FEL & 660 FSL Section 17-9S-25E Chaves County, NM

Deviation Points	960 FEL & 660 FSL 660 FSL & 960 FEL
------------------	--

Well Name:	L. L. & E. Federal #3
Surface Location:	660 FNL & 1485 FWL Section 12-6S-22E Chaves County, NM

Deviation Points	660 FNL & 1184 FWL 729 FNL & 1776 FWL
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Page 2 of 2
Oil Conservation Division
December 18, 1898

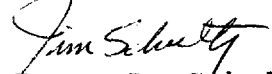
This Application was verbally given to the OCD and a hearing has been scheduled in Santa Fe at the Oil Conservation Division Conference Room on January 10, 1990 at 8:30 A.M. before an OCD Examiner. A number and style of this case has not been assigned and McKay Oil Corporation requests that one be assigned at your earliest convenience.

As required under Rule "N" of the Rules and Regulations of the State of New Mexico, Energy and Minerals Department, Oil Conservation Division, notice must be given to offset operators. Yates Petroleum Corporation is the only offset operator to both of the wells and a notice of hearing has been mailed on this date, a copy of which is attached hereto. A copy of the return receipt will be forwarded to you upon receipt.

Thank you for your cooperation and assistance.

Very truly yours,

MCKAY OIL CORPORATION



James L. Schultz
V.P. Land & Legal

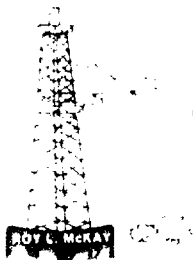
JLS/ml
certified mail

Mckay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505-623-4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO 505-624-2202



OIL
&
GAS

December 18, 1989

Yates Petroleum Corporation
207 S. Fourth Street
Artesia, New Mexico 88210

Attention: Randy Patterson

RE: Notice of Hearing
Unorthodox location
Rule 104, Well Spacing (F) Unorthodox Locations
Directional Drilling
Rule 111, Directional Drilling

Dear Randy:

This letter is to serve as official notice that it is the intent of McKay Oil Corporation (Applicant) to reenter two wells located in Chaves County, New Mexico, for the purpose of directional drilling in the Abo formation. The directional drilling will be in two directions from the present wellbore for a length of approximately 300 feet. These two wells, which are described below, are offsets to Yates Petroleum Corporation leases:

Well Name: McKay Harvey Federal #1
Surface Location: 660 FEL & 660 FSL
Section 17-9S-25E
Chaves County, NM

Deviation Points 960 FEL & 660 FSL
660 FSL & 960 FEL

Well Name: L. L. & E. Federal #3
Surface Location: 660 FNL & 1485 FWL
Section 12-6S-22E
Chaves County, NM

Deviation Points 660 FNL & 1184 FWL
729 FNL & 1776 FWL

Page 2 of 2
Yates Petroleum
December 18, 1989

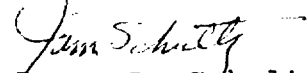
As required under Rule "N" of the Rules and Regulations of the State of New Mexico, Energy and Minerals Department, Oil Conservation Division, notice must be given to offset operators. Therefore, please be advised that the hearing is to be held in Santa Fe at the Oil Conservation Division Conference Room on January 10, 1990 at 8:30 A.M. before an OCD Examiner. A number and style of this case will be assigned at a later date and will be forwarded to you upon receipt.

Since the directional drilling will not be any closer to the outside Section line than is allowed under normal OCD rules and regulations, it is requested that Yates Petroleum Corporation consent to the directional drilling and waive its rights to appearance in said hearing. Should this meet with your approval, please sign in the space provided below and return to the above address.

Thank you for your cooperation and assistance.

Very truly yours,

MCKAY OIL CORPORATION



James L. Schultz
V.P. Land & Legal

JLS/ml
certified mail

AGREED to this _____ day
of December, 1989.

YATES PETROLEUM CORPORATION

BY: _____

All distances must be from the outer boundaries of the Section.

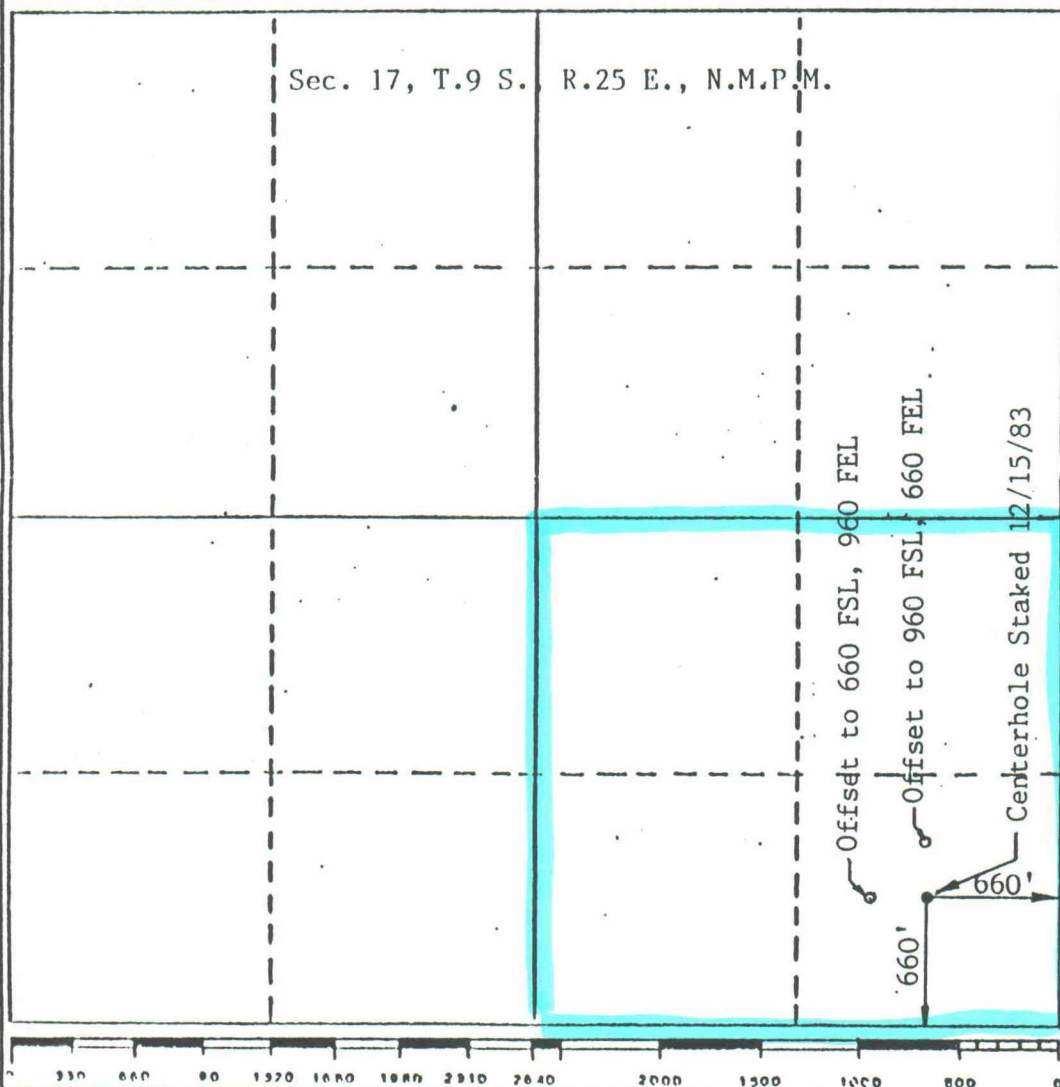
Operator McKay Oil Corp.			Lease McKay Harvey Federal		Well No. 1(Re-Entry)
Unit Letter P	Section 17	Township 9 South	Range 25 East	County Chaves	
Actual Footage Location of Well: 660 feet from the South line and 660 feet from the East line					
Ground Level Elev. 3574	Producing Formation Abo	Pool Pecos Slope Abo		Dedicated Acreage: 160 Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



CERTIFICATION

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

Name
James L. Schultz

Position
V.P. Land & Legal

Company
McKay Oil Corp.

Date
12-18-89

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 knowledge and belief.

JOHN D. JAQUESS
Date Surveyed 12-15-83
Date Platted 12-14-89
Registered Professional Engineer
and Land Surveyor
John D. Jaquess P.E. & L.S.
Certificate No. 6290

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

Form C-102
Revised 10-1-78

All distances must be from the outer boundaries of the Section.

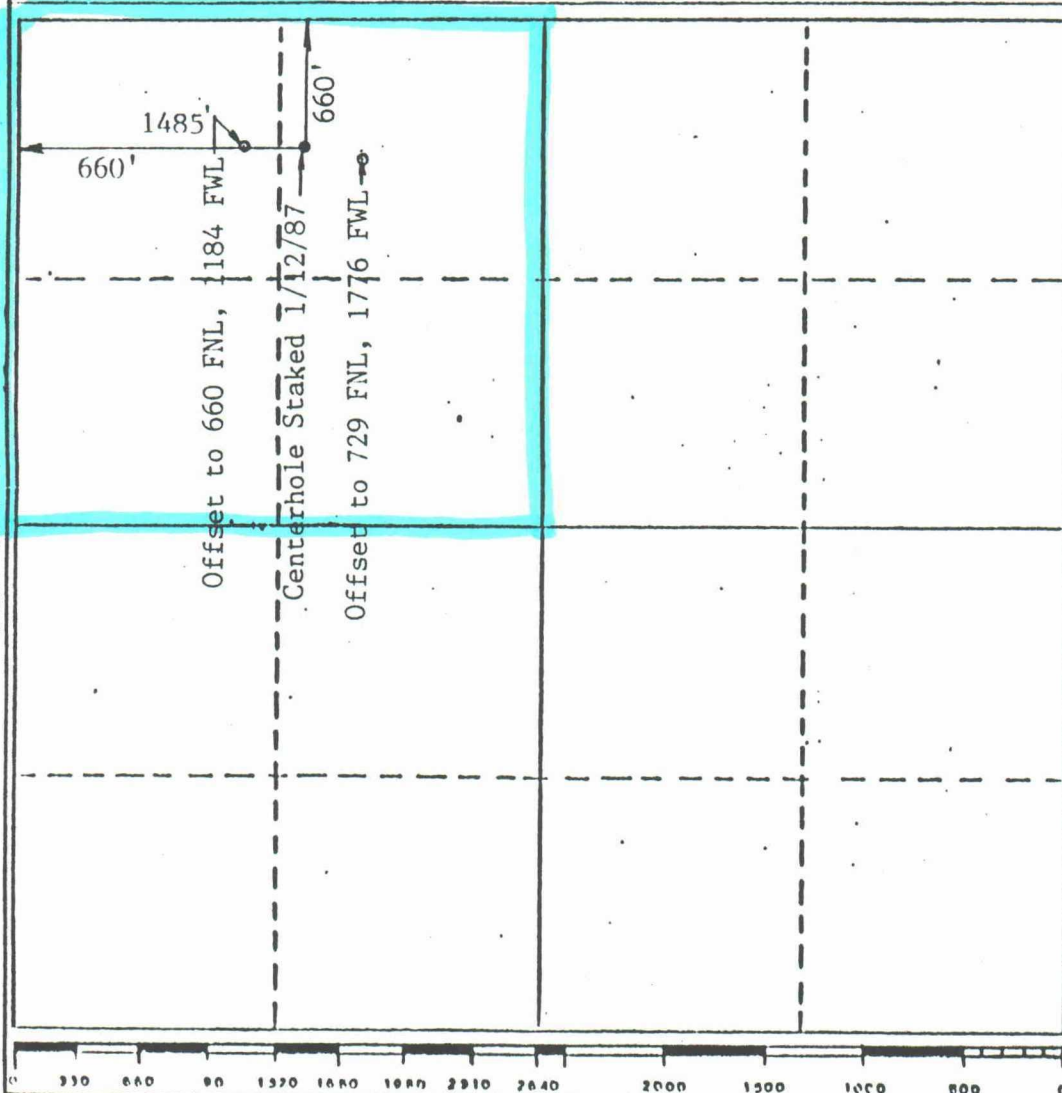
Operator McKay Oil Corp.		Lease L.L. & E. Federal		Well No. 3(Re-Entry)	
Unit Letter C	Section 12	Township 6 South	Range 22 East	County Chaves	
Actual Footage Location of Well: 1485 feet from the West line and 660 feet from the North line					
Ground Level Elev. 4177	Producing Formation Abo		Pool West Pecos Slope Abo	Dedicated Acreage: 160 Acres	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



CERTIFICATION

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

Name
James L. Schultz

Position
V.P. Land & Legal

Company
McKay Oil Corporation

Date
12-18-89

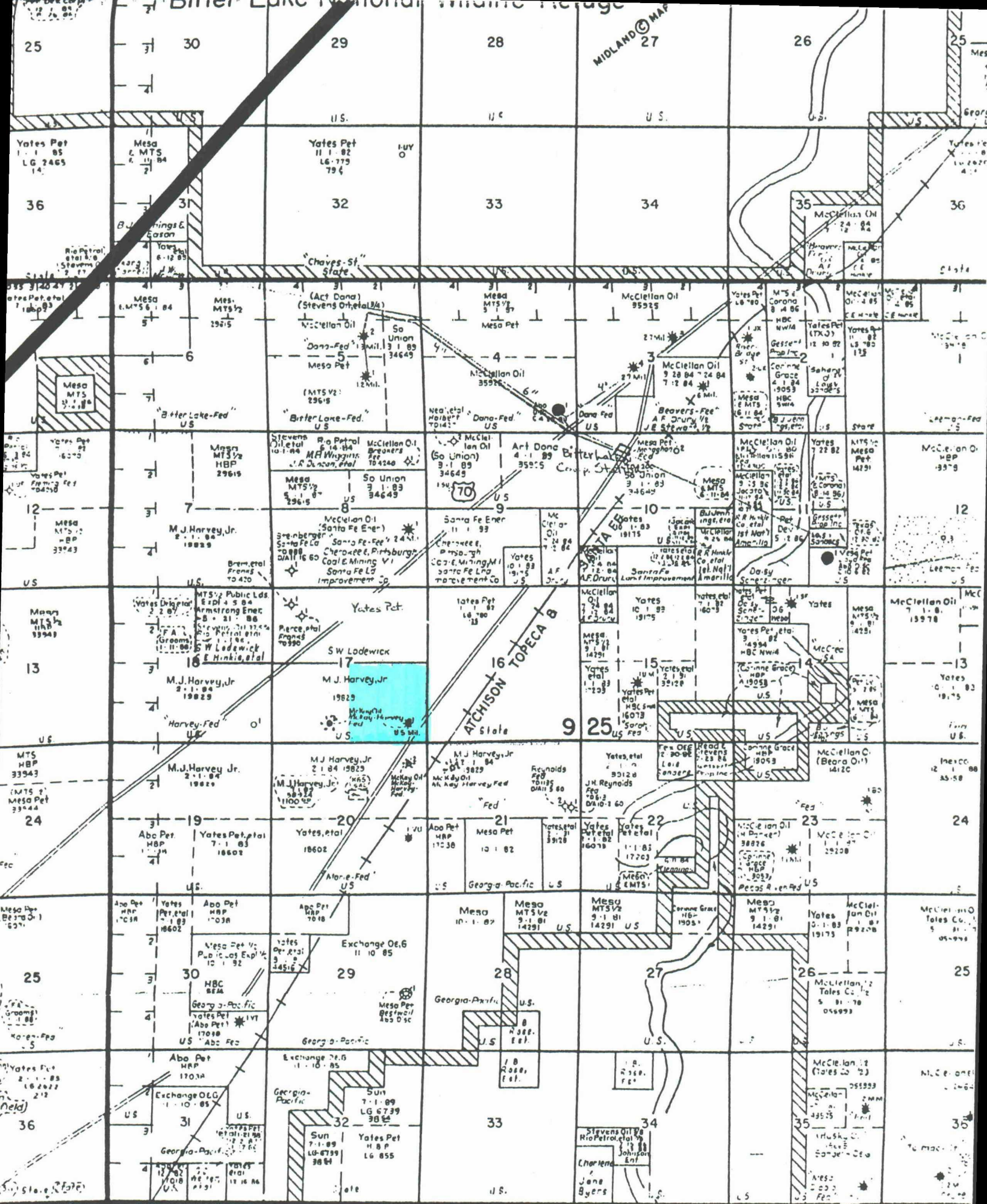
I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
Date Plotted: 12-14-89

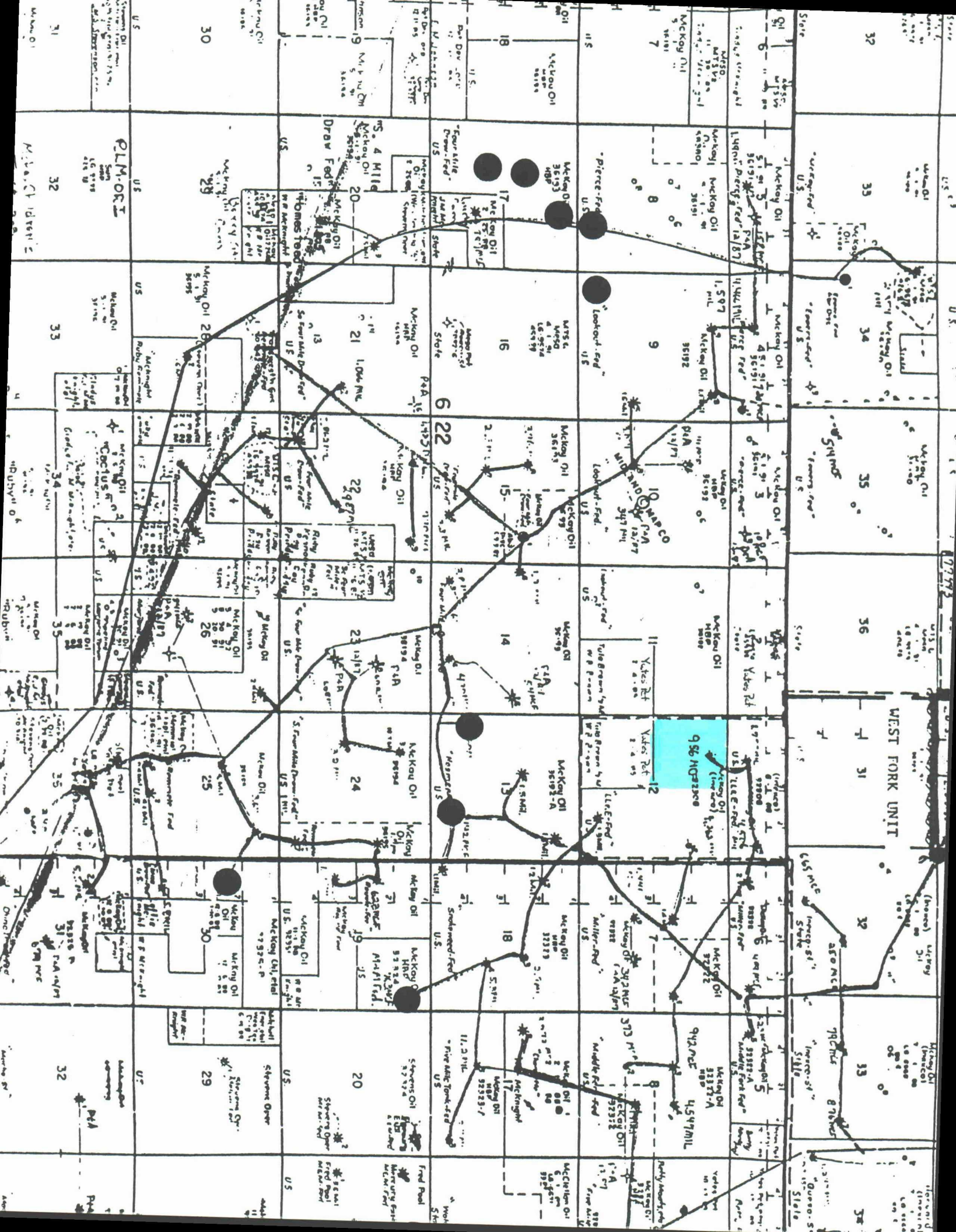
Registered Professional Engineer
on: Ver. Land Surveyor

John D. Jaques, P.E. & L.S.

Certificate No. 6290



R-25-E



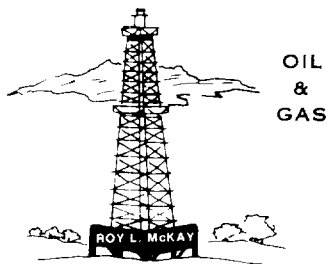
McKay Oil Corporation

OIL CONSERVATION DIVISION
RECEIVED

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505 / 624 - 2202



December 20, 1989

State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Gentlemen:

Enclosed please find a copy of the return receipt regarding the letter sent to you on December 18, 1989.

Please make this an attachment.

If you have any questions, feel free to call.

Very truly yours,

MCKAY OIL CORPORATION

James L. Schultz
for James L. Schultz
V.P. Land & Legal

JLS/ml

Enclosure.

Case No. 9851
Z.S.

SENDER: Complete items 1, 2, 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested. 1. ☒ Show to whom, date and address of delivery. 2. ☐ Restricted Delivery.	
3. Article Addressed to: <i>Yates Petroleum Corp.</i> <i>207 S. Fourth Street</i> <i>Artida, NM 88210</i>	
4. Type of Service: ☐ Registered ☐ Insured ☒ Certified ☐ COD ☐ Express Mail	Article Number <i>0-583-126-782</i>
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee <i>Cy Lowe</i>	
6. Signature - Agent	
7. Date of Delivery <i>12/19/89</i>	
8. Addressee's Address (ONLY if requested and fee paid)	

PS Form 3811, July 1983

DOMESTIC RETURN RECEIPT

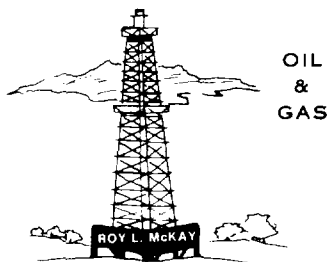
McKay Oil Corporation

OIL CONSERVATION DIVISION
RECEIVED

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505 / 624 - 2202



December 12, 1989

Case: 9851

State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Attention: Victor T. Lyon

RE: Directional Drilling

Gentlemen:

This letter is to request an administrative decision as to certain rules and regulations with regards to permission to reenter producing wells and directional drill within an orthodox location. It is the intent of McKay Oil Corporation to reenter the two wells as set forth below:

(1) Well Name:
Surface Location:

McKay-Harvey Fed. #1
660 FSL & 660 FEL
Sec. 17-9S-25E
Chaves County, NM

*S. Davis Jones
also has*

Deviation Points:

960 FSL & 660 FEL
660 FSL & 960 FEL ✓

(2) Well Name:
Surface Location:

L. L. & E. Fed. #3
1485 FWL & 660 FNL
Sec. 12-6S-22E
Chaves County, NM

*W. Davis Jones
also has*

Deviation Points:

729 FNL & 1776 FWL
660 FNL & 1184 FWL

The reason for the requested deviation of drilling is for the purpose of enhancement of gas recovery by means of creating controlled communication of natural fractures as opposed to uncontrolled communication by traditional frac technology. New Mexico Oil Conservation Division Rule 111 seems to be unclear as

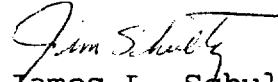
Page 2 of 2
Oil Conservation Division
December 12, 1989

to notification to offset operators with regards to the deviation for this reason. Paragraph (g) merely states that "Permission to deviate a well in any manner or for any other reason not provided for in these rules will be granted only after notice and hearing." It appears that since the two wells were originally drilled on orthodox locations and the deviation points desired will be at orthodox locations, that no notification is necessary to offset operators.

Therefore, McKay Oil Corporation does hereby request an administrative clarification as to this matter. Your immediate attention to this matter would be greatly appreciated.

Very truly yours,

MCKAY OIL CORPORATION


James L. Schultz
V.P. Land & Legal

JLS/ml