

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

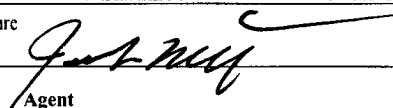
FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM 36189
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 Corporation		7. If Unit or CA Agreement, Name and No.
3a. Address PO Box 2014 Roswell NM, 88202-2014		8. Lease Name and Well No. McKay B Federal 4
3b. Phone No. (include area code) 505-623-4735		9. API Well No. 30-005-63867
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1650' FNL & 400' FEL At proposed prod. zone		10. Field and Pool, or Exploratory W. Pecos ABO Slope
11. Sec., T. R. M. or Blk. and Survey or Area Lot H, Sec. 33, T5S, R21E		12. County or Parish Chaves
13. State NM		14. Distance in miles and direction from nearest town or post office* Approximatly 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 1800.00	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.) 4339'	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:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 1. Well plat certified by a registered surveyor. | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above). |
| 2. A Drilling Plan. | 5. Operator certification |
| 3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office). | 6. 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
------------------------------------------------------------------------------------------------------	----------------------------------------------	---------------------------

Approved by (Signature) LARRY D. BRAY	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)

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 I
1625 N. FRENCH DR., BOBBS, NM 88240

DISTRICT II
1301 W. GRAND AVENUE, 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

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

Form C-102
Revised JUNE 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code 82740	Pool Name Pecos Slope; Abc, West
Property Code	Property Name McKAY B FEDERAL	Well Number 4
OGRID No.	Operator Name McKAY OIL CORPORATION	Elevation 4339'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
H	33	5-S	21-E		1650	NORTH	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

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=1031141.6 N X=377328.8 E</p> <p>LAT.=33°50'01.86" N LONG.=104°44'14.27" W</p> <p>DETAIL</p> <p>4324.3' 4335.7' 600' 600' 4335.5' 4323.1'</p> <p>SEE DETAIL</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>Signature James Schultz</p> <p>Printed Name Agent</p> <p>Title 05/04/05</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>APRIL 11, 2005</p> <p>Date Surveyed Signature & Seal of Professional Surveyor GARY E. EISSON 05.11.0288</p> <p>Certified No. GARY EISSON 12841</p>
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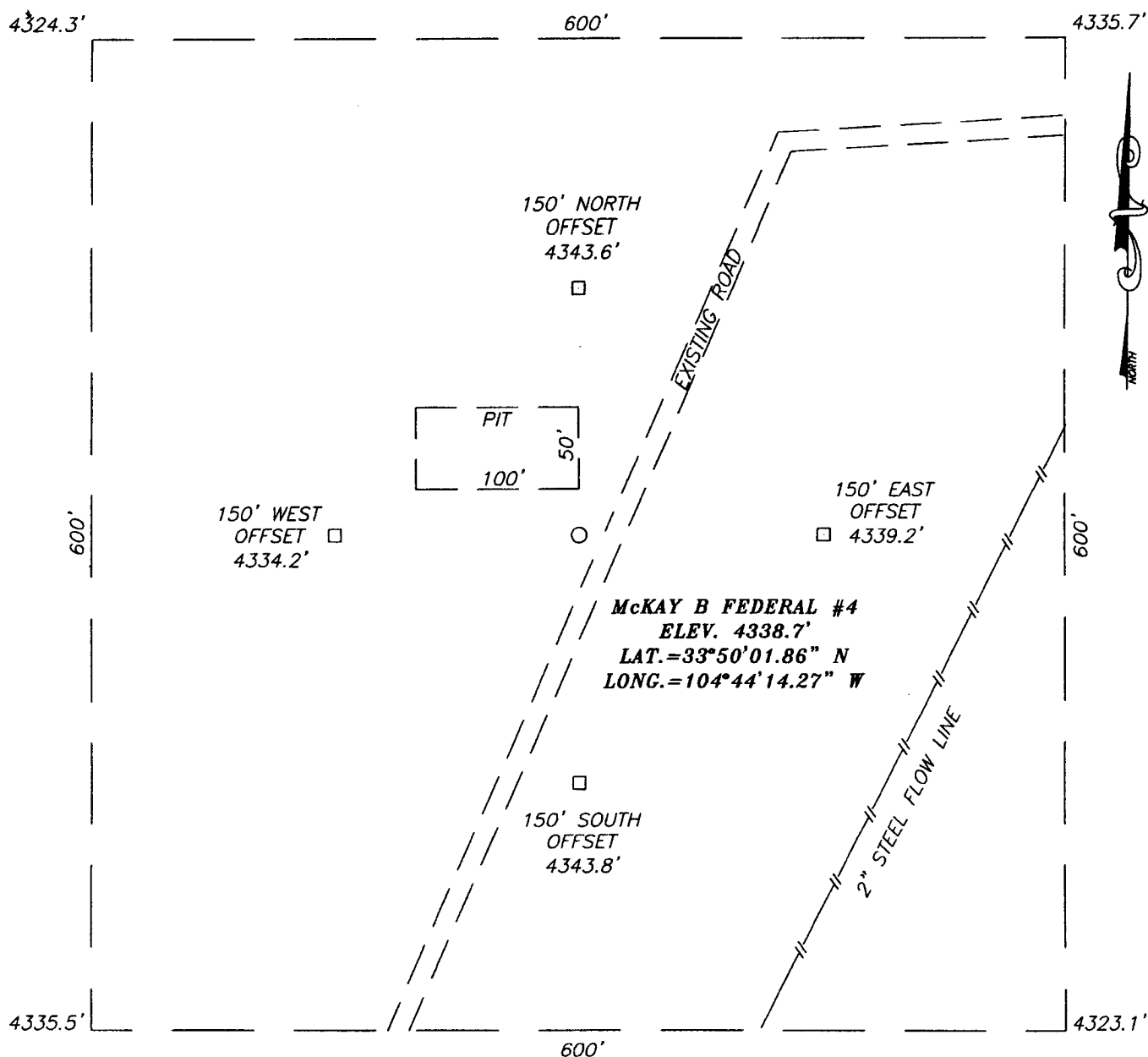
PERTINENT INFORMATION

FOR
MCKAY OIL CORPORATION
MCKAY B FEDERAL 4
1650' FNL & 400 FEL SEC 33, T5S, R21E

Chaves County, New Mexico

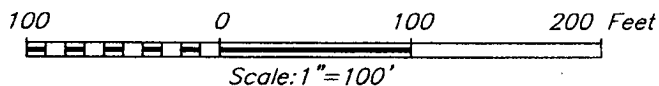
<u>LOCATED:</u>	25 air miles Northwest of Roswell, NM.
<u>LEASE NUMBER:</u>	NM 36189
<u>LEASE ISSUED:</u>	05/01/1981
<u>RECORD LESSEE:</u>	McKay Petroleum Corporation
<u>BOND COVERAGE:</u>	Operator's \$25,000 Statewide
<u>AUTHORITY TO OPERATE:</u>	Assignment of Operating Rights
<u>ACRES IN LEASE:</u>	1800.00
<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 33, TOWN HIP 5 SOUTH, RANGE 21 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

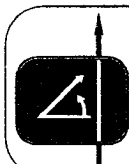
FROM THE INTERSECTION OF U.S. HWY. #285 AND CR. RD. #40 (STARGRASS RD.). GO WEST ON STARGRASS APPROX. 8.3 MILES. AT INTERSECTION OF CAMAS AND STARGRASS FOLLOW STARGRASS TO THE RIGHT AND GO N-NW APPROX. 3.1 MILES TO INTERSECTION OF STARGRASS AND SILVERWEED. TURN RIGHT ON SILVERWEED AND GO NORTH APPROX. 0.3 MILES. TURN RIGHT AND GO EAST APPROX. 0.35 MILES FOLLOWING A BEND TO THE LEFT AND GO NE APPROX. 0.25 MILES TO A "Y" INTERSECTION AND GO LEFT (N-NE) APPROX. 0.3 MILES. THIS LOCATION IS APPROX. 20' WEST.



McKAY OIL CORPORATION

McKAY B FEDERAL #4 WELL
 LOCATED 1650 FEET FROM THE NORTH LINE
 AND 400 FEET FROM THE EAST LINE OF SECTION 33,
 TOWNSHIP 5 SOUTH, RANGE 21 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

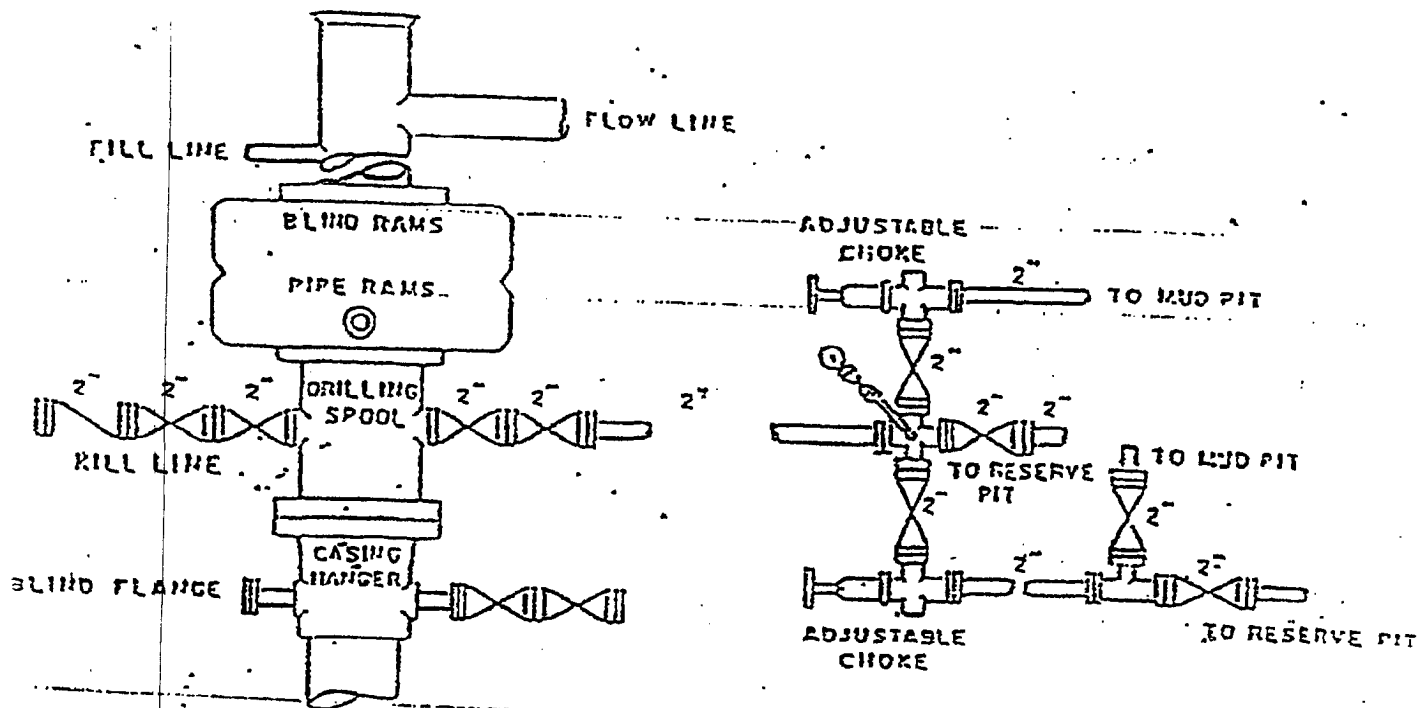
Survey Date: 04/11/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.0288	Dr By: GS
Date: 04/19/05	Rev 1: N/A
Disk: CD#4	05110288
Scale: 1"=100'	



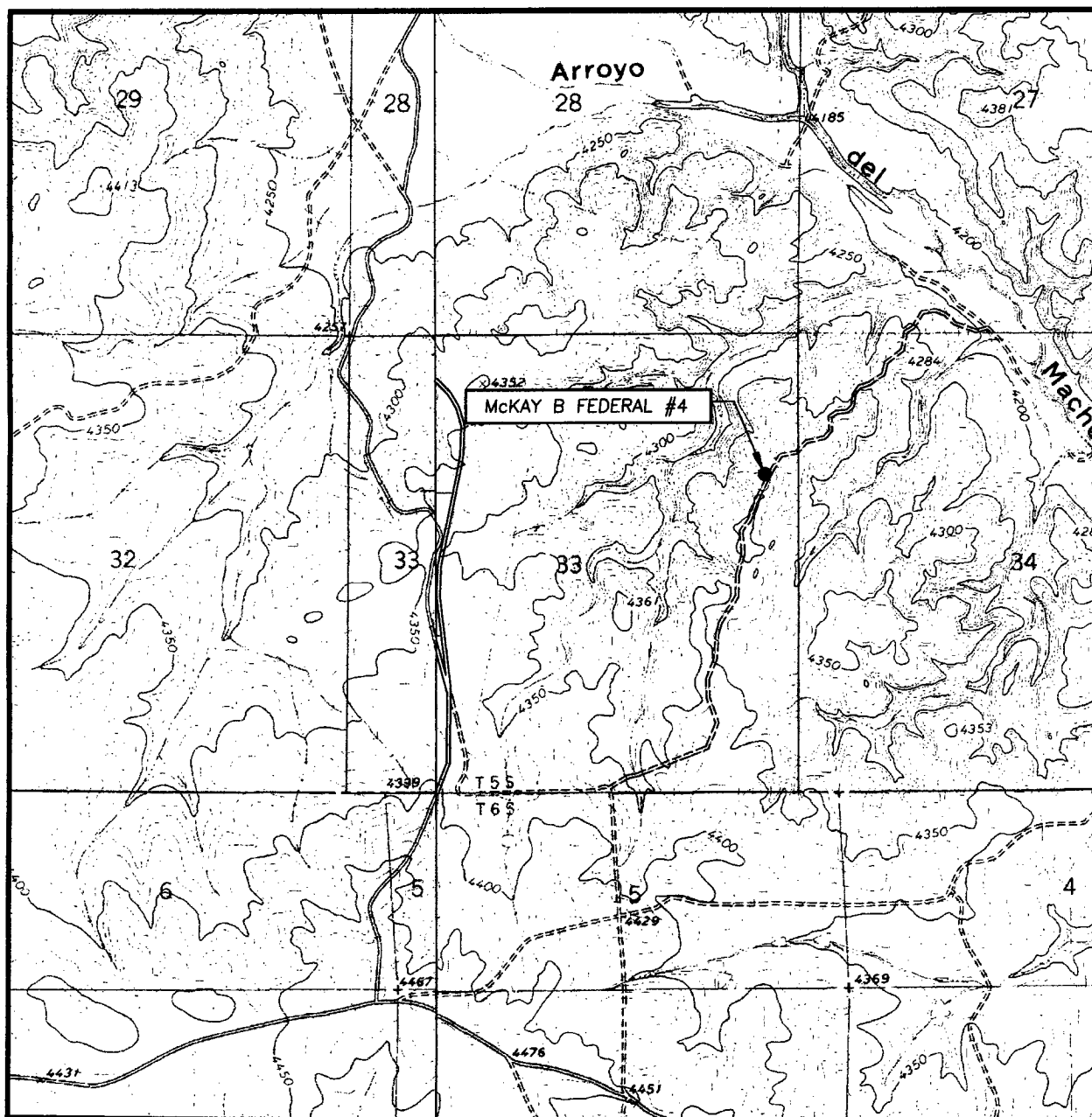
PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

McKay Oil Corporation
McKay B Federal 4
Section 33, T5S, R21E
Chaves County, New Mexico

Exhibit "D"



LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

SEC. 33 TWP. 5-S RGE. 21-E

SURVEY N.M.P.M.

COUNTY CHAVES

DESCRIPTION 1650' FNL & 400' FEL

ELEVATION 4339'

OPERATOR McKAY OIL CORPORATION

LEASE McKAY B FEDERAL

CONTOUR INTERVAL:

MESA SW, N.M. - 10'

ROUND MOUNTAIN SE, N.M. - 10'



PROVIDING SURVEYING SERVICES
SINCE 1946

JOHN WEST SURVEYING COMPANY

412 N. DAL PASO
HOBBS, N.M. 88240
(505) 383-3117

U.S.G.S. TOPOGRAPHIC MAP
MESA SW, N.M. AND ROUND MOUNTAIN SE

SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
MCKAY B DEFERAL #4
1650' FNL & 400' FEL Sec 33, T5S, R21E

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
MCKAY B DEFERAL #4
1650' FNL & 400' FEL Sec 33, T5S, R21E

Chaves County, New Mexico

NM 36189

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 U.S. Highway #285 and county road #40 (Stargrass Rd.) go west on CR Rd #40 (Stargrass) approximately 8.3 miles. At intersection of Camas and Stargrass turn right (onto Starrgrass) and go approximately 3.1 miles N-NW to intersection of Stargrass and Silverweed. Turn right on Silverweed and go north approximately 0.3 miles. Turn right and go east approximately 0.35 miles, follow bend to the left, and go NE approximately 0.25 miles to Y. Turn left and go N-NE approximately 0.3 miles. This location is approximately 20' west.

2. PLANNED ACCESS ROAD:

A. Length and Width: No additional road is needed.

B. Surface Materials: Not applicable

C. Turnouts: None

D. Maximum Grade: Not applicable

E. Drain Design: Not 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 south east 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 south. 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: There are no ponds and streams known of.

E. Residences and other Structures: The Darr Angel residence is approximately 1 mile South of this location.

F. Archaeological, Historical and Other Cultural Sites: The report has been supplied as to this location is 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.

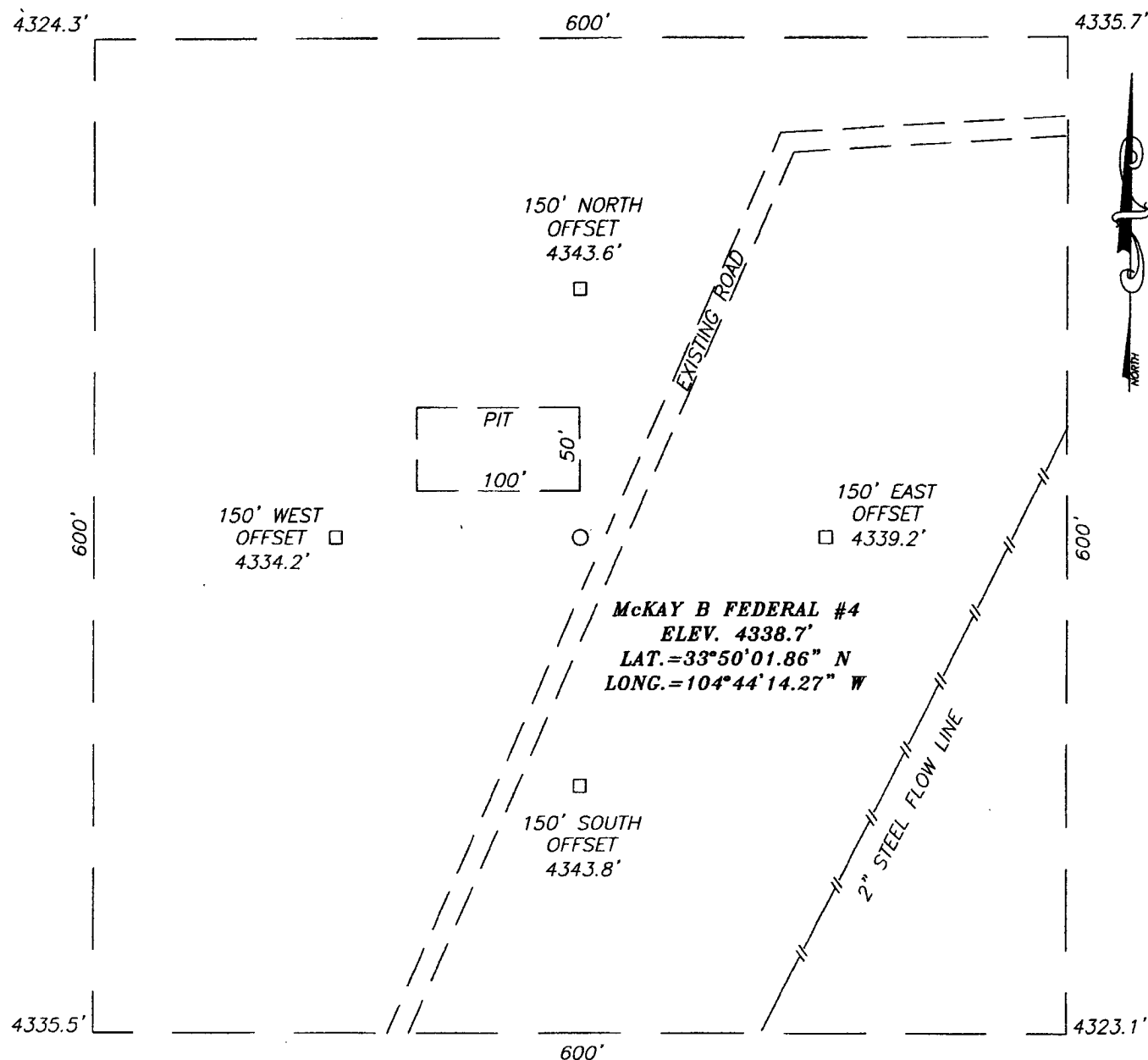


SIGNATURE

9-15-06

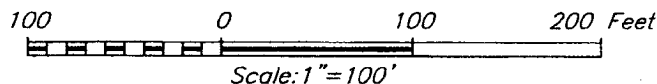
DATE

SECTION 33, TOWN HIP 5 SOUTH, RANGE 21 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

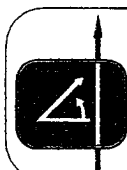
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McKAY OIL CORPORATION

McKAY B FEDERAL #4 WELL
 LOCATED 1650' FEET FROM THE NORTH LINE
 AND 400 FEET FROM THE EAST LINE OF SECTION 33,
 TOWNSHIP 5 SOUTH, RANGE 21 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

Survey Date: 04/11/05	Sheet 1 of 1 Sheets
W.O. Number: 05.11.0288	Dr By: GS
Date: 04/19/05	Rev 1: N/A
Disk: CD#4	05110288
Scale: 1"=100'	



PROVIDING SURVEYING SERVICES
 SINCE 1948
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

**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-McKay B Federal 4

Bryan,

Please see attached Contingency Plan-H2S for the McKay B Federal #4 located in Sec 33, T5S, R21E 1650' FNL & 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
MCKAY B FEDERAL 4
LOCATED IN SEC 33, T5S, R21E IN
CHAVES COUNTY, NEW MEXICO

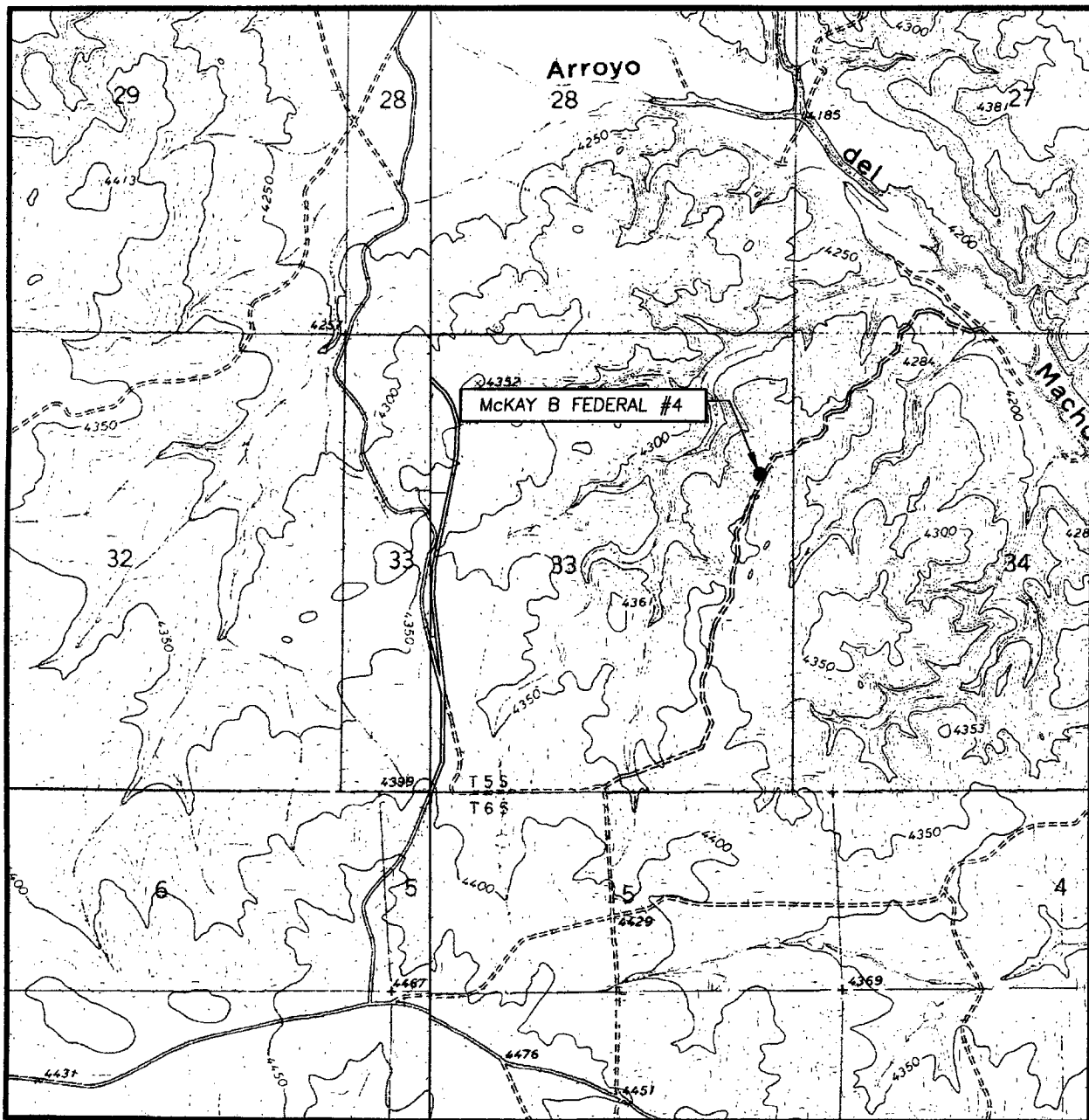
NO HYDROGEN SULFIDE OR OTHER HAZARDOUS GASES OR FLUIDS HAVE
BEEN ENCOUNTERED, REPORTED OR KNOWN TO EXIST AT THIS DEPTH IN
THIS AREA.

MCKAY B FEDERAL 4

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:
MESA SW, N.M. - 10'
ROUND MOUNTAIN SE, N.M. - 10'

SEC. 33 TWP. 5-S RGE. 21-E

SURVEY N.M.P.M.

COUNTY CHAVES

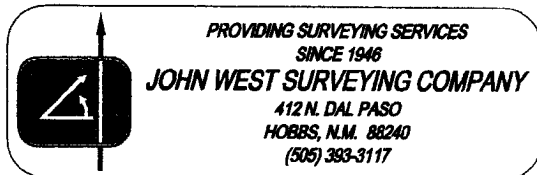
DESCRIPTION 1650' FNL & 400' FEL

ELEVATION 4339'

OPERATOR McKAY OIL CORPORATION

LEASE McKAY B FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
MESA SW, N.M. AND ROUND MOUNTAIN SE



PROVIDING SURVEYING SERVICES
SINCE 1946

JOHN WEST SURVEYING COMPANY

412 N. DAL PASO
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(505) 393-3117

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

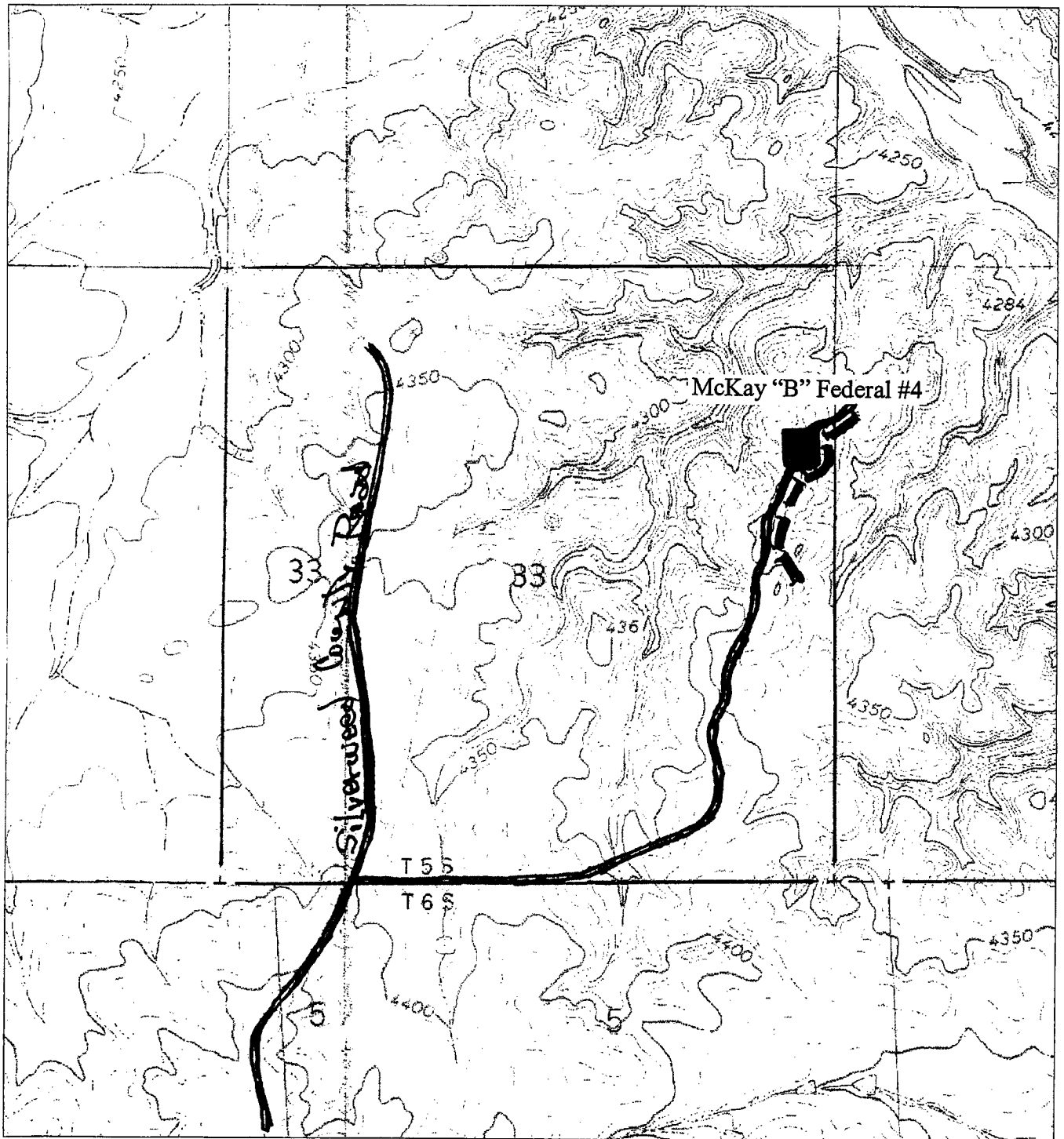
LEASE NO: NM-36189

WELL NAME & NO.: McKay "B" Federal #4

LOCATION: Section 33 T. 5 S., R. 21 E., N.M.P.M.

QUARTER/QUARTER & FOOTAGE: SE $\frac{1}{4}$ NE $\frac{1}{4}$ - 1650' FNL & 400' FEL

COUNTY: Chaves County, New Mexico





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-36189
WELL NAME & NO: McKay "B" Federal #4
QUARTER/QUARTER & FOOTAGE: SE $\frac{1}{4}$ NE $\frac{1}{4}$ - 1650' FNL & 400' FEL
LOCATION: Section 33, T. 5 S., R. 21 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. No topsoil stockpile is required on this well pad.
- D. Steel Tank Requirements: NO RESERVE PITS
 - 1. The holder shall use steel tanks for drilling the well in lieu of reserve pits. Steel tanks will help prevent the possibility of the drilling fluid leaching into the underground aquifers and reduce soil disturbance.
 - 2. The steel tanks shall be constructed so as not to leak, break, or allow discharge of drilling muds. Under no circumstances shall the steel tanks be opened and allowed to drain drilling muds on the ground.

3. The steel tanks shall be equipped to deter entry by birds, bats, and other wildlife.
4. The holder shall dispose of drilling muds and cuttings at an authorized disposal site. No drilling muds and/or cuttings shall be dumped on location.

E. Federal Mineral Materials Pit Requirements:

1. 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.
2. 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 McKay "B" Federal #4 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. 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.

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 NMOCDC 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. RESSURE 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.

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

B. 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.

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



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

October 13, 2005

Mark Fesmire

Director

Oil Conservation Division

McKay Oil Corporation
c/o Southwest Petroleum Land Services, LLC
100 N. Pennsylvania
Roswell, New Mexico 88203

Attention: **Jim Schultz**
Manager and as Agent for McKay Oil Corporation

Administrative Order NSL-5285

Dear Mr. Schultz:

Reference is made to the following: (i) your application dated September 2, 2005 and filed with the New Mexico Oil Conservation Division's ("Division") office in Santa Fe, New Mexico on behalf of the operator, McKay Oil Corporation (*administrative application reference No. pSEM0-525033283*); and (ii) the Division's records in Artesia and Santa Fe: all concerning McKay Oil Corporation's request for an exception to the well location requirements (**Rule 4**) provided within the "*Special Rules and Regulations for the West Pecos-Slope Abo Gas Pool*," as promulgated by Division Order No. R-9976-C, dated March 19, 1996, as amended by Division Order No. R-9976-D, issued in Case No. 13057 on February 4, 2004, for an unorthodox gas well location within a proposed standard 160-acre gas spacing unit for the West Pecos Slope-Abo Gas Pool (82740) comprising the NE/4 of Section 33, Township 5 South, Range 21 East, NMPM, Chaves County, New Mexico.

Your application has been duly filed under the provisions of: (i) **Rule 5** of the special West Pecos Slope-Abo Gas Pool rules and (ii) Division Rules 104.F and 1207.A (2) [formerly Rule 1207.A (2)].

This location exception is being sought for both topographical and geological reasons.

By the authority granted me under the applicable provisions of the special pool rules governing the West Pecos Slope-Abo Gas Pool and Division Rule 104.F (2), the following described unorthodox gas well location within the above-described 160-acre gas spacing unit is hereby approved:

**McKay "B" Federal Well No. 4
1650' FNL & 400' FEL (Unit H).**

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Mark E. Fesmire, P.E.

Director

MEF/ms

cc: New Mexico Oil Conservation Division – Artesia
U. S. Bureau of Land Management – Roswell
Ms. April McKay, Vice President – McKay Oil Corporation, Roswell