

N.M. Oil Cons. DIV-Dist. 2
1301 W. Grand Avenue
Artesia, NM 88210

Form 3160-3
(April 2004)

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT


APPLICATION FOR PERMIT TO DRILL OR REENTER


1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-36192
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator McKay Oil Coporation		7. If Unit or CA Agreement, Name and No.
3a. Address PO Box 2014 Roswell, NM 88202-2014		8. Lease Name and Well No. Lookout B Federal 5 34715
3b. Phone No. (include area code) 505-623-4735		9. API Well No. 30-005-63868
4. Location of Well (Report location clearly and in accordance with any State requirements.)* At surface 1310' FSL & 400' FEL At proposed prod. zone		10. Field and Pool, or Exploratory W. Pecos ABO Slope 82740
11. Sec., T. R. M. or Blk. and Survey or Area Lot P, Sec 9, T6S, R22E		12. County or Parish Chaves
13. State NM		14. Distance in miles and direction from nearest town or post office* 25 miles
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig. unit line, if any)	16. No. of acres in lease 320.00	17. Spacing Unit dedicated to this well 160'
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.	19. Proposed Depth 4500'	20. BLM/BIA Bond No. on file
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4361'	22. Approximate date work will start* 10/20/2006	23. Estimated duration 7 - 10 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:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature 	Name (Printed/Typed) James Schultz	Date 09/15/2006
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Approved by (Signature) 	Name (Printed/Typed) /S/LARRY D. BRAY	Date OCT 16 2006
Title Assistant Field Manager, Lands And Minerals	Office ROSWELL FIELD OFFICE	APPROVED FOR 1 YEAR

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 page 2)

NSC - 5257

If earthen pits are used in association with the drilling of this well, an OCD pit permit must be obtained prior to pit construction.

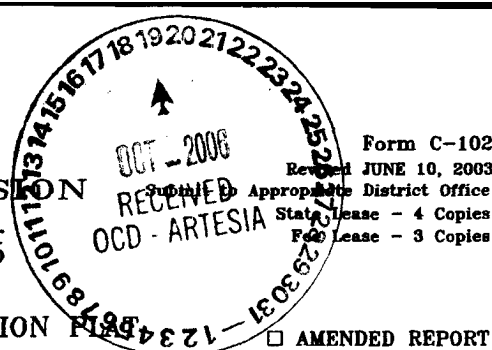


DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 08210

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

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505



WELL LOCATION AND ACREAGE DEDICATION ☒ AMENDED REPORT

API Number	Pool Code 82740	Pool Name Pecos Slope; Abo West
Property Code	Property Name LOOKOUT B FEDERAL	Well Number 5
OGRID No.	Operator Name McKAY OIL CORPORATION	Elevation 4361'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	9	6-S	22-E		1310	SOUTH	400	EAST	CHAVES

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
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Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
160			

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

<p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=1021165.0 N X=383133.2 E</p> <p>LAT.=33°48'23.38" N LONG.=104°43'05.02" W</p>		<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p></p> <p>Signature</p> <p>James Schultz</p> <p>Printed Name</p> <p>Agent</p> <p>Title</p> <p>03/16/05</p> <p>Date</p>
		<p>SURVEYOR CERTIFICATION</p> <p>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.</p> <p>DECEMBER 8, 2004</p> <p>Date</p> <p>DEL</p> <p>Signature</p> <p>Professional Surveyor</p> <p></p> <p>03/05</p> <p>04.11.15</p> <p>Cert. No. 12041</p>

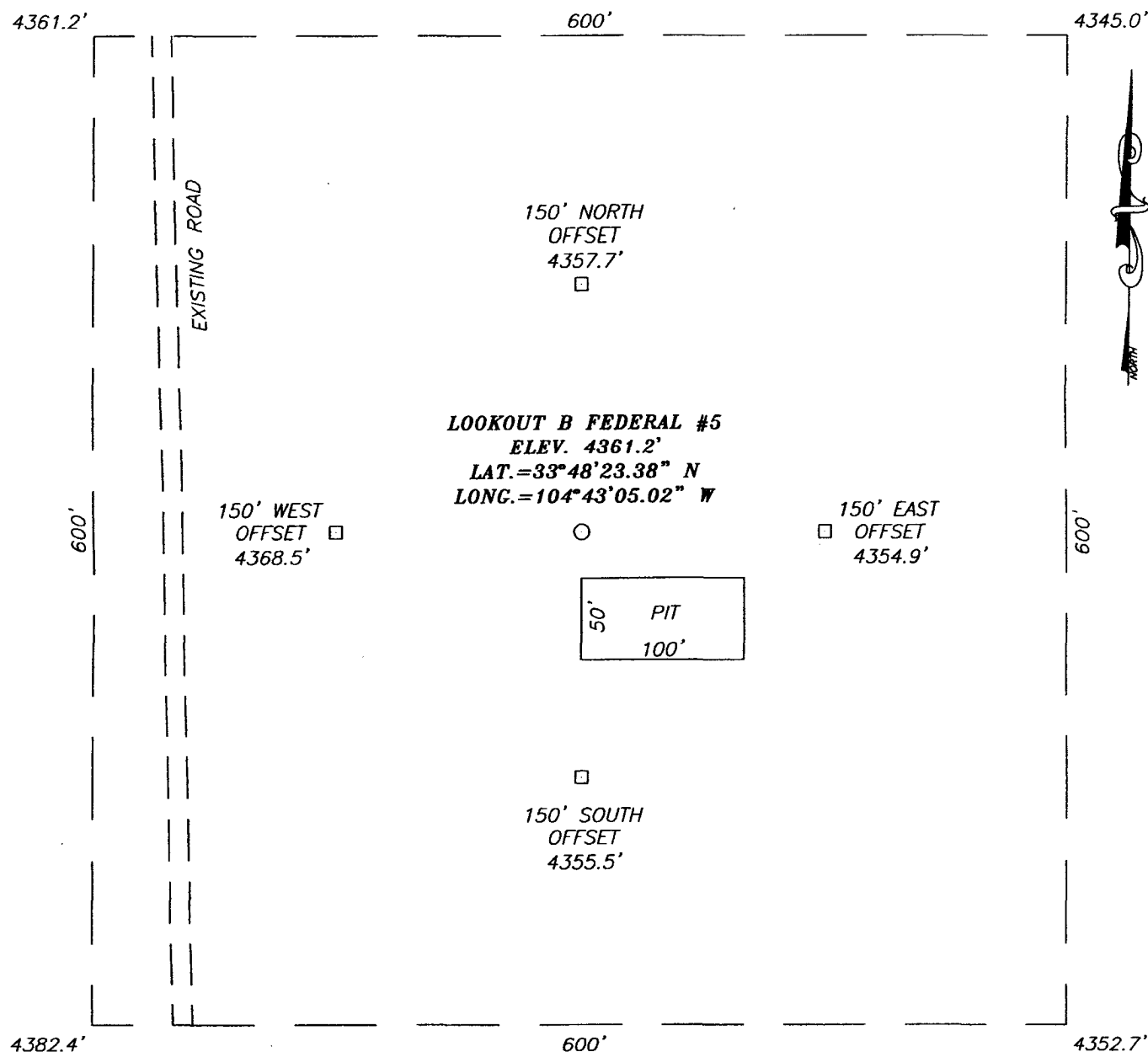
PERTINENT INFORMATION

FOR
MCKAY OIL CORPORATION
LOOKOUT B FEDERAL 5
1310' FSL & 400' FEL SEC 09, T6S, R22E

Chaves County, New Mexico

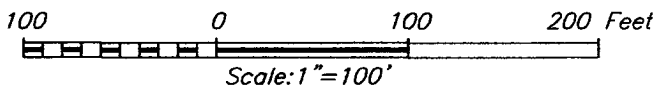
<u>LOCATED:</u>	25 air miles Northwest of Roswell, NM.
<u>LEASE NUMBER:</u>	NM 36192
<u>LEASE ISSUED:</u>	05/01/1981
<u>RECORD LESSEE:</u>	McKay Petroleum Corporation
<u>BOND COVERAGE:</u>	Operator's \$25,000 Statewide
<u>AUTHORITY TO OPERATE:</u>	Assignment of Operating Rights
<u>ACRES IN LEASE:</u>	320.00
<u>SURFACE OWNERSHIP:</u>	Federal
<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

SECTION 9, TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. #285 AND COUNTY ROAD #40 (STARGRASS RD.). GO WEST ON CR. #40 APPROX. 8.3 MILES. TURN RIGHT AND GO N-NW APPROX. 1.1 MILES. TURN RIGHT ON DIRT ROAD AND GO NORTH APPROX. 900'. THIS LOCATION IS APPROX. 250' EAST.



McKAY OIL CORPORATION

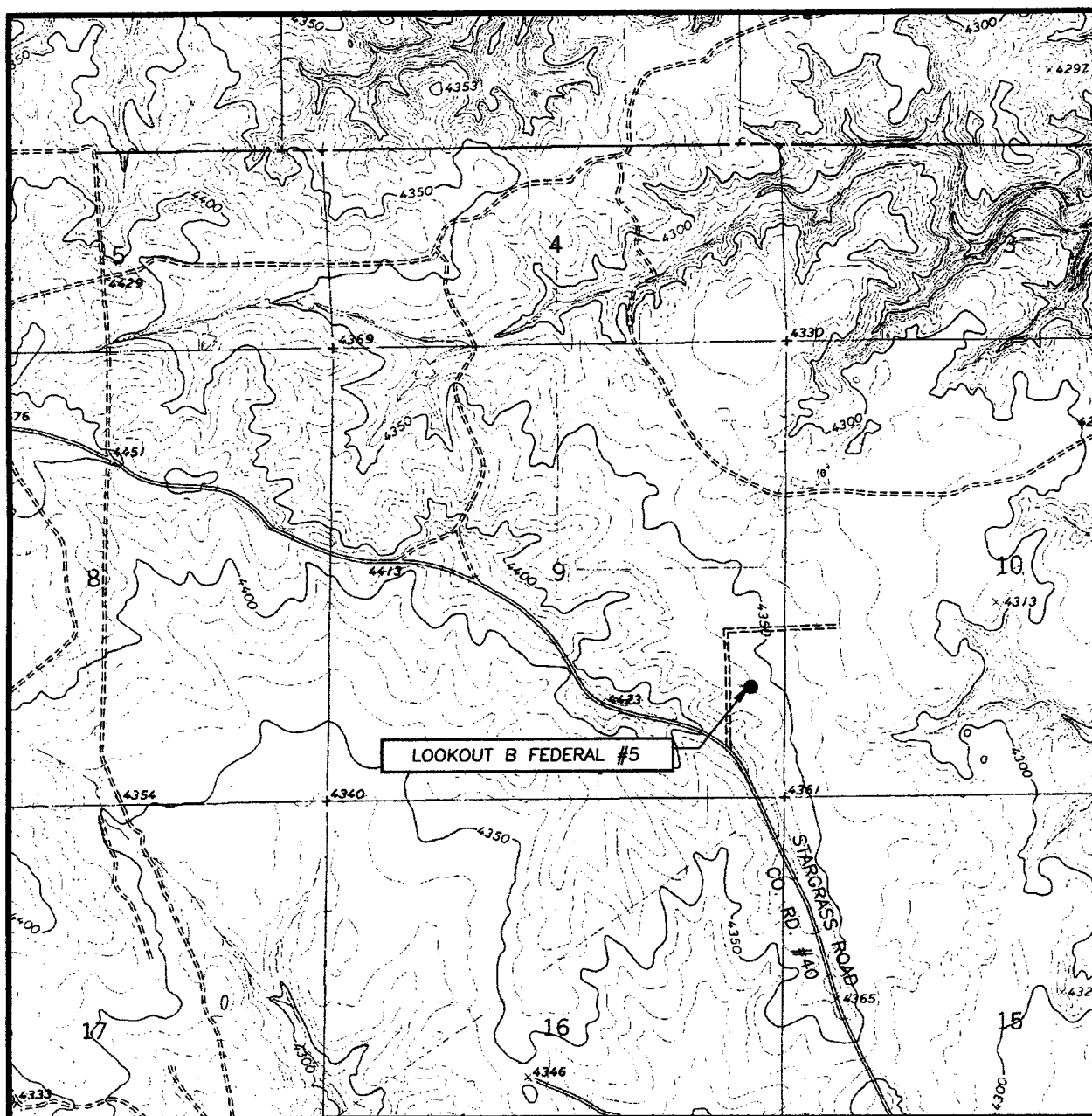
LOOKOUT B FEDERAL #5 WELL
 LOCATED 1310 FEET FROM THE SOUTH LINE
 AND 400 FEET FROM THE EAST LINE OF SECTION 9,
 TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

Survey Date: 12/08/04	Sheet 1 of 1 Sheets
W.O. Number: 04.11.1634	Dr By: D. LOVE
Date: 02/28/05	Rev 1:N/A
Disk: CD#4	04111634
	Scale: 1"=100'



PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
MEAS SW, N.M. - 10'

SEC. 9 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES

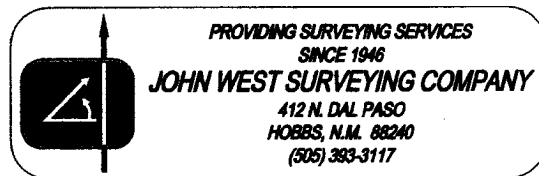
DESCRIPTION 1310' FSL & 400' FEL

ELEVATION 4361'

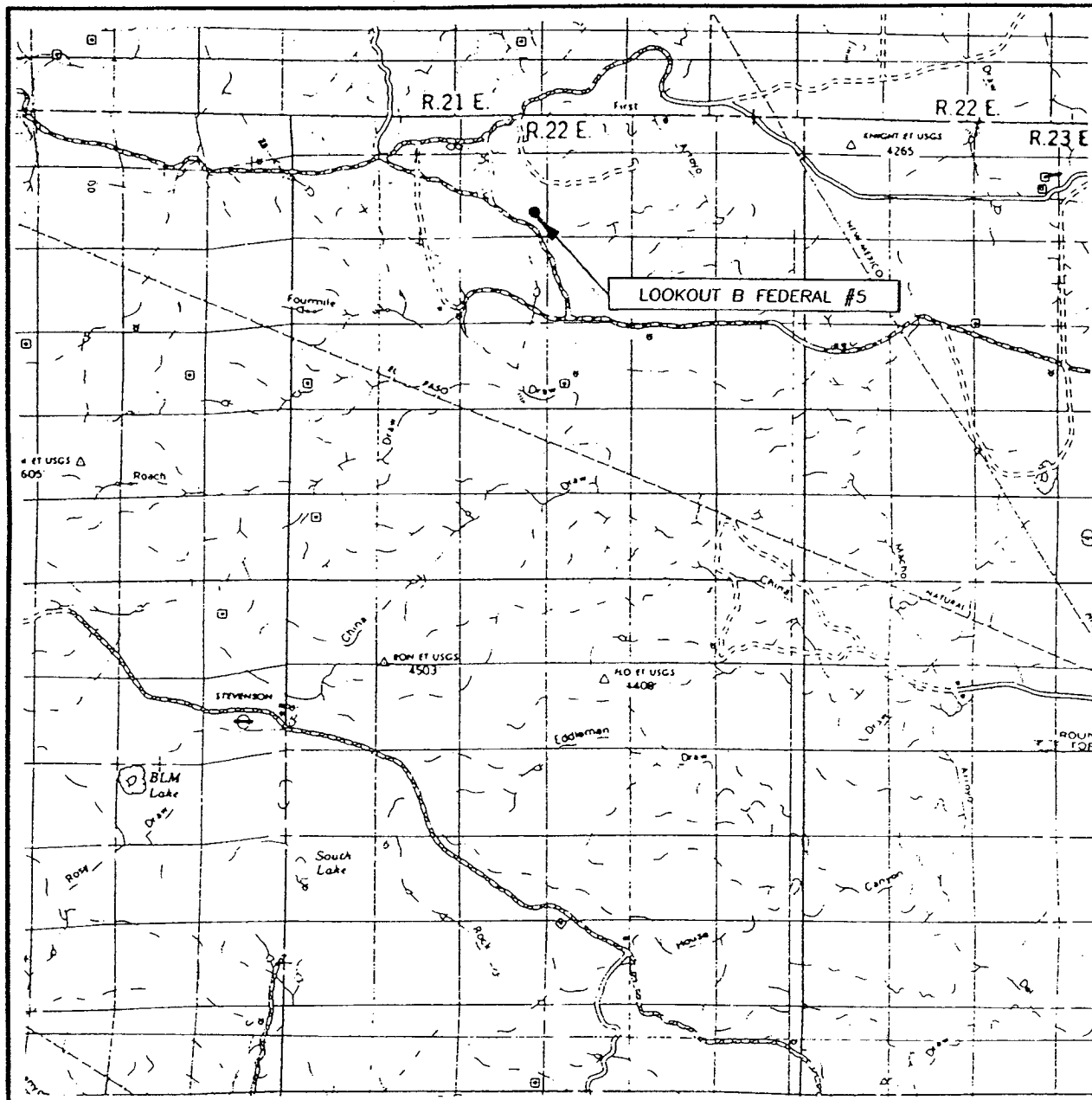
OPERATOR McKay OIL CORPORATION

LEASE LOOKOUT B FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
MEAS SW, N.M.



VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 9 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

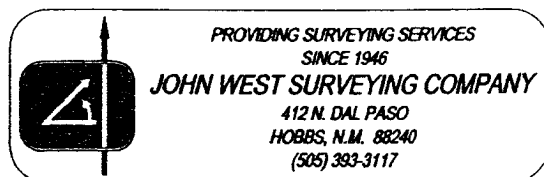
COUNTY CHAVES

DESCRIPTION 1310' FSL & 400' FEL

ELEVATION 4361'

OPERATOR McKAY OIL CORPORATION

LEASE LOOKOUT B FEDERAL



Center
Line
Well

100'

Reserve Pit
50' x 100'

10'

Working

Pits

42'

8'

50'

28'

15'

50'

Stinger

30'

40'

Stinger

30'

40'

Cent
Line
Well

Access Road

S

UNITED DRILLING, I

LOCATION FLAT

REC 4/1/12

Scale: 1"=40' 12-1

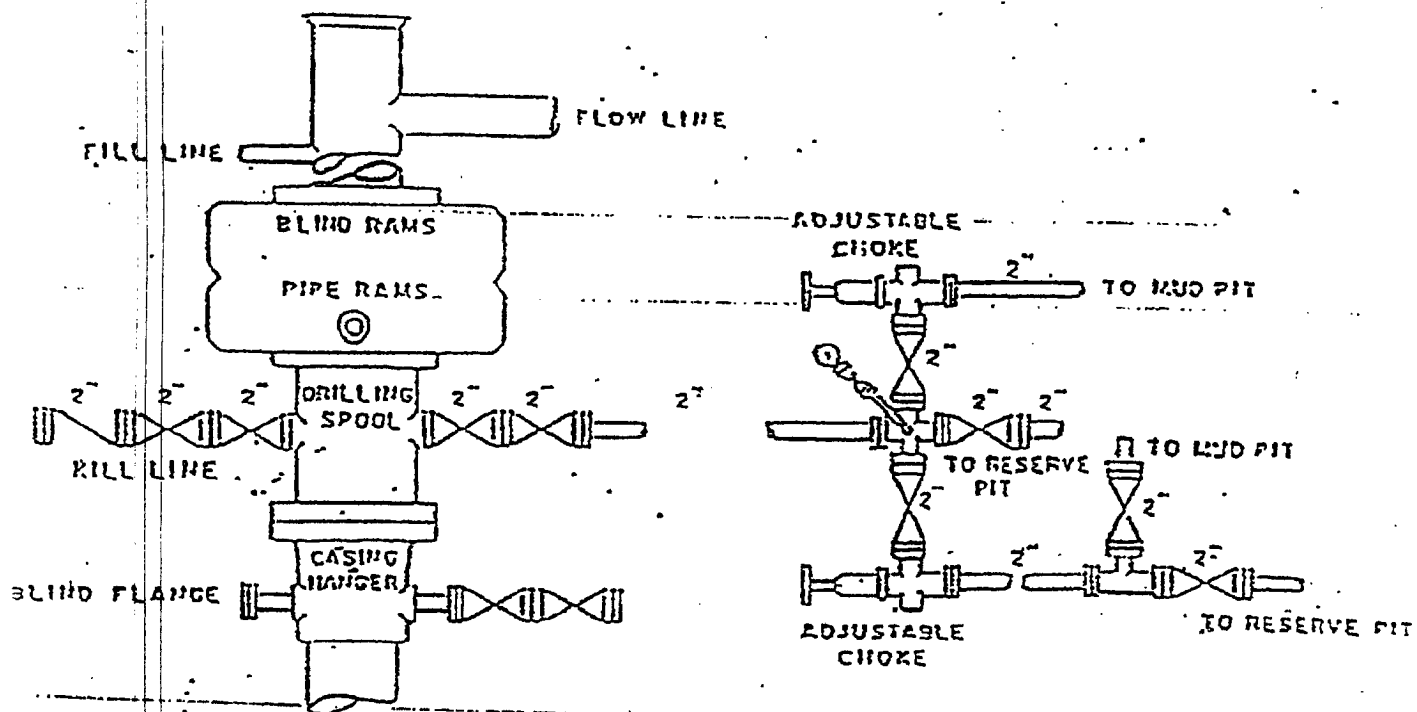
McKay Oil Corporation

Look Out B Federal 5

Section 09, T6S, R22E

Chaves County, New Mexico

Exhibit "D"



SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
LOOKOUT B FEDERAL 5
1310' FSL & 400' FEL Sec 9, T6S, R22E

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 - 1077'
Tubb - 2573'
Abo - 2801'

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

Fresh Water - In surface formation above 600'
Gas - In Abo Formation below 2801'

4. PROPOSED CASING PROGRAM:

12-1/4" hole	8-5/8" J-55	24#	950' +
7-7/8" hole	5-1/2" J-55	15.5#	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.

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. 5-1/2" 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: Fresh water and mud

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: As soon as possible.

Drilling should be completed within 10 days. Completion operations (perforations and stimulation) will follow drilling operations.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN

MCKAY OIL CORPORATION
LOOKOUT B FEDERAL 3
660' FSL & 660FWL Sec 10, T6S, R22E

Chaves County, New Mexico

NM 36192

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: From the intersection of US Highway #285 and County Rd. #40 (Stargrass Rd.). Go West on CR #40 approximately 8.3 miles. Turn right and go N-NW approximately 1.1 miles. Turn right on dirt road and go north approximately 900'. This location is approximately 250' East,

2. PLANNED ACCESS ROAD:

A. Length and Width: not applicable

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

C. Turnouts: None

D. Maximum Grade: No more than 3%.

E. Drain Design: no applicable

F. Culverts: None.

G. Cuts and Fill: None.

H. Gates, Cattle guards: None needed. 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 30' of cut and fill will be required for the pad size of 250' x 250'. (See Exhibit "D")

C. Top Soil: Any top soil which can sustain plant vegetation will be bladed and piled in the northeast corner 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. Regional slope is northeast in the direction of the Arroyo del Macho

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: The Arroyo del Macho is to the east of this location.

E. Residences and other Structures: The Corn residence is approximately 4 miles west of this location.

F. Archaeological, Historical and Other Cultural Sites: The archeological report has been supplied as to this location in a prior submission.

G. Land Use: Grazing.

H. Surface Ownership: USA-BLM.

12. OPERATOR'S REPRESENTATIVE:

Humberto Perez
Roswell, New Mexico
(505) 623-4735 (O)
(505) 626-8580 (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.



SIGNATURE



DATE

MCKAY OIL CORPORATION
Lookout B Federal #5
1310' FSL & 4000' FEL Sec. 09, T6S, R22E

Chaves County, New Mexico

Other Specific Information and Plans

Existing pipeline is already on location.

**Southwest Petroleum
Land Services, LLC**

100 N. Pennsylvania
Roswell, NM 88203
(505) 622-6713
(505) 622-9282 fax

September 14, 2006

Oil Conservation Division
Bryan Arrant
1301 W. Grand Avenue
Artesia, NM

Re: H2S Contingency Plan-Lookout B Federal #5

Bryan,

Please see attached Contingency Plan-H2S for the Lookout Federal B #5 located in Sec 09, T6S, R22E 1310' FSL & 400' FEL in Chaves County. Should you need any further information, please contact me at 505-626-6879.

Sincerely,

Jim Schultz
Agent for McKay Oil Corporation

MCKAY OIL CORPORATION
PO BOX 2014
ROSWELL, NM 88202-2014
505-623-4735

HYDROGEN SULFIDE (H₂S) CONTINGENCY PLAN FOR THE
LOOKOUT B FEDERAL 5
LOCATED IN SEC 09, T6S, R22E IN
CHAVES COUNTY, NEW MEXICO

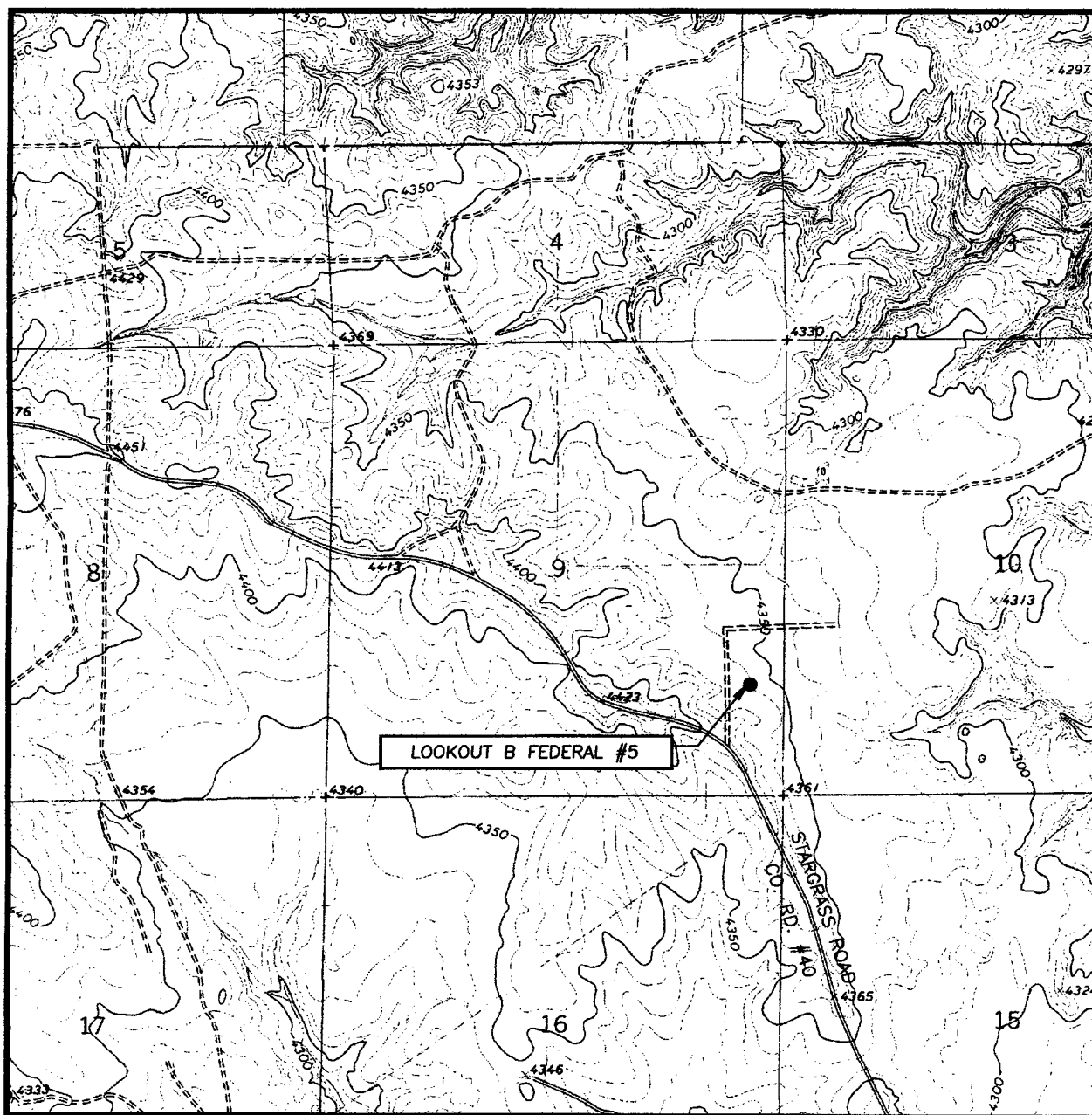
NO HYDROGEN SULFIDE OR OTHER HAZARDOUS GASES OR FLUIDS HAVE
BEEN ENCOUNTERED, REPORTED OR KNOWN TO EXIST AT THIS DEPTH IN
THIS AREA.

LOOKOUT FEDERAL B #5

This is an open drilling Site. H2S monitoring equipment and emergency response equipment will be used within 500' of zones known to contain H2S, including warning signs, wind indicators and H2S monitor. Pumpers carry (MICROPACKS) H2S pocket testers at all times. Pulling units have an H2S indicator that puts off light and alarm on any indication of H2S being present.

MAPS – SEE ATTACHED

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
MEAS SW, N.M. - 10'

SEC. 9 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES

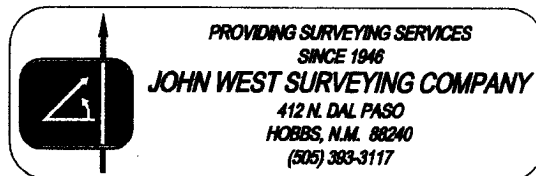
DESCRIPTION 1310' FSL & 400' FEL

ELEVATION 4361'

OPERATOR McKAY OIL CORPORATION

LEASE LOOKOUT B FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
MEAS SW, N.M.



EMERGENCY PROCEDURES

In the case of a release of gas containing H₂S, the first responder must isolate the area and prevent entry by other persons into the 100 ppm ROE. Additionally the first responder must evacuate any public spaces encompassed by the 100 ppm ROE. First responder must take care not to injure themselves during this operation. Company and or local officials must be contacted to aid in this operation. Evacuation of the public should be beyond the 100 ppm ROE.

All responders must have training in the detection of H₂S measures for protection against the gas, equipment used for protection and emergency response. Additionally, responders must be equipped with H₂S monitors and air packs in order to control the release. Use the "buddy system" to ensure no injuries occur during the response.

IGNITION OF GAS SOURCE

Should control of the well be considered lost and ignition considered, take care to protect against exposure of sulfur Dioxide (SO₂). Intentional ignition must be coordinated with the NMOCD and local officials. Additionally the NM State Police may become involved. NM State Police shall be the Incident Command on scene of any major release. Take care to protect downwind whenever there is an ignition of the gas.

CHARACTERISTICS OF H₂S & SO₂

COMMON NAME	CHEMICAL FORMULA	SPECIFIC GRAVITY	THRESHOLD LIMIT	HAZARDOUS LIMIT	LETHAL CONCENTRATION
HYDROGEN SULFIDE	H ₂ S	1.189 AIR=1	10 PPM ₄	100 PPM/HR	600 PPM
SULFUR DIOXIDE	SO ₂	2.21 AIR=1	2 PPM	N/A	1000 PPM

CONTACTING AUTHORITIES

McKay Oil Corporation personnel must liaison with local and state agencies to ensure a proper response to a major release. Additionally, the OCD must be notified of the release as soon as possible but no later than 4 hours. Agencies will ask for information such as type and volume of release, wind direction, location of release, etc. be prepared with all information available. The following call list of essential and potential responders must be in coordination with the State of New Mexico's Hazardous Materials Emergency Response Plan (HMER).

MCKAY OIL CORPORATION CALL LIST

CHAVES COUNTY (505)	OFFICE	CELL PHONE	HOME PHONE
HUMBERTO PEREZ	625-1154	626-8580	627-1985
JIM ROBINSON	625-1154	626-8579	624-1093
APRIL MCKAY	623-4735	626-8575	625-2848

CHAVES COUNTY (505)

ROSWELL

STATE POLICE	622-7200
CITY POLICE	911 or 624-6770
SHERIFF'S OFFICE	624-6500
AMBULANCE	911
FIRE DEPARTMENT	624-6800
LEPC (Local Emergency Planning Committee)	Teresa Barncastle 624-6770 ext 129
NMOCD	748-1283
ENMMC (Hospital)	622-8170

EXHIBIT A

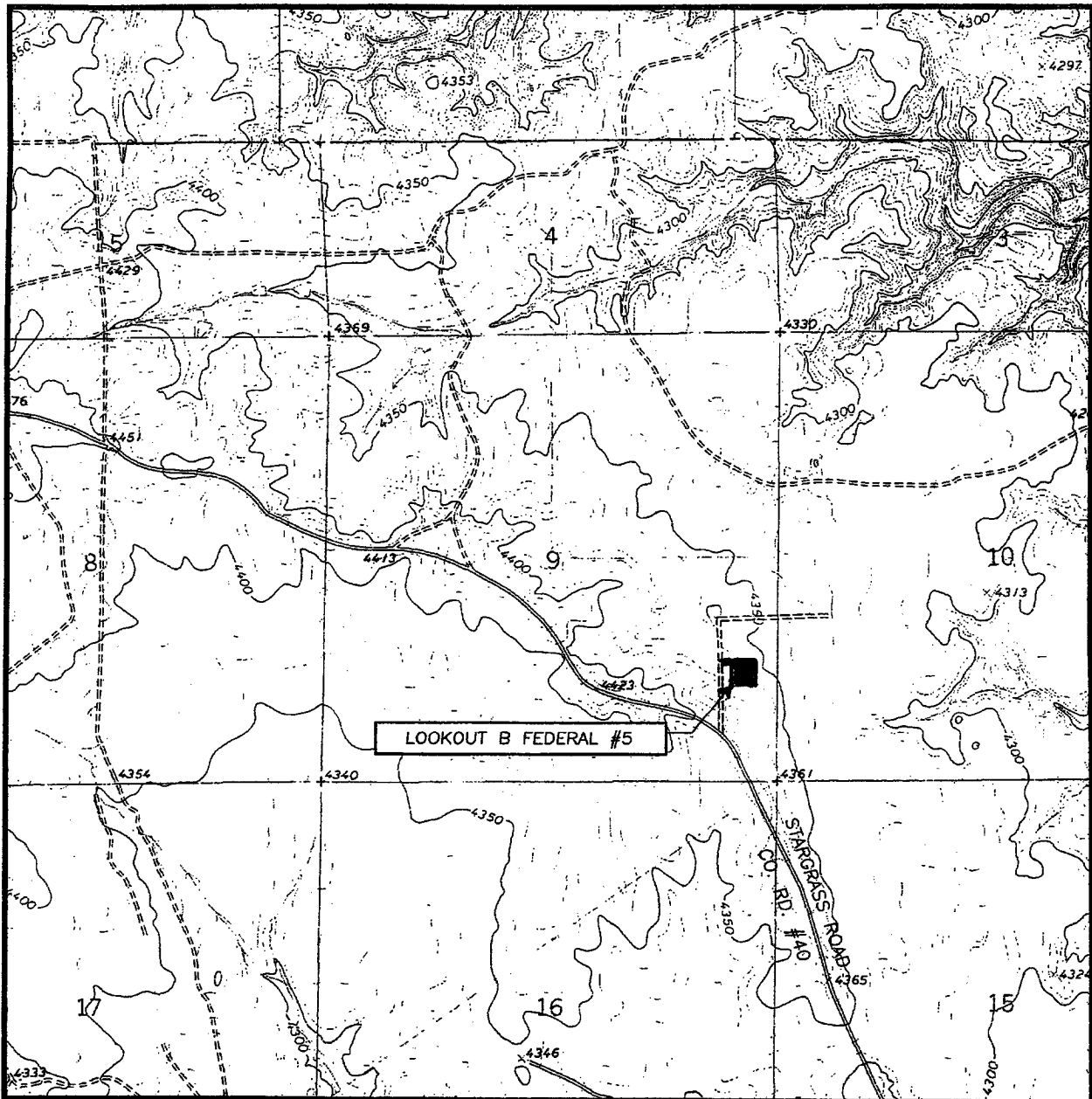
Operator: McKay Oil Corporation

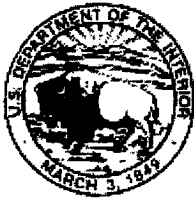
BLM Serial Number: NM-36192

Well Name & NO.: Lookout "B" Federal #5

Location: Section 9, T. 6 S., R. 22 E.

1310' FSL & 400' FEL, Chaves County, N.M.





United States Department of the Interior
BUREAU OF LAND MANAGEMENT
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201

EXHIBIT B

1 of 5 pages

WELL DRILLING REQUIREMENTS

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36192
WELL NAME & NO: Lookout "B" Federal #5
QUARTER/QUARTER & FOOTAGE: SE $\frac{1}{4}$ SE $\frac{1}{4}$ - 1310' FSL & 400' FEL
LOCATION: Section 9, T. 6 S., R. 22 E., NMPM
COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

- A. The operator has the right of administrative review of these requirements pursuant to 43 CFR 3165.1(a).
- B. The operator shall hereafter be identified as the holder in these requirements. The Authorized Officer is the person who approves the Well Drilling Requirements.

II. WELL PAD CONSTRUCTION REQUIREMENTS:

- A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627-0247.
- B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).
- C. The holder shall stockpile the topsoil from the surface of the well pad for reclamation purposes. The topsoil on the Lookout "B" Federal #5 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Northeast corner of the well pad, opposite the reserve pit. Upon reclamation of the well pad, the topsoil stockpile shall be redistributed over the disturbed areas. See Well Drilling Requirements - VI. Seeding Requirements - for reclamation of the well pad.
- D. **Reserve Pit Requirements:**
 - 2. The reserve pit shall be constructed 50' X 100' on the **South** side of the well pad.
 - 2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See **Exhibit E – Surface Reclamation/Restoration Requirements**.
 - 3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

4. The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.
5. The reserve pit shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances will the reserve pit be cut to drain drilling muds on the well location.
6. The reserve pit shall not be located in any natural drainage.
7. The reserve pit shall be equipped to deter entry by birds, bats, other wildlife, and livestock, if the reserve pit contains any oil and/or toxic fluids.
8. Drilling muds shall be properly disposed of before the reserve pit is reclaimed. Drilling muds can be allowed to evaporate in the reserve pit or be removed and transported to an authorized disposal site. The reserve pit shall be backfilled when dry.
9. Dumping of junk or trash into the reserve pit is not allowed. Junk or trash shall be removed from within the reserve pit before the reserve pit is reclaimed. **Junk or trash shall not be buried in the reserve pit.**

E. Federal Mineral Materials Pit Requirements:

3. Caliche, gravel, or other related materials from new or existing pits on Federal mineral estate shall not be taken without prior approval from the authorized officer. Contact Jerry Dutchover at (505) 627 -0236.
4. Payment for any Federal mineral materials that will be used to surface the access road and the well pad is required prior to removal of the mineral materials.
3. Mineral Materials extracted during construction of the reserve pit may be used for development of the pad and access road as needed, for the Lookout "B" Federal #5 gas well only. Removal of any additional material on location must be purchased from BLM prior to removal of any material.
 - a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

The well pad shall be surfaced with 6 inches of compacted caliche, gravel, or other approved surfacing material. The well pad shall be surfaced prior to drilling operations. See **Permanent Resource Road Requirements - EXHIBIT D - requirement #4, for road surfacing.**

G. Cave Requirements:

1. If, during any construction activities any sinkholes or cave openings are discovered, all construction activities shall immediately cease. Contact **Larry Bray** at (505) 627-0250.
2. The BLM Authorized Officer will, within 24 hours of notification in "A" above, conduct an on-the-ground field inspection for karst. At the field inspection the authorized field inspector will authorize or suggest mitigating measures to lessen the damage to the karst environment. A verbal order to proceed or stop the operation will be issued at that time.

WELL DRILLING REQUIREMENTS

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III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Roswell Field Office, 2909 West Second St., Roswell NM 88201, (505) 627-0272 in sufficient time for a representative to witness:

A. Spudding B. Cementing casing: 8 $\frac{5}{8}$ inch 5 $\frac{1}{2}$ inch C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

B. CASING:

1. The 8 $\frac{5}{8}$ inch surface casing shall be set at 950' and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 5 $\frac{1}{2}$ inch intermediate casing is cement shall extend upward a minimum of 500 feet above the uppermost perforation.

C. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8 $\frac{5}{8}$ inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

D. The results of the test shall be reported to the appropriate BLM office.

E. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

F. Testing must be done in a safe workman-like manner. Hard line connections shall be required.