



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

McKay Oil Corporation

Attention: **April McKay**

P. O. Box 2014

Roswell, New Mexico 88202

September 8, 2003

Lori Wrotenbery

Director

Oil Conservation Division

ADMINISTRATIVE REINSTATEMENT OF DIVISION ORDER NO. R-11634

Dear Ms. McKay:

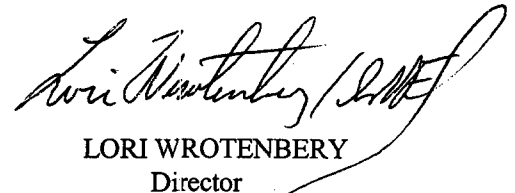
Reference is made to the following: (i) your original letter of application dated August 15, 2003 (*administrative application reference No. pMES0-323332996*); (ii) the New Mexico Oil Conservation Division's ("Division") initial response by letter dated August 25, 2003 from Mr. Michael E. Stogner, Engineer/Hearing Officer in Santa Fe informing you that this matter had been set for hearing before a duly appointed Examiner in Santa Fe on September 18, 2003; (iii) your telephone conversation with Mr. Stogner Thursday afternoon, August 28, 2003; (iv) your e-mail to Mr. Stogner of August 28, 2003; (v) Mr. Stogner's e-mail response of August 28, 2003; (vi) your letter dated September 2, 2003 with attachments; and (vii) the Division's records in Santa Fe, including the files in Cases No. 12695 and 13152: all concerning McKay Oil Corporation's ("McKay") request to reinstate Division Order No. R-11634, issued in Case No. 12695 on August 13, 2001, which order granted McKay authority to drill its Cactus "B" Federal Well No. 6 at an unorthodox Abo gas well location 330 feet from the South line and 2430 feet from the West line (Unit N) of Section 35, Township 6 South, Range 22 East, NMPM, Chaves County, New Mexico, within a standard 160-acre gas spacing unit in the West Pecos Slope-Abo Gas Pool (82740) comprising the SW/4 of Section 35.

The provisions of Division Rule 1207.A (2) have been met at this time, Division Order No. R-11634 is hereby reinstated and shall remain in full force and affect until further notice.

Further, Division Case No. 13152 will be **dismissed** at the September 18, 2003 Examiner's hearing.

Jurisdiction of this matter shall be further retained for the entry of any such subsequent orders, as the Division may deem necessary.

Sincerely,

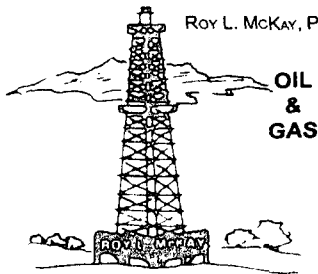


LORI WROTENBERY
Director

LW/mes

cc: New Mexico Oil Conservation Division – Artesia
U. S. Bureau of Land Management - Roswell
File: Case No. 12695
Case No. 13152

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

RECEIVED

SEP . 5 2003

Oil Conservation Division

Tuesday, September 02, 2003

New Mexico Energy, Minerals & Natural Resources Department
Mr. Mike Stogner
Chief Examining Officer
1220 S St Francis Dr
Santa Fe, NM 87505

RE: Cactus B Federal #6

Mr. Stogner :

On July 12, 2001, the State of New Mexico approved the Cactus B Federal #6 well located at 330' FSL & 2430' FWL in Sec 35, T6S, R22E in Chaves County, NM in accordance to Division Rule 1207.A (2)(a,b,c). Since then there have been no lease right changes in all of Sec 35, T6S, R22E.

In regards to Sec 2, T7S, R22E, McKay Oil Corporation acquired all rights from Fred Pool dated April 2001 on NM State Lease V-417.

In so far as rights to E/2SE/4, the Gladys McKnight etal lease is HBP; however, a well drilled in the SE/4SE/4 of Section 35, T6S, R22E by Stevens Operating Co (The McKnight #4) was D&A; therefore condemning the E/2SE/4 of Section 35 for ABO production. The following is the offset wells location ownership.

✓ T6S, R22E
Section 35: S/2N/2
SW/4 & W/2SE/4
100% Operating Rights-McKay Oil Corporation ✓
12.5% USA Royalty

T6S, R22E
Section 35: E/2SE/4
100% Operating Rights-McKay Oil Corporation ✓
25% Royalty to Gladys McKnight etal

T7S, R22E

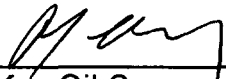
Section 2: ALL

100% Operating Rights-McKay Oil Corporation


12.5% Royalty-State of New Mexico

In any event, McKay Oil Corporation and McKay Petroleum Corporation hereby give its approval for said unorthodox location.

Should this information be sufficient, please administratively approve and remove from the hearing on September 18, 2003 Ref No. pMES0-323332996.




McKay Oil Corporation
By: Roy L. McKay, President



McKay Petroleum Corporation
By: Roy L. McKay, President

Sincerely,



April McKay
Vice President

NEW MEXICO STATE LAND OFFICE
ASSIGNMENT OF OIL AND GAS LEASE

From Lease Number
V-417-3
To Lease Number
V-417-4

FOR VALUE RECEIVED, Fred Pool III OGRID No. 185217
Name (include name of spouse, if any, or type of business entity)

("Assignor" whether one or more), assigns and conveys to: McKay Oil Corporation OGRID No. 014424

("Assignee" whether one or more), whose mailing address is P.O. Box 2014, Roswell, NM 88202

the entire interest and title in and to Oil and Gas Lease No. V-417 ("the Lease") initially made by the New Mexico State Land Office to:

Exxon Corporation, dated 12/01, 19 81, insofar as the Lease covers the following land in Chaves

County, New Mexico:

Township 7 South, Range 22 East, N.M.P.M.
Section 2: Lots 1, 2, 3, 4, S/2N/2, S/2 (ALL)

together with the rights incident thereto, and improvements thereon, if any.

Assignee assumes and agrees to perform all duties and obligations to the Commissioner of Public Lands including payment of rentals and royalties, and to do such other acts as are required by the Lease, to the same extent and in the same manner as if the provisions of the Lease were fully set out herein.

Assignor warrants the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and covenants to the Assignee and the Commissioner of Public Lands that the leasehold estate assigned is valid, and that all rentals and royalties due under the Lease have been paid in full, and that all other Lease obligations presently due have been fully performed.

EXECUTED this 30 day of April, 19 2001.
By: [Signature]
Assignor Susan Pool
Spouse, if any, or title, if signing in representative capacity

ACKNOWLEDGMENT

STATE OF New Mexico

COUNTY OF Chaves

The foregoing Assignment was acknowledged before me this 30th day of April, ~~19~~ 2001,
by Fred Pool III and Susan Pool, husband and wife

My commission expires: 3-16-05
[Signature]
Notary Public

ASSIGNEE'S ACCEPTANCE

The undersigned Assignee named above hereby agrees to be bound by all of the terms, covenants, and conditions of the Lease and this Assignment and shall succeed to the rights and benefits under the Lease.

EXECUTED this 30 day of April, ~~19~~ 2001.
By: [Signature]
Assignee
Name of spouse, if any, or title, if signing in representative capacity

ACKNOWLEDGMENT

STATE OF New MexicoCOUNTY OF ChavesThe foregoing Assignee's Acceptance was acknowledged before me this 30th day of April ~~XX~~ 2001by Roy L. McKay

President

Title, if signing in representative capacity

My commission expires: 3-16-05

Notary Public

APPROVAL OF THE COMMISSIONER

Office of the Commissioner of Public Lands
Santa Fe, New Mexico**MAY 14 2001**

I hereby certify that this Assignment was filed in my office on _____, and was approved by me

and shall be effective as to the State of New Mexico on **MAY 22 2001**

COMMISSIONER OF PUBLIC LANDS

INSTRUCTIONS AND INFORMATION

1. ANNUAL RENTAL: The annual rental for the land in this Assignment is 25¢ per acre. The rental is due in advance and shall be paid to the Commissioner of Public Lands on the anniversary date of the original Lease agreement. The date of this Assignment does not change the annual rental due date. For any Assignment of any Lease initially issued prior to June 15, 1985, the annual rental shall not be less than six dollars (\$6.00). For any Assignment of any Lease initially issued after June 14, 1985, or of any Lease which has been stipulated to the new ten year Lease, the minimum rental is forty dollars (\$40.00).
2. FIXED TEN-YEAR LEASE: This Lease provides for a fixed ten-year term, and for so long as oil or gas is produced in paying quantities. The ten-year period is divided into a primary term of five years, followed by a secondary term of five years. If no production is had during the primary term, the rental for the secondary term is double the rental of the primary term, or equal to the highest prevailing rental rate in the district, whichever is higher. Rentals continue even though production is had.
3. FIXED FIVE-YEAR LEASE: This Lease provides for a fixed five-year term, and for so long as oil and gas is produced in paying quantities. The fixed five-year Lease has no secondary term. Rentals continue even though production is had.
4. FILING: All Assignments must be filed in the State Land Office in triplicate, with original signatures on all three copies, within one hundred days from the date of signing, and must be accompanied by the recording fee.
5. RECORDING FEE: The recording fee for each Assignment is thirty dollars (\$30.00). If, however, the Assignment is filed more than one hundred days from the date of signing, an additional fee of seventy-five dollars (\$75.00) is charged.
6. PERSONAL CHECKS: When an Assignment is accompanied by a personal check, the Commissioner of Public Lands reserves the right to withhold approval of the Assignment until the check is paid.
7. ASSIGNMENT DISAPPROVAL: An Assignment will not be approved when it is made:
 - A. to more than two persons;
 - B. for less than a regular subdivision. "Regular subdivision" means forty acres or a tract described by lot number, which tract may be more or less than forty acres;
 - C. for an undivided interest;
 - D. in the name of a trusteeship, unless the trust document is attached or on file, and not more than two persons are named as trustee;
 - E. after a lis pendens is filed;
 - F. including any change or addition to the language contained in the Assignment form;
 - G. where surety requirements have not been met; or
 - H. where the lease is not in good standing; provided, however, that approval by the Commissioner does not waive any rights or claims the Commissioner may have to rentals, royalties, or other obligations due to the Commissioner by the Assignor under the lease.
8. COMPLETE ADDRESS: An Assignment must show the complete post office address of the Assignee.
9. ACKNOWLEDGMENT: An Assignment must be executed before an officer authorized to take acknowledgments of deeds. Persons executing on behalf of a corporation or other business entity must indicate title or authority to execute.
10. MARITAL STATUS: An Assignment must show whether the Assignors are married or single; if married, both husband and wife must sign the Assignment. The Certificate of Acknowledgment must show the marital status of the Assignors.
11. COMMUNICATIONS: All official business, letters and communications must be addressed directly to the Commissioner of Public Lands, Oil, Gas, & Minerals Division.
12. PAYMENT: Make all payments for annual rental, recording, and approval of fees to:

COMMISSIONER OF PUBLIC LANDS
P.O. Box 1148
Santa Fe, NM 87504-1148

OIL & GAS LEASE

THIS AGREEMENT made this 25th day of February 19 87, between

BOOK 306 PAGE 70

Gladys McKnight

c/o Pauline Tomlinson, 706 W. Fourth Street

of Roswell, NM 88201

(Post Office Address)

herein called lessor (whether one or more) and McKay Oil Corporation

lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Chaves County, New Mexico, to-wit:

Township 6 South, Range 22 East, NMPM
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4

Said land is estimated to comprise 360 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one (1) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 1/4 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made. If lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

J. M. McKnight
J. M. McKnight, Co-Conservator

Pauline Tomlinson
Pauline Tomlinson, Co-Conservator

RECEIVED MAR - 4 1987

STATE OF New Mexico
County of Chaves
The foregoing instrument was acknowledged before me this 3rd day of March 1987 by McKnight and Frazier Tomkinson
My Commission expires 1-25-88
Notary Public Mary Bailey

STATE OF _____
County of _____
The foregoing instrument was acknowledged before me this _____ day of _____, 19____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)
My Commission expires _____, 19____
Notary Public _____

STATE OF _____
County of _____
The foregoing instrument was acknowledged before me this _____ day of _____, 19____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)
My Commission expires _____, 19____
Notary Public _____

STATE OF _____
County of _____
The foregoing instrument was acknowledged before me this _____ day of _____, 19____
INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)
My Commission expires _____, 19____
Notary Public _____

No. _____
OIL AND GAS LEASE
NEW MEXICO
FROM
TO
Date _____, 19____
Section _____, Township _____, Range _____
No. of Acres _____
County, New Mexico
Term _____
STATE OF NEW MEXICO
COUNTY OF Chaves
I hereby certify that this instrument was filed for record on the 20th day of March A. D., 19 87, at 9:25 o'clock A. m., and was duly recorded in Book 306 at Page 70 of the Records of said County.
Carolyn Geilers County Clerk.
By *Denise Lewis* Deputy.

STATE OF _____
County of _____
The foregoing instrument was acknowledged before me this _____ day of _____, 19____
COPORATION ACKNOWLEDGMENT (New Mexico Short Form)
My Commission Expires: _____
Notary Public _____
of _____
by _____, President
of _____ a _____ corporation
My Commission Expires: _____
Notary Public _____

Rec # 42231 \$4.00
McKay Oil Corp, Box 2014, Roswell, NM

PARTIAL ASSIGNMENT OF OIL AND GAS LEASES

077 198

THIS ASSIGNMENT, made and entered into this 19th day of October, 1987, by and between McKay Oil Corporation, P. O. Box 2014, Roswell, New Mexico 88202, hereinafter referred to as "Assignor", and The McKay Children's Trust, dated April 15, 1983, P. O. Box 2014, Roswell, New Mexico 88202, hereinafter referred to as "Assignee".

W I T N E S S E T H:

WHEREAS, the Assignor is the owner of the Oil and Gas Leases covering lands located in Chaves County, New Mexico, set out on Exhibit "A", attached hereto and made a part hereof.

NOW THEREFORE, for and in consideration of the premises and payments heretofore made by Assignee to Assignor, the receipt of which is hereby acknowledged, Assignor does hereby sell, assign and convey unto the Assignee, their heirs, successors and assigns, 25% interest of the leasehold rights under the Oil and Gas Leases described on the attached Exhibit "A", and in and to the exclusive right to explore, drill, develop, produce and appropriate and own the oil and gas from the lands described on the attached Exhibit "A".

All of the leasehold rights herein conveyed by Assignor, together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith are subject, however, to the terms, provisions and conditions of the Oil and Gas Leases described on the attached Exhibit "A".

The terms and conditions hereof shall be binding upon and inure to the benefit of the parties hereto, their heirs, successors and assigns, and shall be covenants running with the lands hereinafter described in the Oil and Gas Leases on the attached Exhibit "A" and the lease acreage contained therein and any extensions or renewals thereof.

The parties herein agree that if the leases being assigned represent less than full interest leases, the undivided interest being assigned shall automatically be reduced in respective proportion.

THIS ASSIGNMENT is made without warranty of title, either express or implied.

TO HAVE AND TO HOLD said rights unto the Assignee, their heirs, successors or assigns, subject to the terms and conditions herein set forth.

IN WITNESS WHEREOF, this Assignment is executed the day and year first above written, but effective as of the date of each lease as described on the attached Exhibit "A".

ATTEST:

McKAY OIL CORPORATION

Secretary

BY: Roy L. McKay Set
Roy L. McKay, President

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The following instrument was acknowledged before me this 19th day of October 1987, by Roy L. McKay, President of McKay Oil Corporation, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

January 30, 1988

Notary Public

EXHIBIT "A"

Attached to and made a part hereof of the Partial Assignment of Oil and Gas Leases dated October 19, 1987, by and between McKay Oil Corporation, as Assignor, and The McKay Children's Trust, dated April 15, 1983, as Assignee.

ALL LANDS LOCATED IN CHAVES COUNTY, NEW MEXICO

LEASE NO. 1:

Dated: April 29, 1987
Lessee: Gene O'Dell and Coreene O'Dell, his wife
Lessor: McKay Oil Corporation
Acreage: Township 4 South, Range 22 East, N.M.P.M.
Section 8: N/2
Recorded: Book 4, Page 285 of the Chaves County Records.

LEASE NO. 2:

Dated: February 19, 1987
Lessee: Ladye Dee Remmele II
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 52 of the Chaves County Records.

LEASE NO. 3:

Dated: February 19, 1987
Lessee: James Mikell McKnight
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 54 of the Chaves County Records.

LEASE NO. 4:

Dated: February 17, 1987
Lessee: Mrs. Brian Elizabeth Williams
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 51 of the Chaves County Records.

LEASE NO. 5:

Dated: February 13, 1987
Lessee: Marianne Rankin
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 39 of the Chaves County Records.

LEASE NO. 6:

Dated: February 13, 1987
Lessee: Sue Schwab
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 45 of the Chaves County Records.

LEASE NO. 7:

Dated: February 13, 1987
Lessee: Donald W. Miller
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 47 of the Chaves County Records.

LEASE NO. 8:

Dated: February 19, 1987
Lessee: F. Michelle Storey
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 303, Page 841 of the Chaves County Records.

LEASE NO. 9:

Dated: February 13, 1987
Lessor: Elwin Miller
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 41 of the Chaves County Records.

LEASE NO. 10:

Dated: February 13, 1987
Lessee: Maryln Miller
Lessor: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 43 of the Chaves County Records.

LEASE NO. 11:

Dated: February 4, 1987
Lessor: William D. McKnight
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 303, Page 829 of the Chaves County Records.

LEASE NO. 12:

Dated: February 19, 1987
Lessor: Estate of Ladye Dee Remmele
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 303, Page 837 of the Chaves County Records.

LEASE NO. 13:

Dated: February 19, 1987
Lessor: Frank M. Remmele
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 303, Page 835 of the Chaves County Records

LEASE NO. 14:

Dated: February 13, 1987
Lessor: Pauline M. Tomlinson
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 23 East, N.M.P.M.
Section 17: N/2
Recorded: Book 306, Page 49 of the Chaves County Records.

LEASE NO. 15:

Dated: February 25, 1987
Lessor: William D. McKnight
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Recorded: Book 306, Page 86 of the Chaves County Records.

LEASE NO. 16:

Dated: February 25, 1987
Lessor: Marianne Rankin
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Recorded: Book 307, Page 813 of the Chaves County Records.

LEASE NO. 17:

Dated: February 25, 1987
Lessor: James Mikell McKnight
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Recorded: Book 306, Page 64 of the Chaves County Records.

LEASE NO. 18:

Dated: February 25, 1987
Lessor: Elwin Miller and Marlyn Miller, his wife
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Recorded: Book 306, Page 56 of the Chaves County Records.

LEASE NO. 19:

Dated: February 25, 1987
Lessor: Pauline Tomlinson
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Recorded: Book 306, Page 62 of the Chaves County Records.

LEASE NO. 20:

Dated: February 25, 1987
Lessor: Sue Schwab
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Recorded: Book 306, Page 68 of the Chaves County Records.

LEASE NO. 21:

Dated: February 25, 1987
Lessor: Donald Miller
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 20: SE/4, NE/4NW/4
Section 29: NE/4NE/4
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Recorded: Book 306, Page 72 of the Chaves County Records.

LEASE NO. 22:

Dated: February 25, 1987
Lessor: Dorothy Marilyn Dye Barbour
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Recorded: Book 306, Page 74 of the Chaves County Records.

LEASE NO. 23:

Dated: February 25, 1987
Lessor: Gladys McKnight
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Recorded: Book 306, Page 70 of the Chaves County Records.

LEASE NO. 24:

Dated: February 19, 1987
Lessor: Ruby Remmele
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: W/2SW/4, SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 839 of the Chaves County Records.

LEASE NO. 25:

Dated: February 3, 1987, Amendment of Lease dated February 25, 1987
Lessor: Albert Dye
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 827, Amendment of Lease recorded Book 306,
Page 82 of the Chaves County Records.

LEASE NO. 26:

Dated: February 25, 1987
Lessor: Albert Dye
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Recorded: Book 306, Page 58 of the Chaves County Records.

LEASE NO. 27:

Dated: February 3, 1987, Amendment of Lease dated February 25, 1987
Lessor: Donald Miller
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 825, Amendment of Lease recorded Book 306,
Page 83 of the Chaves County Records.

LEASE NO. 28:

Dated: February 3, 1987, Amendment of Lease dated February 25, 1987
Lessor: Sue Schwab
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 821, Amendment of Lease recorded Book 306,
Page 79 of the Chaves County Records.

LEASE NO. 29:

Dated: February 6, 1987, Amendment of Lease dated February 25, 1987
Lessor: Gladys McKnight
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 833, Amendment of Lease recorded Book 306,
Page 84 of the Chaves County Records.

LEASE NO. 30:

Dated: February 6, 1987, Amendment of Lease dated February 25, 1987
Lessor: J. M. McKnight and Mary McKnight, his wife
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 831, Amendment of Lease recorded Book 306,
Page 80 of the Chaves County Records.

LEASE NO. 31:

Dated: February 3, 1987, Amendment of Lease dated February 25, 1987
Lessor: Dorothy Marilyn Dye Barbour
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 27: SW/4SE/4
Section 33: E/2NE/4
Section 35: S/2N/2
Recorded: Book 303, Page 823, Amendment of Lease recorded Book 306,
Page 78 of the Chaves County Records.

LEASE NO. 32:

Dated: February 25, 1987
Lessor: J. M. McKnight and Mary McKnight, his wife
Lessee: McKay Oil Corporation
Acreage: Township 6 South, Range 22 East, N.M.P.M.
Section 34: NW/4, W/2NE/4, SE/4NE/4
Section 35: E/2SE/4
Section 17: SW/4SE/4, N/2SE/4
Section 18: Lots 1, 2, 3, 4, E/2NW/4, NE/4SW/4
Recorded: Book 306, Page 76 of the Chaves County Records.

LEASE NO. 33:

Dated: March 27, 1987
Lessor: Mattie Lee Harrison, et al
Lessee: McKay Oil Corporation
Acreage: Township 5 South, Range 22 East, N.M.P.M.
Section 21: E/2
Recorded: Book 307, Page 815 of the Chaves County Records.

-5-

(State of New Mexico County of Chaves)

FILED FOR RECORD

OCT 28 1987

at 10:26 O'Clock A M. and recorded in
book 11 page 39
Carolyn Cellars County Clerk
Deputy

Rct #48966 \$175.00 McKay Oil Corp
PO Box 2014

Roswell, NM 88201

Stogner, Michael

From: Stogner, Michael
Sent: Thursday, August 28, 2003 3:31 PM
To: 'April McKay'
Subject: RE: Cactus B Federal #6 NSL

August 28, 2003

McKay Oil Corporation
 Attn: Ms. April McKay
 P. O. Box 2014
 Roswell, NM 88202

Re: *Cactus "B" Fed. #6
 330' FSL & 2430' FWL (N)
 Sec. 35-T6S-R22E, Chaves Cty.*

Ms. McKay,

The information provided in the attached e-mail is still insufficient. Please refer to Division Rule 1207.A (2) in its entirety, notice requirements for non-standard locations.

DIVISION RULE 1207.A

- (2) Unorthodox Well Locations: [1-1-87...2-1-96; Rn, 19 NMAC 15.N.1207.A.(5), 7-15-99; A, 7-15-99]
- (a) Definition: "Affected persons" are the following persons owning interests in the adjoining spacing units:
- (i) the Division-designated operator;
 - (ii) in the absence of an operator, any lessee whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application is filed; and
 - (iii) in the absence of an operator or lessee, any mineral interest owner whose interest is evidenced by a written document of conveyance either of record or known to the applicant as of the date the application was filed.
- In the event the operator of the proposed unorthodox well is also the operator of an existing adjoining spacing unit and ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then "affected persons" include all working interest owners in that spacing unit. [1-1-87...2-1-96; N, 7-15-99]
- (b) If the proposed location is unorthodox by being located closer to the outer boundary of the spacing unit than permitted by rule, notice shall be given to the affected persons in the adjoining spacing units towards which the unorthodox location encroaches. [Rn, 19 NMAC 15.N.1207.A.(5).(a), 7-15-99, A, 7-15-99]
- (c) If the proposed location is unorthodox by being located in a different quarter-quarter section or quarter section than provided in special pool orders, notice shall be given to all affected persons. [Rn, 19 NMAC 15.N.1207.A.(5).(a), A, 7-15-99]

Please review these requirements and your records and confirm that adequate notice has either be given

8/28/2003

or has not changed since the issuance of Division Order No. R-11634. If the working interest is 100% McKay throughout the SE/4 of Section 35 to the east and the N/2 of Section 2 to the south there of course will be no problem.

Thank you. Call should you have any questions.

Sincerely,

Michael E. Stogner
NMOCD

-----Original Message-----

From: April McKay [mailto:amckay@zianet.com]
Sent: Thursday, August 28, 2003 2:34 PM
To: mstogner@state.nm.us
Cc: amckay@zianet.com
Subject: Cactus B Federal #6 NSL

August 28, 2003

New Mexico Energy, Minerals & Natural Resources Department
Attn: Mr. Mike Stogner
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Cactus B Federal #6 NSL
Sec 35, T6S, R22E
330' FSL & 2430' FWL

Mr. Stogner,

Since approval of the NSL for the Cactus B Federal #6 on July 12, 2001, no operation changes have been made. Per your request of operations and lease ownership on the SE/4 of Sec 35 and the north 1/2 of Section 2, McKay Oil Corporation operates the SE/4 of Sec 35 and McKay Oil Corporation acquired Section 2 from Fred Pool on April 30, 2001.

I would appreciate your administrative approval for this NSL on the Cactus B Federal #6 as previously approved in a hearing in July 2001, Case 12695, Order # R-11634.

Should you need any further information, please do not hesitate to call me at 505-623-4735.

Sincerely,

April McKay
Vice President
McKay Oil Corporation

Stogner, Michael

From: April McKay [amckay@zianet.com]
Sent: Thursday, August 28, 2003 2:34 PM
To: mstogner@state.nm.us
Cc: amckay@zianet.com
Subject: Cactus B Federal #6 NSL

August 28, 2003

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Attn: Mr. Mike Stogner
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April McKay
Vice President
McKay Oil Corporation

8/28/2003