

Form 3160-3
(August 2007)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

RECEIVED
MAY 28 2008
Bureau of Land Management
Famington Field Office

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

1a. Type of work. <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		7 If Unit or CA Agreement, Name and No.
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		8. Lease Name and Well No. Red River No. 1S
2. Name of Operator McKay Oil and Gas LLC		9 API Well No. 30-045-34729
3a. Address P. O. Box 14738 Albuquerque, NM 87191	3b Phone No. (include area code) (505) 296-5508	10 Field and Pool, or Exploratory Basin Fruitland Coal
4. Location of Well (Report location clearly and in accordance with any State requirements *) At surface 790' FNL & 820' FEL At proposed prod. zone Same		11. Sec., T. R. M. or Blk. and Survey or Area A 2-30N-12W NMPM
14 Distance in miles and direction from nearest town or post office* 3 air miles NW of Aztec, New Mexico		12 County or Parish San Juan
15 Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 790'		17. Spacing Unit dedicated to this well 318.88' E/2
18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 811'		19 Proposed Depth 2330'
21 Elevations (Show whether DF, KDB, RT, GL, etc.) 5783' GL		23. Estimated duration 15 days
22 Approximate date work will start* 08/01/2008		

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, must be attached to this form.

SEE ATTACHED FOR CONDITIONS OF APPROVAL

- | | |
|---|---|
| 1. Well plat certified by a registered surveyor. | 4. Bond to cover the operations unless covered by an existing bond (see Item 20 above). |
| 2. A Drilling Plan | 5. Operator certification |
| 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) | 6. Such other site specific information and/or plans as may be required by the BLM. |

25 Signature <i>Dana L. Delventhal</i>	Name (Printed/Typed) Dana L. Delventhal	Date 05/27/2008
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Title Agent	Phone: (505) 326-4125	FAX: (505) 325-8644
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Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed) AFM	Date 8/11/08
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Title AFM	Office FED
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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.

NOTIFY AZTEC OCD 24 HRS. PRIOR TO CASING & CEMENT

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)

This action is subject to technical procedural review pursuant to 43 and appeal pursuant to 43 CFR 3

A COMPLETE C-144 MUST BE SUBMITTED TO AND APPROVED BY THE NMOCD FOR: A PIT, CLOSED LOOP SYSTEM, BELOW GRADE TANK, OR PROPOSED ALTERNATIVE METHOD, PURSUANT TO NMOCD PART 19.15.17, PRIOR TO THE USE OR CONSTRUCTION OF THE ABOVE APPLICATIONS.

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

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

SEP 09 2008



NOTIFY AZTEC OGD 24 HRS. PRIOR TO CASING & CEMENT
H₂S POTENTIAL EXISTS

DISTRICT I
1625 N. French Dr., Hobbs, N.M. 88240

DISTRICT II
1301 W. Grand Ave., Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV
1220 South 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

RECEIVED
MAY 28 2008
Submitted to
Bureau of Land Management
Farmington Field Office

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 30-045-34729		² Pool Code 71629	³ Pool Name Basin Fruitland Coal
⁴ Property Code 35680	⁵ Property Name RED RIVER		⁶ Well Number 1S
⁷ GRID No. 010715	⁸ Operator Name McKAY OIL & GAS, LLC		⁹ Elevation 5783

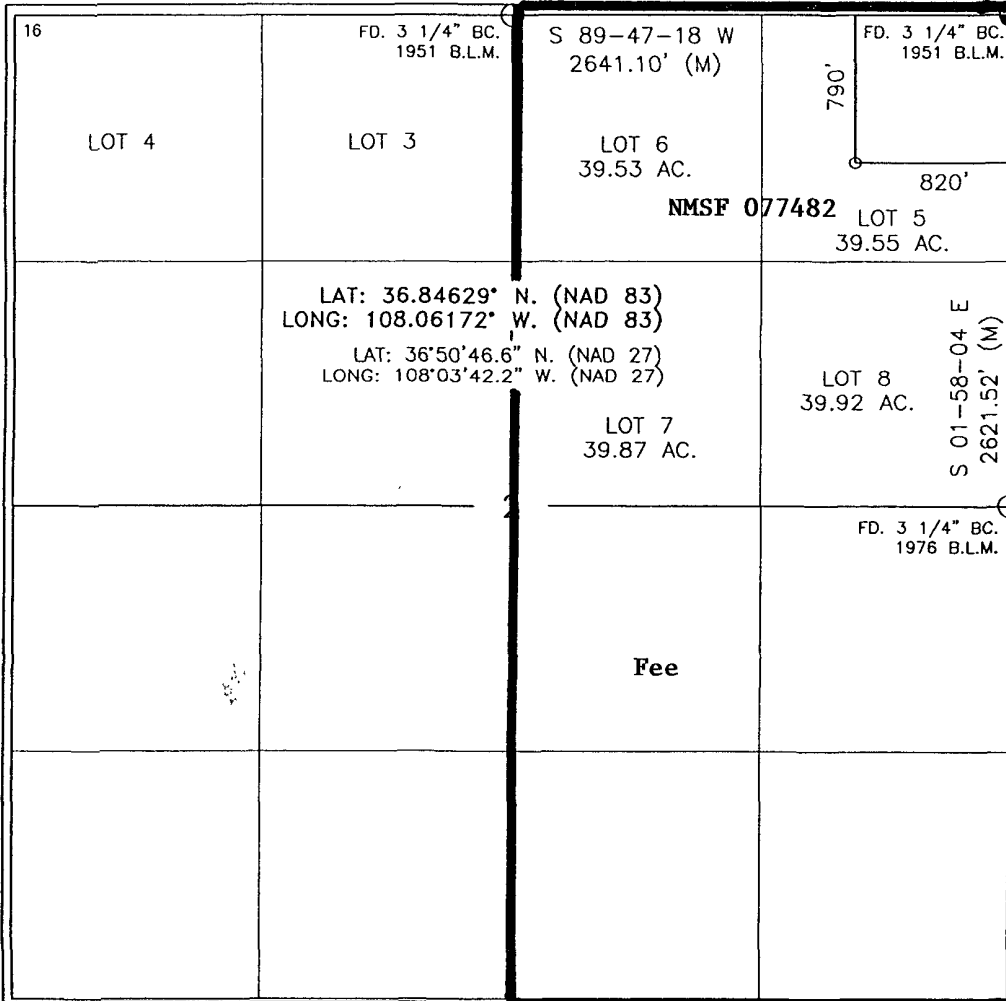
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	2	30-N	12-W	(5)	790	NORTH	820	EAST	SAN JUAN

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 318.88 320 (E/2)					¹³ Joint or Infill I		¹⁴ Consolidation Code C		¹⁵ Order No.

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



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.

Dana S. Delventhal
Signature
5/27/08
Date

Dana L. Delventhal
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.

FEBRUARY 12 2008
Date of Survey
Signature and Seal of Professional Surveyor:
[Signature]
03-08
PROFESSIONAL LAND SURVEYOR

Certificate Number

Drilling Program

1. Formation Tops

The estimated tops of important geologic markers are:

<u>Formation Name</u>	<u>GL Depth</u>	<u>KB Depth</u>	<u>SS Elev.</u>
Ojo Alamo	544'	550'	5233'
Basin Fruitland Coal	1961'	1967'	3816'
Pictured Cliffs	2126'	2132'	3651'
Total Depth (TD)	2324'	2330'	3453'

*All elevations reflect the ungraded ground level of 5783'.

2. Notable Zones

Oil and Gas Zones

Basin Fruitland Coal (1967')
Pictured Cliffs (2132')

The primary objective is the Basin Fruitland Coal formation. Completion may require fracturing. The entire wellbore will be cased. Water zones will be protected with casing, cement, and weighted mud. Oil and gas shows will be tested for commercial potential based on the well site geologist's recommendations.

3. Pressure Control

BOP systems will follow Onshore Order No. 2. The drilling contract has not yet been awarded, thus the exact BOP model to be used is not yet known. A typical model is shown on the attached page.

Once out from under the surface casing, a minimum 2000 psi BOP and choke manifold system will be used. BOP controls will be installed before drilling the surface casing plug and used until the well is completed or abandoned.

Pressure tests to 1,500 psi will be conducted with a BOP tester. All BOP mechanical and pressure tests will be recorded on the driller's log. BOPs will be inspected and operated at least daily to assure good mechanical working order. The inspection will be recorded on the daily drilling report.

4. Casing and Cement

<u>Hole Size</u>	<u>OD</u>	<u>Weight (lb/ft)</u>	<u>Grade</u>	<u>Depth</u>
8 3/4"	7"	20.00	J-55	120'
6 1/4"	4 1/2"	10.50	J-55	2330'

Surface casing will be cemented to surface with 65 sx (76.7 cf) of Type 5 cement containing 2% CaCl and 1/4 #/sk cello flakes. Production casing will be cemented to surface in one stage using 200 sx (412 cf) of Type 5 cement containing 2% Sodium Metasilicate and 1/4 #/sk cello flakes followed by 100 sx (118 cf) of Type 5 cement containing 2% CaCl. The entire wellbore will be cased. Water zones will be protected with casing, cement, and weighted mud.

5. Mud Program

The proposed mud program is:

<u>Depth</u>	<u>Type</u>	<u>ppg</u>	<u>Vis(cp)</u>	<u>F1(cc)</u>
0-120'	Spud mud and Gel Lime	8.8	50	N/A
120'-TD	LSND	9.0	45	10

~~A closed loop drilling system will be employed.~~ *MTT per operator 6/3/08,*

6. Coring, Testing, and Logging

No cores are planned. The following logs are likely to be run:

Dual Induction, Formation Density,
Compensated Neutron, SP, Gamma Ray

Surface Use Plan

1. Directions and Existing Roads

From Flora Vista, NM, travel 2.5 miles Northeast on NM 550. Turn left onto County Road 3160. Travel 1.75 miles North to the well location.

Existing roads will not need any upgrading, other than blading to remove ruts. Roads will be maintained to a standard at least equal to their present conditions.

2. Road to be Built

Access will require 25' of new road. This will be built to BLM Gold Book standards. This will consist of crowning and ditching with a 14' wide running surface. Maximum disturbed width will be approximately 20'. Maximum grade will be approximate 7%.

3. Existing Wells

According to a file search on NMOCD records, there are no water, disposal, or injection wells within a one mile radius. There are 31 gas and/or oil wells within a one mile radius.

4. Proposed Production Facilities

The exact type and layout of the production facilities are not now known. It is expected that they will include a pumping unit, compressor, tank, and meter run. All equipment will be painted according to BLM specifications.

7. Downhole Conditions

Neither abnormal temperatures nor hydrogen sulfide are anticipated. Maximum pressure will be approximately 250 psi.

8. Other Information

It is expected to require 15 days to drill and complete this well.

DRILLING CONDITIONS OF APPROVAL

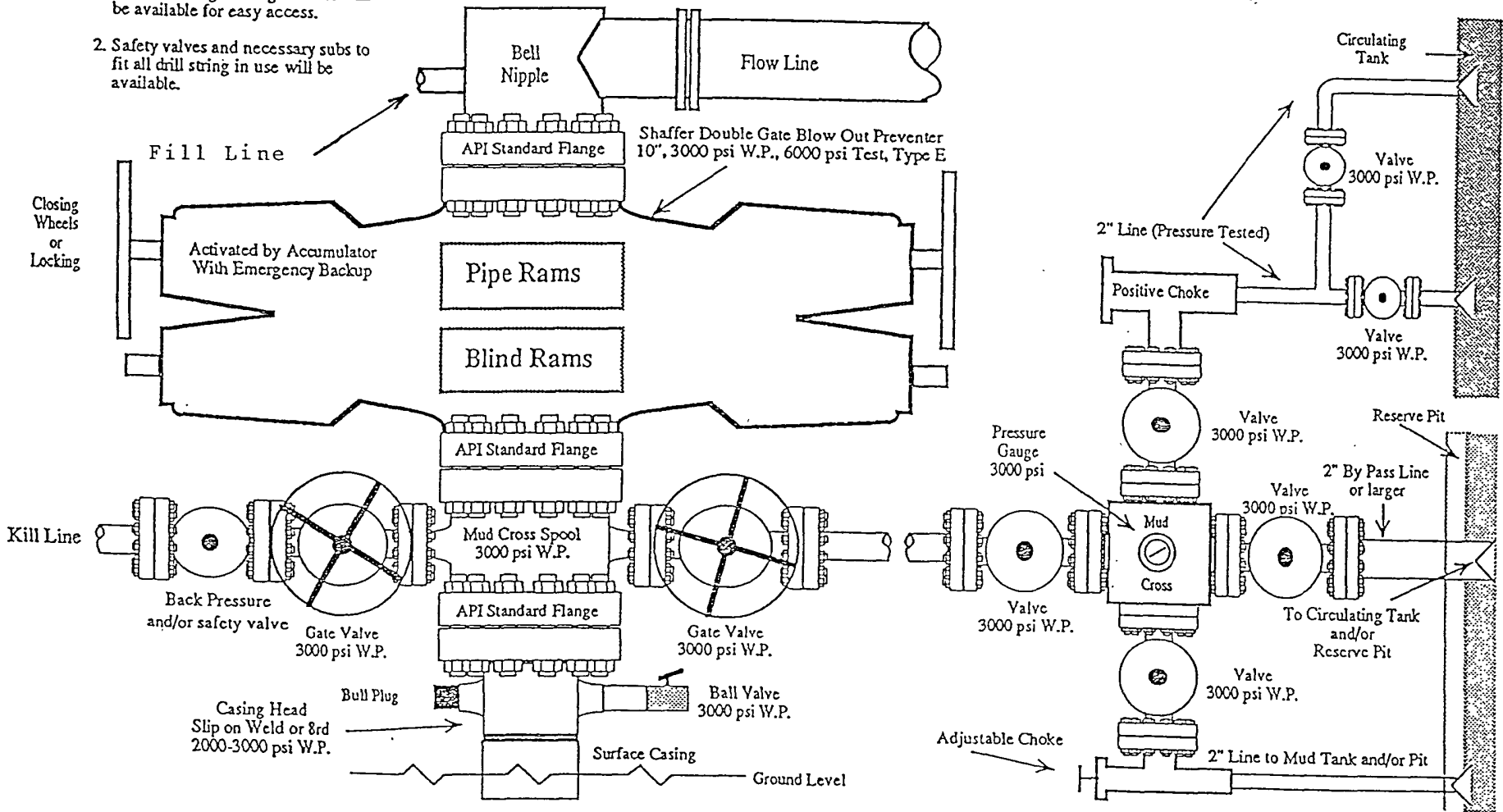
Operator: McKay Oil and Gas LLC.
Lease No.: NMSF-077482
Well Name: Red River #1S
Well Location: Sec.02, T30N, R12W; 790' FNL & 820' FEL

1) Centralizers must be run on the bottom (3) three joints on the surface casing according to Onshore Order No. 2 *Casing and Cementing Requirements* and NTL – FRA 90-1 *Requirements to Operate on Federal and Indian Leases: Casing and Cementing Requirements*.

2) Centralizers to impart a swirling action around the casing (such as turbolators) are required just below and into the base of the lowest usable water zone.

Pressure Control Equipment

- Note: 1. An upper Kelly cock valve will be utilized during drilling. Handle will be available for easy access.
2. Safety valves and necessary subs to fit all drill string in use will be available.



Note: This equipment is designed to meet requirements for a 2-M rating standard per 43 CFR part 3160 (amended). Proper operation and testing of equipment will be carried out per standard. 2,000 psi equipment can be substituted in the drawing to meet minimum requirements per standard.

McKay Oil and Gas LLC
 Red River No. 1S
 790' FNL, 820' FEL
 Sec. 2, T30N, R12W
 San Juan Co, NM