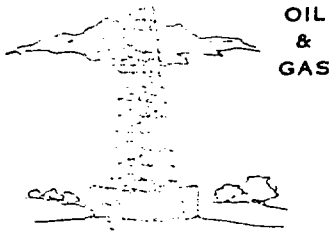


McKay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4731

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



June 6, 2001

Oil Conservation Division
New Mexico Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

ATTENTION: Mr. Michael E. Stogner

REFERENCE: Non-Standard Locations

Gentlemen:

McKay Oil Corporation request to be placed on the hearing docket for the next available hearing after publication of McKay's request for approval of the following non-standard locations.

The names and justification for the non-standard locations are as follows:

1. TANNER FEE COM. #1 is located 660' FWL and 2310' FNL, Section 35, Township 6 South, Range 22 East, N.M.P.M. There is an existing dry hole, Tanner Fed. Com. #1 located at 660' FNL and 850' FWL, Section 35, Township 6 South, Range 22 East, N.M.P.M. McKay believes that the Abo formation channels widens somewhat south of the Tanner Fed. Com. #1; however, it is necessary to move the location of the Tanner Fee Com. #1 as far south as possible in the 160 acres spacing unit to ensure that encountering the channels. We have attached copies of the geological mapping of the channels for your review. Also, we have attached a copy of the APD which has been filed with the Oil Conservation Division's Artesia, New Mexico office.
2. CACTUS "B" FEDERAL #6 is located is located 330' FSL and 2430' FWL, Section 35, Township 6 South, Range 22 East, N.M.P.M. The well location has been placed in this location due to 2 constraints. The first constraint is geological in that we believe that the Abo formation channels are restricted to the very southern portion of this section. (SEE ATTACHED GEOLOGICAL MAPPING). The second constraint is topographical in nature. There is a major run-off draw located to the immediate

Oil Conservation Division

June 5, 2001

Page 2 of 2

west and north of the location. The Bureau of Land Management has required McKay to locate this well at the specified location in an effort to restrict infringement upon this major topographic feature. (SEE ATTACHED TOPOGRAPHIC MAP) We have also attached a copy of the APD that has been filed with the Bureau of Land Management.

3. [REDACTED] located 380' FSL and 2130' FEL, Section 35, Township 6 South, Range 22 East, N.M.P.M. The well location has been placed in this location due to 2 constraints. The first constraint is geological in that we believe that the Abo formation channels are restricted to the very southern portion of this section. (SEE ATTACHED GEOLOGICAL MAPPING). The second constraint is topographical in nature. There is a major run-off draw located to the immediate

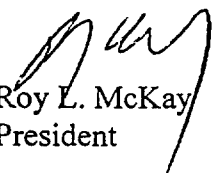
Please be advised that the owners of the offset acreage are McKay Oil Corporation – 1% and McKay Petroleum Corporation – 99%.

If any questions should arise concerning this request, please feel free to contact Mr. Roy McKay at 505-623-4735.

Thank you for your immediate attention to this matter.

Very truly yours,

MCKAY OIL CORPORATION


Roy L. McKay
President

RLM/bjm

Enclosures

cc: Mr. Tim Gum – OCD, Artesia, NM

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

5. Lease Serial No.
NM 91498

6. If Indian, Allottee or Tribe Name

7. If Unit or CA Agreement, Name and No.
NMNM105356

8. Lease Name and Well No.
Cactus Federal #7

9. API Well No.

1a. Type of Work: ☒ DRILL ☐ REENTER

1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☐ Single Zone ☐ Multiple Zone

2. Name of Operator

McKay Oil Corporation

3a. Address P.O. Box 2014

Roswell, NM 88202

3b. Phone No. (include area code)

505-623-4735

4. Location of Well (Report location clearly and in accordance with any State requirements. *)

At surface 380' FSL & 2130' FEL

At proposed prod. zone

10. Field and Pool, or Exploratory
W. Pecos Slope Abo

11. Sec., T., R., M., or Blk. and Survey or Area
35, T6S, R22E

14. Distance in miles and direction from nearest town or post office *

approx. 25 miles

12. County or Parish

Chaves

13. State

NM

15. Distance from proposed *
location to nearest
property or lease line, ft.
(Also to nearest drig. unit line, if any)

380'

16. No. of Acres in lease

1,240.00

17. Spacing Unit dedicated to this well

160.00

18. Distance from proposed location *
to nearest well, drilling, completed,
applied for, on this lease, ft.

approx. 1000'

19. Proposed Depth

3400'

20. BLM/BIA Bond No. on file

NM-1981

21. Elevations (Show whether DF, KDB, RT, GL, etc.)

4164'

22. Approximate date work will start *

July 1, 2001

23. Estimated duration

30 days

24. Attachments

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

1. Well plat certified by a registered surveyor.

2. A Drilling Plan.

3. A Surface Use Plan (if the location is on National Forest System Lands, the
SUPO shall be filed with the appropriate Forest Service Office).

4. Bond to cover the operations unless covered by an existing bond on file (see
Item 20 above).

5. Operator certification.

6. Such other site specific information and/or plans as may be required by the
authorized officer.

25. Signature

Name (Printed/Typed)

Date

Bill J. Milstead

5-22-01

Title

Vice President

Approved by (Signature)

Name (Printed/Typed)

Date

Title

Office

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.

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.

*(Instructions on reverse)

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

DISTRICT II
811 South First, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-11
Revised August 15, 20
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

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

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
Property Code	CACTUS FEDERAL	Property Name
OGRID No.	McKAY OIL CORPORATION	Operator Name
		Well Number 7
		Elevation 4164

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	Count
0	35	6 S	22 E		380	SOUTH	2130	EAST	CHAV

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	Count
Dedicated Acres	Joint or Infill	Consolidation Code	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

OPERATOR CERTIFICATION

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

Bill J. Milstead
Signature

Bill J. Milstead
Printed Name

Vice President
Title

5-22-01
Date

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.

5-21-01
Date Surveyed

Donald P. Wagener
Signature & Seal of
Professional Surveyor

Donald P. Wagener
Registered Professional Surveyor

Donald P. Wagener
Registered Professional Surveyor

Certificate No. 1000 P. WAGENER NMPS #
WAGENER ENGINEERING
1410 N. MISSOURI AVE.
ROSWELL, NM 88201
505-823-8382

PERTINENT INFORMATION

FOR

MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SW/4SE/4 of Sec. 35, T-6S, R-22E
Chaves County, New Mexico

<u>LOCATED:</u>	21 air miles Northwest of Roswell, NM.
<u>LEASE NUMBER:</u>	NM-91498
<u>LEASE ISSUED:</u>	September 1, 1993
<u>RECORD LESSEE:</u>	Sanders Petroleum Corporation
<u>BOND COVERAGE:</u>	Operator's \$25,000 Statewide
<u>AUTHORITY TO OPERATE:</u>	Assignment of Operating Rights
<u>ACRES IN LEASE:</u>	1,240.00 acres, more or less
<u>SURFACE OWNERSHIP:</u>	USA-BLM
<u>OWNER:</u>	USA-BLM
<u>POOL RULES:</u>	General Statewide Rules
<u>EXHIBITS:</u>	A. Road and Well Map B. Contour Map C. Rig Layout D. BOP Diagram E. Lease Map F. Location Topography

SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SW/4SE/4 of Sec. 35, T-6S, R-22E
Chaves County, New Mexico

The following items supplement Form 3160-3 in accordance with instruction contained in Onshore Oil and Gas Order No. 1:

1. SURFACE FORMATION: San Andres

2. ESTIMATED TOPS OF GEOLOGICAL MARKERS:

Yeso - 876'
Tubb - 2372'
Abo - 2600'

3. ESTIMATED DEPTHS TO WATER, OIL OR GAS FORMATIONS:

Fresh Water - In surface formation above 600'
Gas - In Abo Formation below 2600'

4. PROPOSED CASING PROGRAM:

12-1/4" hole	8-5/8" X-42	23#	950' +
7-7/8" hole	4-1/2" J-55	10.5#	TD

5. PROPOSED CEMENTING PROGRAM:

Surface to 950'	class "C" - 350 sxs cemented and circulated to surface.
Production Casing	class "C" - 300 sxs cemented with adequate cover.

When cementing surface casing, the cement does not circulate to the surface, McKay will calculate the approximate height of the cement by using the lift pressure calculations. McKay will then wait 2 hours after displacing the cement, run the 1" tubing down the annulus to tag the top of the cement. In the event the tubing does not reach the top of the cement or within 100 feet of the top of the cement, McKay will run a temperature survey to determine the top of the cement.

At such time as the 1" tubing reaches the top of the cement or within a reasonable distance from the top, commence dumping pea gravel down the annulus and

pumping cement through the 1" tubing, until the cement circulates to the surface. If cement top is within 50' of the surface, pea gravel can be dumped down the annulus as a slurry (pea gravel and cement).

6. PROPOSED DRILLING PROGRAM:

McKay Oil Corporation proposes to drill and test the ABO formation. Approximately 950' of surface casing will be set and cemented to surface. 4-1/2" production casing will be set and cemented with adequate cover, perforated and stimulated as needed for production.

7. PRESSURE CONTROL EQUIPMENT: Blowout preventer will consist of 2 ram, 2M system. A sketch of the BOP is attached.

8. CIRCULATION MEDIUM: Air Drilling

9. AUXILIARY EQUIPMENT: Full-opening drill string safety valve fit for the drill string in use, will be kept on the rig floor at all times.

10. TESTING, LOGGING AND CORING PROGRAM:

Samples: Catch samples from surface to TD.

DST's: None.

Logging: GR-CNL, Dual Lateral MSFL from surface to TD.

Coring: None.

11. ABNORMAL PRESSURES, TEMPERATURES OR HYDROGEN SULFIDE:
None anticipated.

12. ANTICIPATED STARTING DATE: On or before July 1, 2001
Drilling should be completed within 15 days. Completion operations (perforations and stimulation) will follow drilling operations.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN

MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SW/4SE/4 of Sec. 35, T-6S, R-22E
Chaves County, New Mexico

NM 91498

This plan is submitted with the application for permit to drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of necessary surface disturbance involved, and the procedures to be followed in rehabilitating the surface after completion of the operation so that a complete appraisal can be made of the environmental effects associated with the operation.

1. EXISTING ROADS:

A. Exhibit "A" is a portion of a road map showing the location of the proposed well is staked. The well is approximately 21 miles north of Roswell, NM.

B. Directions: Heading North out of Roswell, New Mexico on U.S. 285 for approximately 23 miles and turn left on county road just before mile marker 137 (Stargrass Road). Go approximately 8.5 miles, then turn south for approximately 2-1/2 miles to the cattleguard, turn south for approximately 100 feet, then turn east for approximately 1/2 mile along the China Draw, then south for 3/4 miles, then turn east at the Cactus Federal #6 location and continue for approximately 2/3rds of a mile to the location.

2. PLANNED ACCESS ROAD:

A. Length and Width: 1/2 miles long and 20' wide.

B. Surface Materials: Sand, gravel and caliche where needed.

C. Turnouts: None

D. Maximum Grade: No more than 3%.

E. Drain Design: Road will have drainage ditches on both sides and a crowned top, with culverts and/or low water crossings as necessary.

F. Culverts: None.

G. Cuts and Fill: None.

H. Gates, Cattleguards: Cattleguard located at fence crossing in NE/4 of Section 34, T6S, R22E, said cattleguard is already in place.

I. Top Soil: Very little.

3. LOCATION OF EXISTING WELLS:

A. A map indicating the location of adjacent wells is attached.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

A: See Exhibit "A" for location of existing lease wells. If the well is commercial, production facilities and tank battery will be constructed.

B. Cuts and Fills: Less than 10' of cut and fill will be required for the pad size of 258' x 350'. (See Exhibit "F")

C. Top Soil: Any top soil which can sustain plant vegetation will be bladed and piled for future rehabilitation.

5. LOCATION AND TYPE OF WATER SUPPLY:

A. Water will be purchased from a commercial source and trucked to the location over existing and proposed access roads.

6. SOURCE OF CONSTRUCTION MATERIALS:

A. Closest Pit to the location.

7. METHODS OF HANDLING WASTE DISPOSAL:

A. Drill cuttings will be disposed of in the drilling pits.

B. Drilling fluids will be allowed to evaporate in the drilling pits until the pits are dry.

C. Water produced during test will be disposed of in the drilling pits. Oil produced during tests will be stored in test tanks until sold.

D. Current laws and regulations pertaining to the disposal of human waste will be complied with.

E. Trash, waste paper, garbage, and junk will be placed in portable receptacles and hauled from the location upon completion of drilling and completion operations.

F. All trash and debris will be removed from the well site within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

A. None necessary.

9. WELL SITE LAYOUT:

A. Exhibit "C" indicates the relation location and dimensions of the well pad, mud pits, reserve pit and major rig equipment.

B. The location slopes very slightly to the east and southeast.

C. The reserve pit will be lined with plastic to prevent loss of water.

10. PLANS FOR RESTORATION OF THE SURFACE:

A. After completion of drilling and/or completion operations, all equipment and other material not needed for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing conditions as possible.

B. Any unguarded pits containing fluids will be fenced until they are filled.

C. If the well is non-productive or abandoned, the disturbed area will be rehabilitated using the preserved soil mentioned in 2.I. and 4.C.

11. OTHER INFORMATION:

A. Topography: The topography is a gradual slope to the east-southeast in the vicinity of the access road and east-southeast in the vicinity of the drill pad. Regional slope is northeast toward the China Draw which is northeast of the location.

B. Soil: Sandy loam with limestone outcropping.

C. Flora and Fauna: The flora consists of typical desert vegetation, such as yucca, cactus and various grasses. Fauna consists of desert wildlife such as coyotes, rodents, snakes, deer and antelope.

D. Ponds and Streams: China Draw northeast of the proposed location.

E. Residences and other Structures: The old China Draw windmill is approximately 2 miles north of this location. The David Corn ranch house (old W.R. McKnight Ranch) is approximately 3-1/2 miles to the northeast.

F. Archaeological, Historical and Other Cultural Sites: An Archaeologist from Roswell, NM will be contracted to check and approve this site and access road.

G. Land Use: Grazing.

H. Surface Ownership: USA/BLM.

12. OPERATOR'S REPRESENTATIVE:

Gary Richburg
Roswell, New Mexico
(505) 623-4735 (O)
(505) 626-8581 (C)

13. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exists; that the statements made in this plan are, to the best of my knowledge true and correct; that the work associated with the operations proposed herein will be performed by MCKAY OIL CORPORATION and its sub-contractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to provisions of 18 USC 1001 for the filing of a false statement.

5-22-01
DATE

Bill J. McLeod

MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SE/4 OF Section 35, T6S, R22E
Chaves County, New Mexico

EXHIBIT "A"

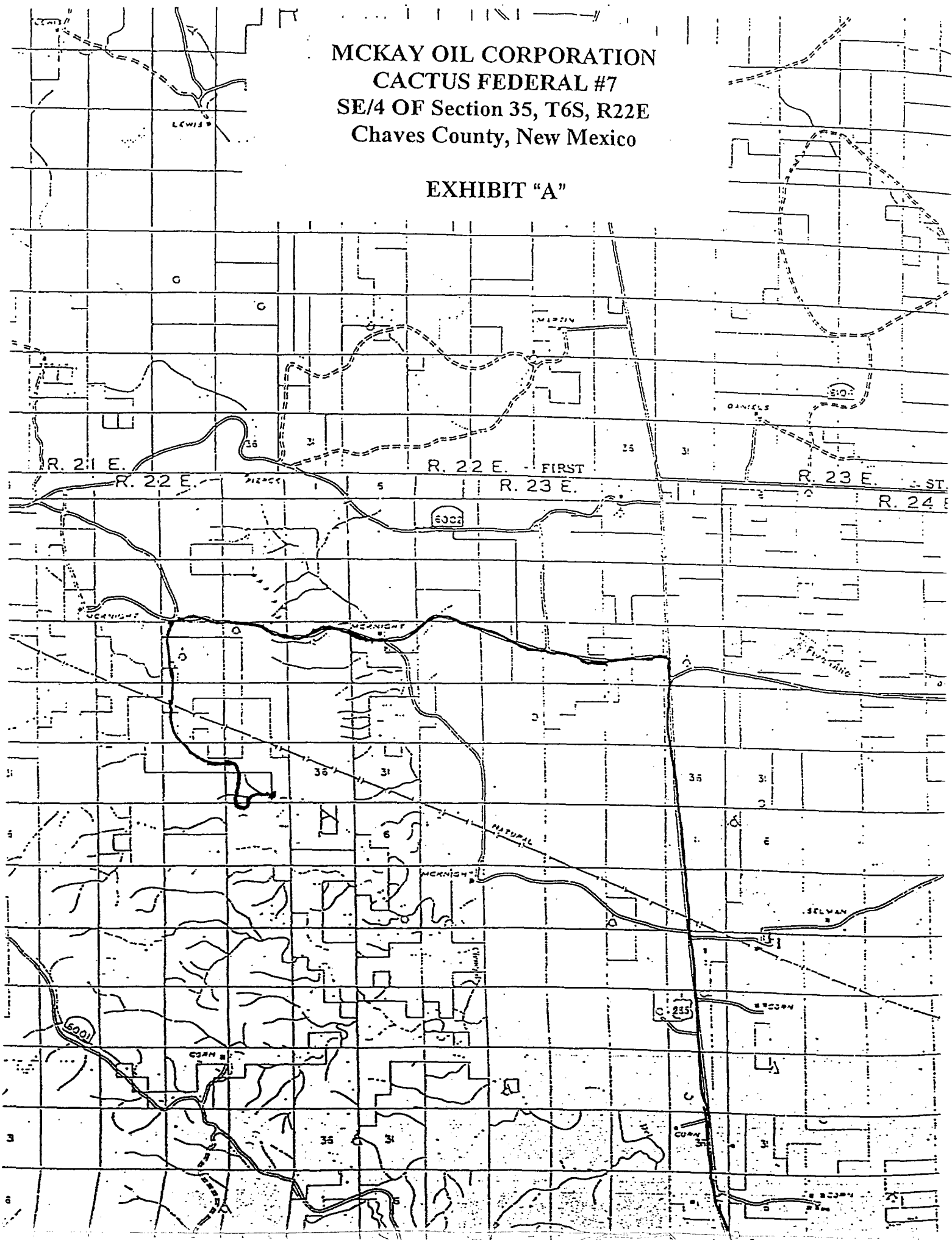
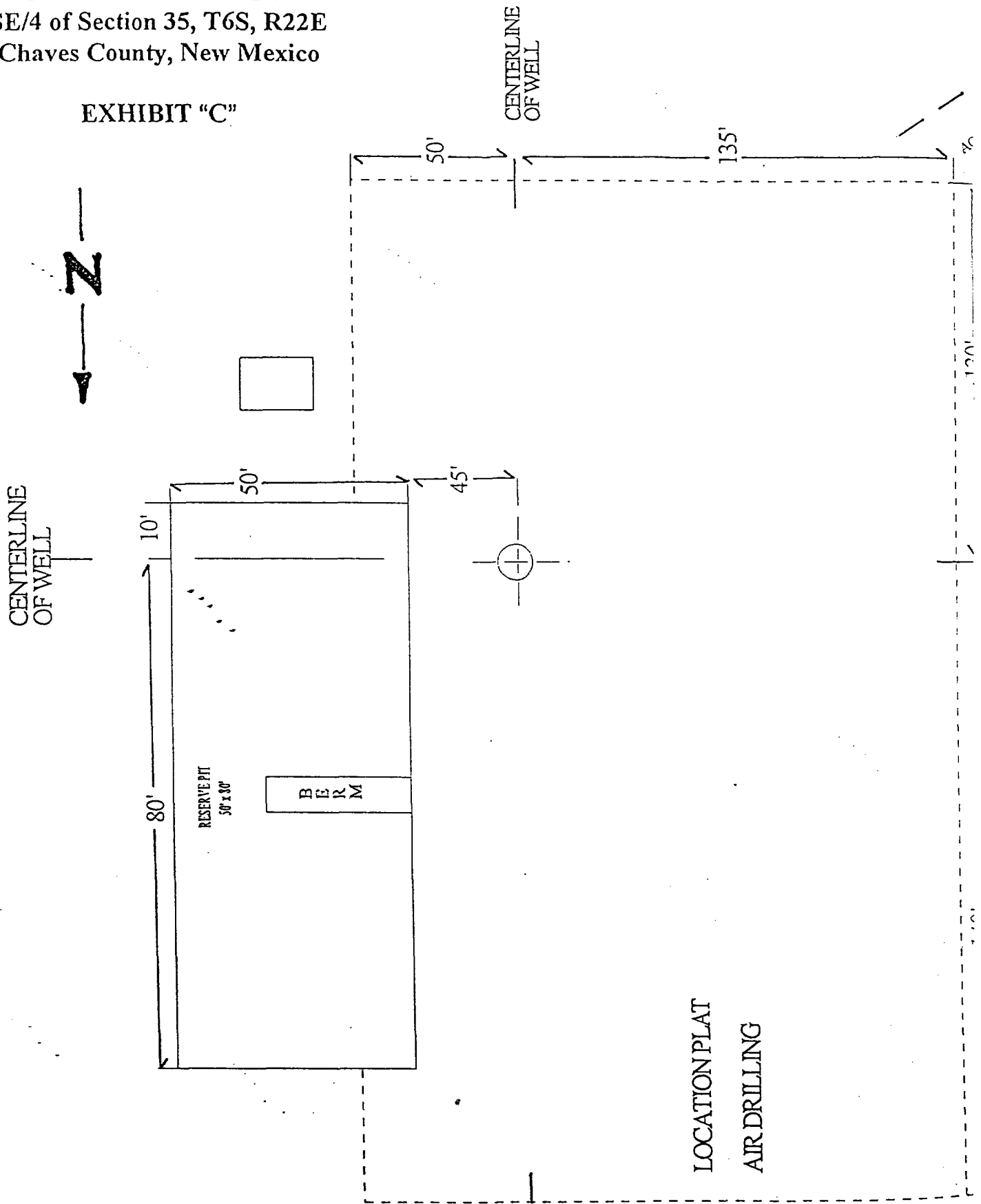


EXHIBIT "B"

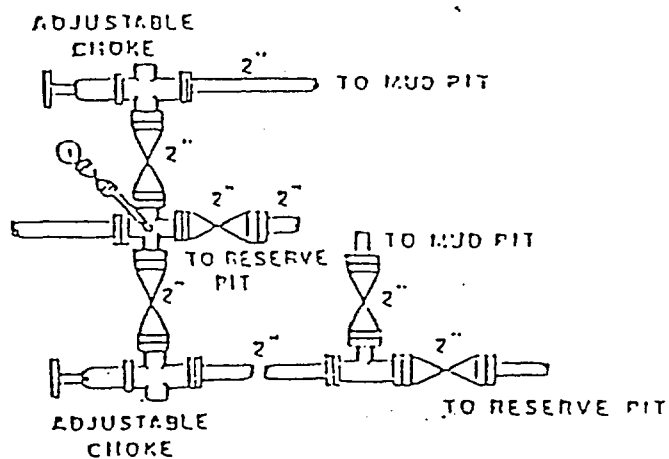
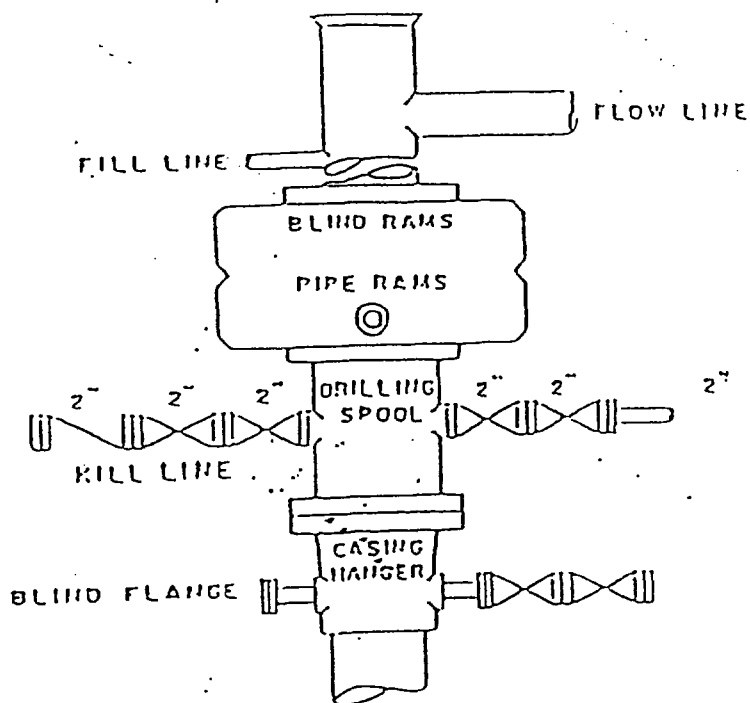
MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SE/4 of Section 35, T6S, R22E
Chaves County, New Mexico

EXHIBIT "C"



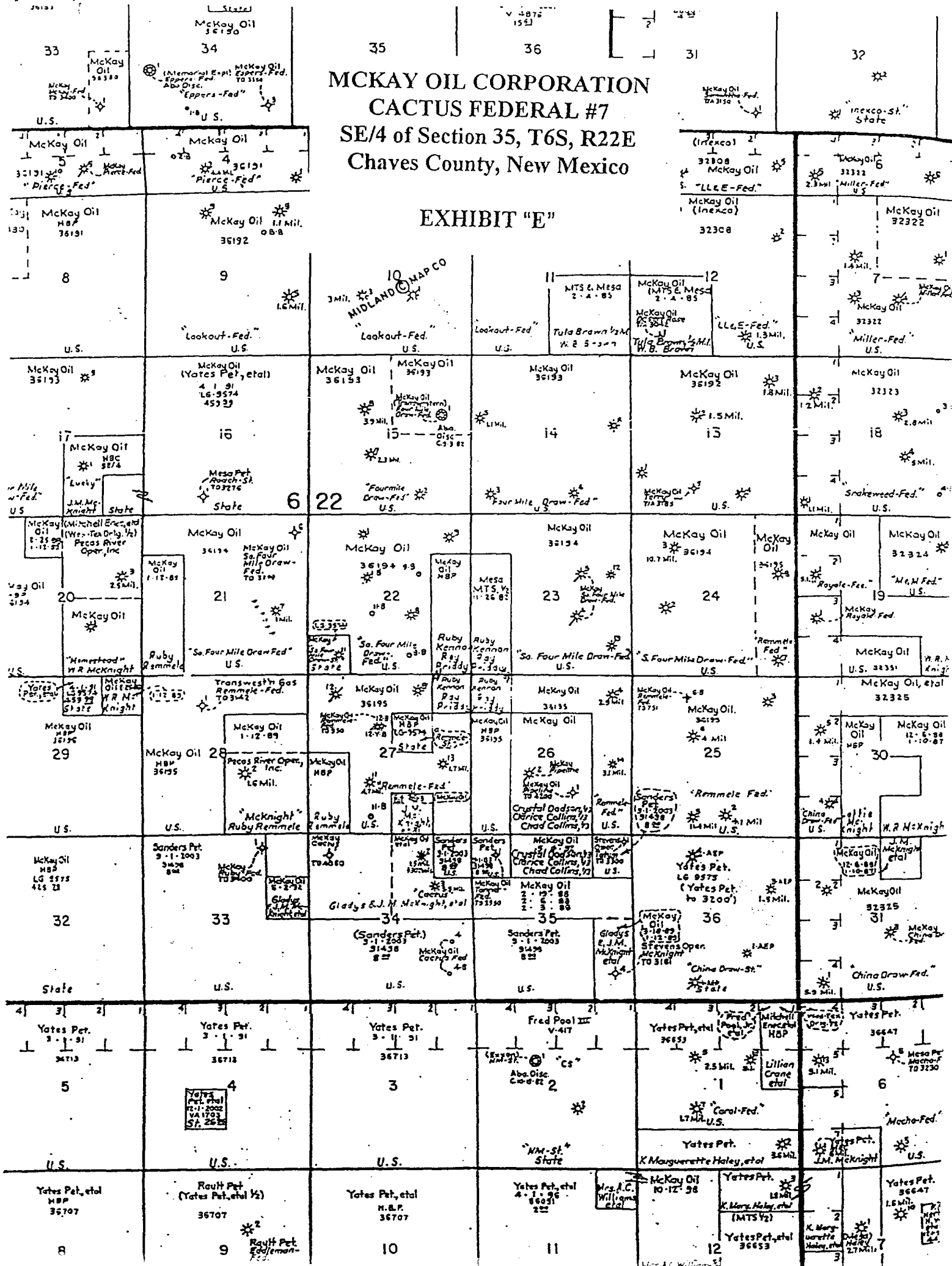
MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SE/4 of Section 35, T6S, R22E
Chaves County, New Mexico

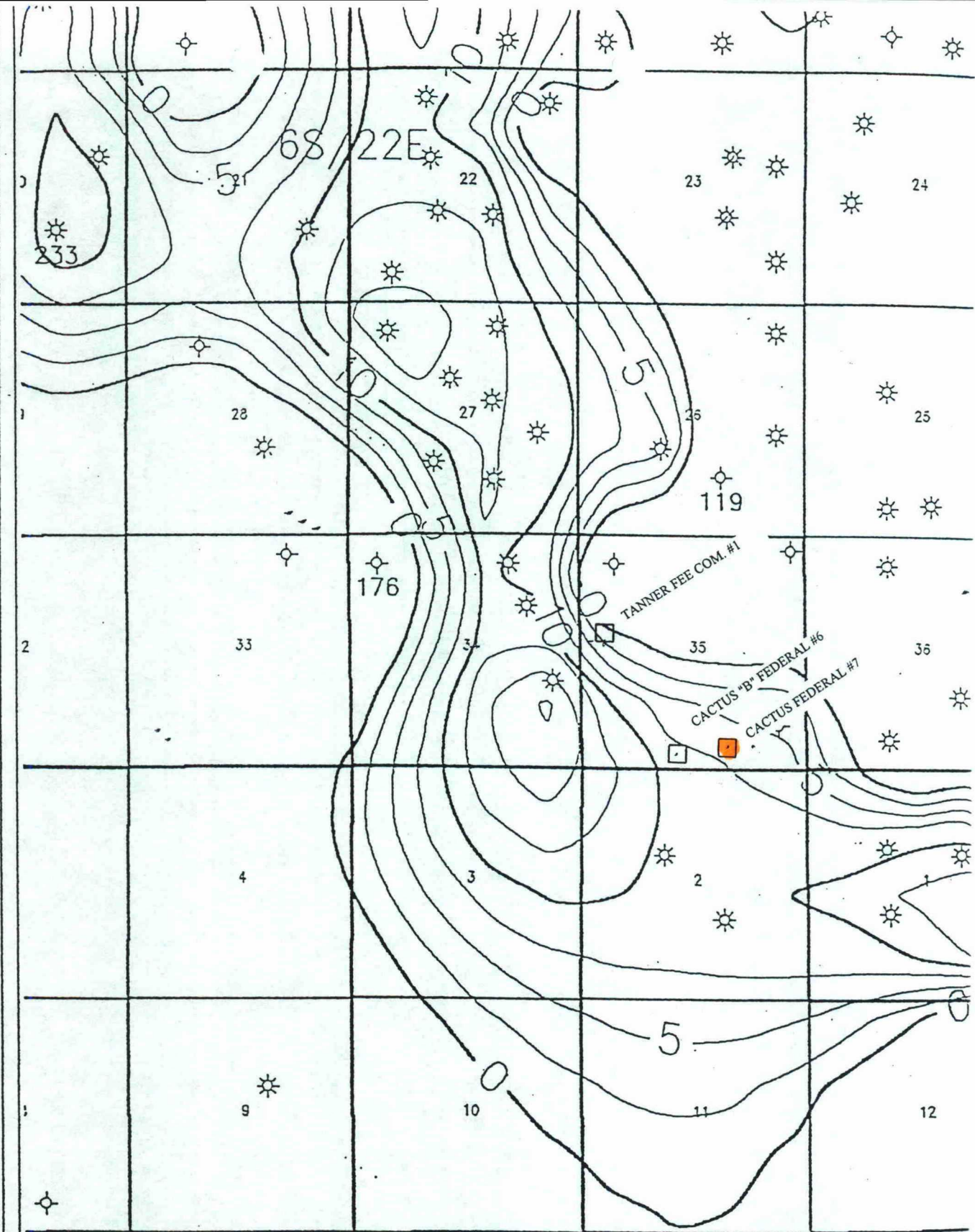
EXHIBIT "D"



MCKAY OIL CORPORATION
CACTUS FEDERAL #7
SE/4 of Section 35, T6S, R22E
Chaves County, New Mexico

EXHIBIT "E"





McKay Oil Corporation		
West Pecos Slope field Net Reservoir Isopach Abo IB Sandstone		
Drawn by: GJK	Dr. 2.5'	06/04/2001
Scale 1"=1000'		

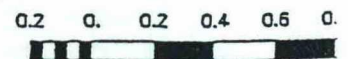
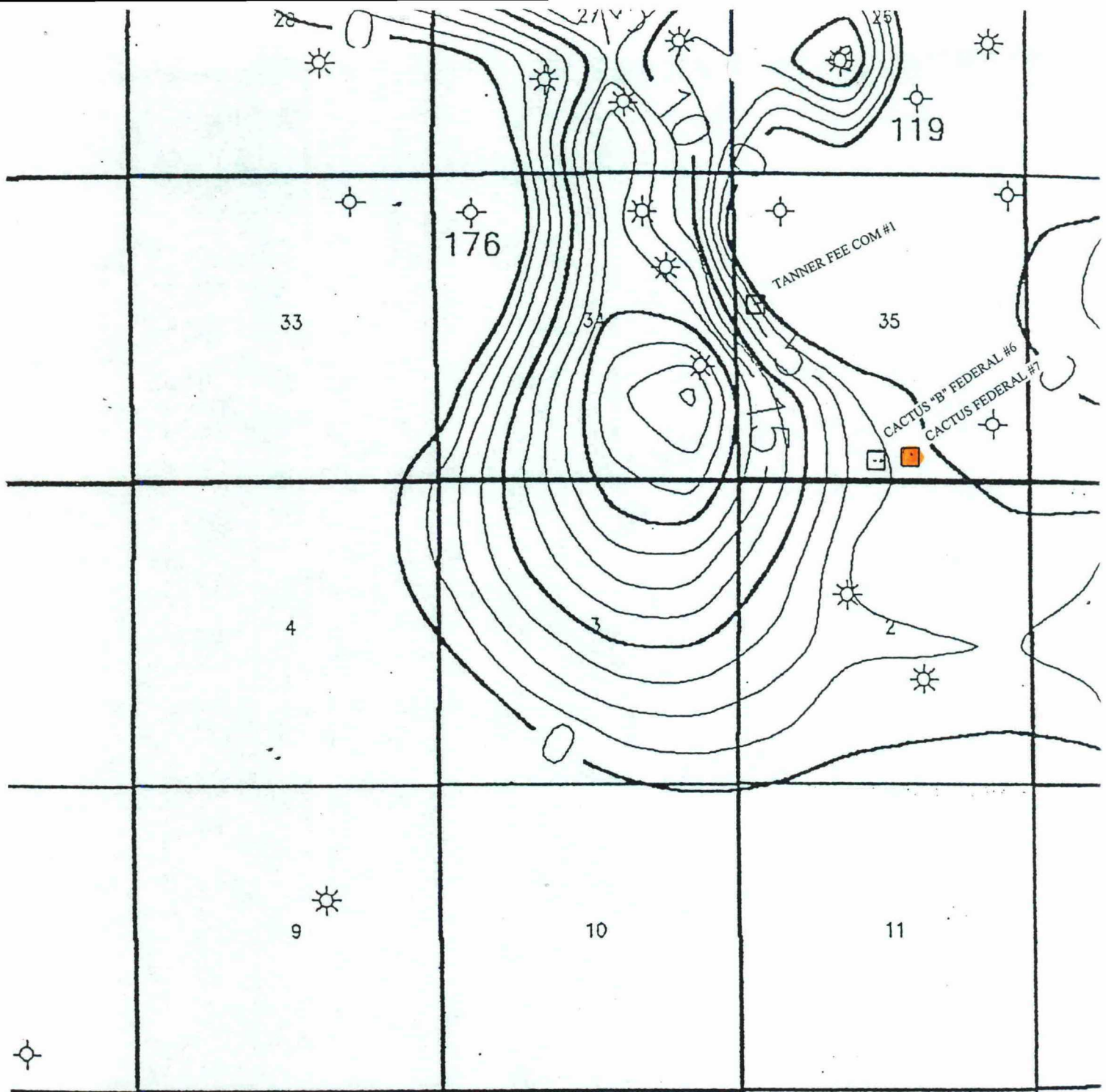
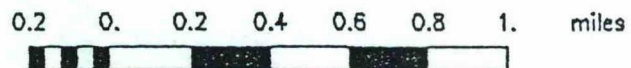


Exhibit I



McKay Oil Corporation

West Pecos Slope field
Net Reservoir Isopach
Composite IB and IC Abo



User ID: CRR

CR 2.5"

06/05/2001

Scale 1:40000

Exhibit II