

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

RECEIVED

MAY 26 2004

~~OMB:ARTESIA~~

F -3orm 3160
(September 2001)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

5. Lease Serial No.
NM 91498

6. If Indian, Allottee or Tribe Name

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

8. Lease Name and Well No. *Cactus Fed Com #7*
~~MCKNIGHT FEDERAL~~

9. API Well No.

30-005-63663

10. Field and Pool, or Exploratory
W. PECOS ABO SLOPE

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

UNIT O, SEC 35, T6S, R22E

12. County or Parish
CHAVES

13. State
NM

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 88202-2014

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 660' FSL & 2310' FEL
At proposed prod. zone

14. Distance in miles and direction from nearest town or post office*
APPROXIMATELY 25 MILES

15. Distance from proposed*
location to nearest
property or lease line, ft.
(Also to nearest drig. unit line, if any)
660'

16. No. of acres in lease
1240

17. Spacing Unit dedicated to this well
160

18. Distance from proposed location*
to nearest well, drilling, completed,
applied for, on this lease, ft. APPROX 900'

19. Proposed Depth
3400'

20. BLM/BIA Bond No. on file

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
4153'

22. Approximate date work will start*
04/15/2004

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.
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 *Apr D Mckay*
Title V.P.

Name (Printed/Typed)
APRIL D. MCKAY

Date
02/01/2004

Approved by (Signature) */S/LARRY D. BRAY*
Title Assistant Field Manager,
Lands And Minerals

Name (Printed/Typed) */S/LARRY D. BRAY*
Office ROSWELL FIELD OFFICE

Date MAY 25 2004

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)

APPROVED FOR 1 YEAR

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

NSL-5074



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

1 June 2004

McKay Oil Corporation
P. O. Box 2014
Roswell, New Mexico 88202

RE: Pit Permit - Cactus Fed. Com # 7 660'FSL & 2310'FEL Unit O SEC-35 T-6S R-22E

The Oil Conservation Division of Artesia is in receipt of your application for permit to drill. Construction of a pit(s) for the purpose of drilling is approved under your current "General Plan" with the following provisions:

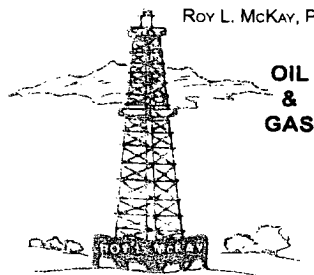
1. Construction and closing of pit(s) must meet the criteria of Rule 19.15.2.50 and the Pit Guidelines.
2. The pit is not located in any watercourse, lakebed, sinkhole, playa lake, or wetland.
3. Notice is to be given to the OCD prior to construction of the pit(s).
4. Pit(s) must meet all requirements of approved plan.
5. Liner must be a minimum of 12 mil. woven.
6. Depth to groundwater may cause the pit's contents and the liner to be removed and disposed of in a manner approved by the Division.
7. Pit encapsulations must meet all specific criteria including, but not limited to:
 - A. Site evaluation
 - B. Liner thickness and type must meet requirements as per guidelines.
 - C. Amount of and type of cover
 - D. Drill cuttings will be sampled as per guidelines. Notify OCD 48 hours prior to any sampling event
 - E. In the event that the integrity of the pit lining is breached in a manner such that soil contamination would result, the contents of the pit will have to be disposed of in an approved OCD facility.
8. The Division may attach additional conditions to any permit upon a finding that such conditions are necessary to prevent the contamination of fresh water, or to protect public health or the environment. (19.15.2.50.C.3.G.1.)

If I can be of any further assistance, please feel free to call (505) 748-1283 ext. 109.

Sincerely,

Van Barton

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

June 2, 2004

Oil Conservation Division
Bryan Arrant
1301 W. Grand Avenue
Artesia, NM 88210

RE: Glorieta

Mr. Arrant:

McKay Oil Corporation has been drilling in T6S, R22E in Chaves County. We are in compliance with Rule #106 in covering the Glorieta. The past 2 wells have had casing run and cemented passed 1000 foot. We are going to continue drilling in this area and will stay in compliance with Rule #106 as we continue to drill. Should you have any questions, please do not hesitate to call 505-623-4735.

Sincerely,

A handwritten signature in dark ink, appearing to read 'April McKay', with a stylized flourish at the end.

April McKay

RECEIVED

JUN 03 2004

OOD-ARTESIA

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 87506

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised August 15, 2000
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	McKNIGHT B FEDERAL	Well Number 4
OGRID No.	McKAY OIL CORPORATION	Elevation 4153

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	35	6 S	22 E		660	SOUTH	2310	EAST	CHAVES

Bottom Hole Location If Different From Surface

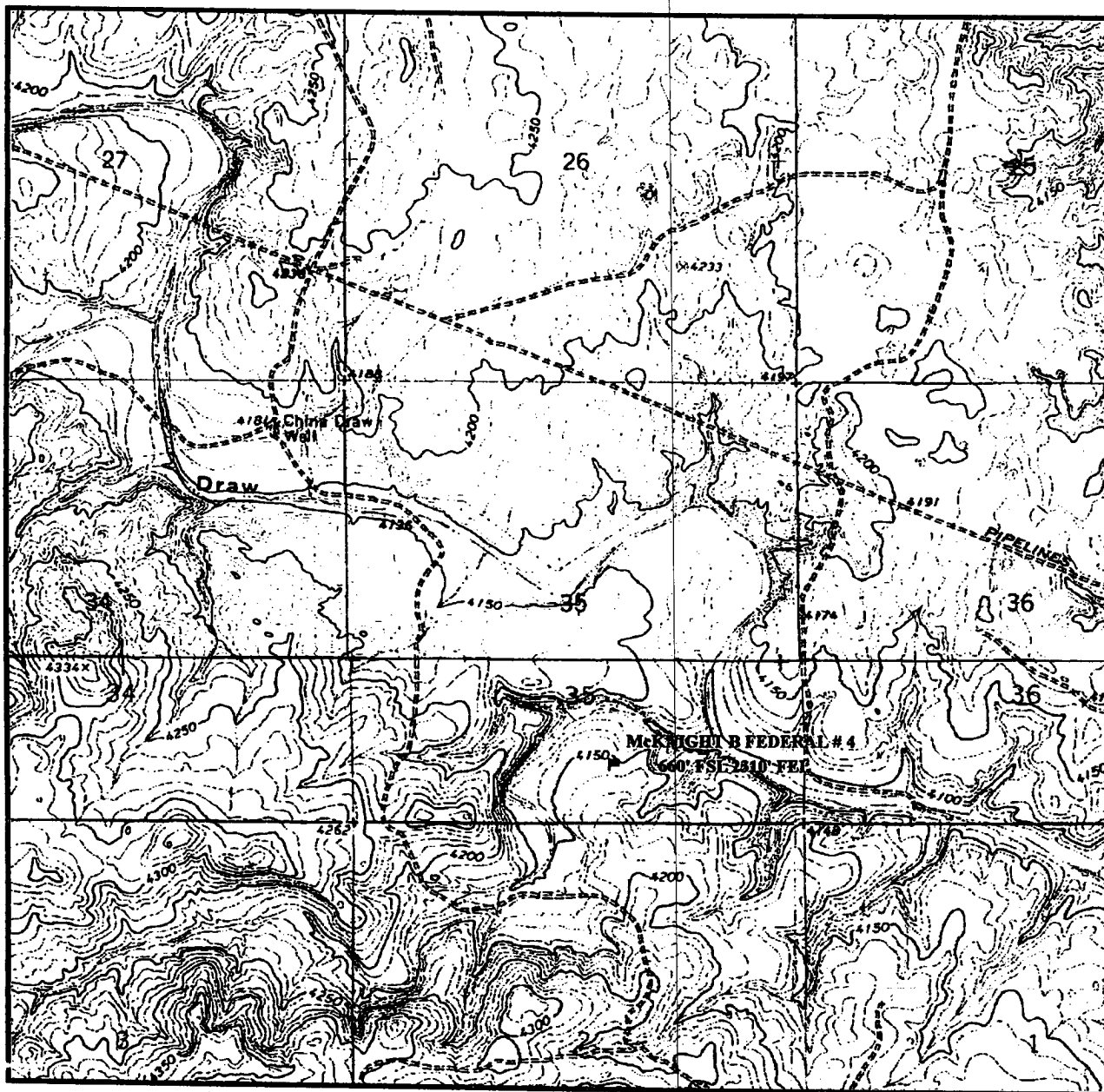
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 160	Joint or Infill	Consolidation Code	Order No.
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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. Signature April D. McKay Printed Name J.P. Title 2/9/04 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. Date Surveyed Signature & Seal of Professional Surveyor Todd P. Wagener
	Certificate No. TODD P. WAGENER NMPS # 9242 WAGENER ENGINEERING 1410 N. MISSOURI AVE. ROSWELL, NM 88201 505-623-8382

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL: 10'

SEC. 35 TWP. 6 S RGE. 22 E

SURVEY N.M.P.M.

COUNTY CHAVES

DESCRIPTION 660' FSL & 2310' FEL

ELEVATION 4153

OPERATOR McKAY OIL CORPORATION

LEASE McKNIGHT B FEDERAL # 4

U.S.G.S. TOPOGRAPHIC MAP

MESA SW, NW &
ROCK HOUSE CANYON, NM

WAGENER **WE**
ENGINEERING

1410 N. MISSOURI AVE.
ROSWELL, N. M. 88201
(505) 623-8382

MCKAY OIL CORPORATION

MCKNIGHT B FEDERAL #4
SE/4 OF Section 35, 16S, R22E
Chaves County, New Mexico

EXHIBIT "A"

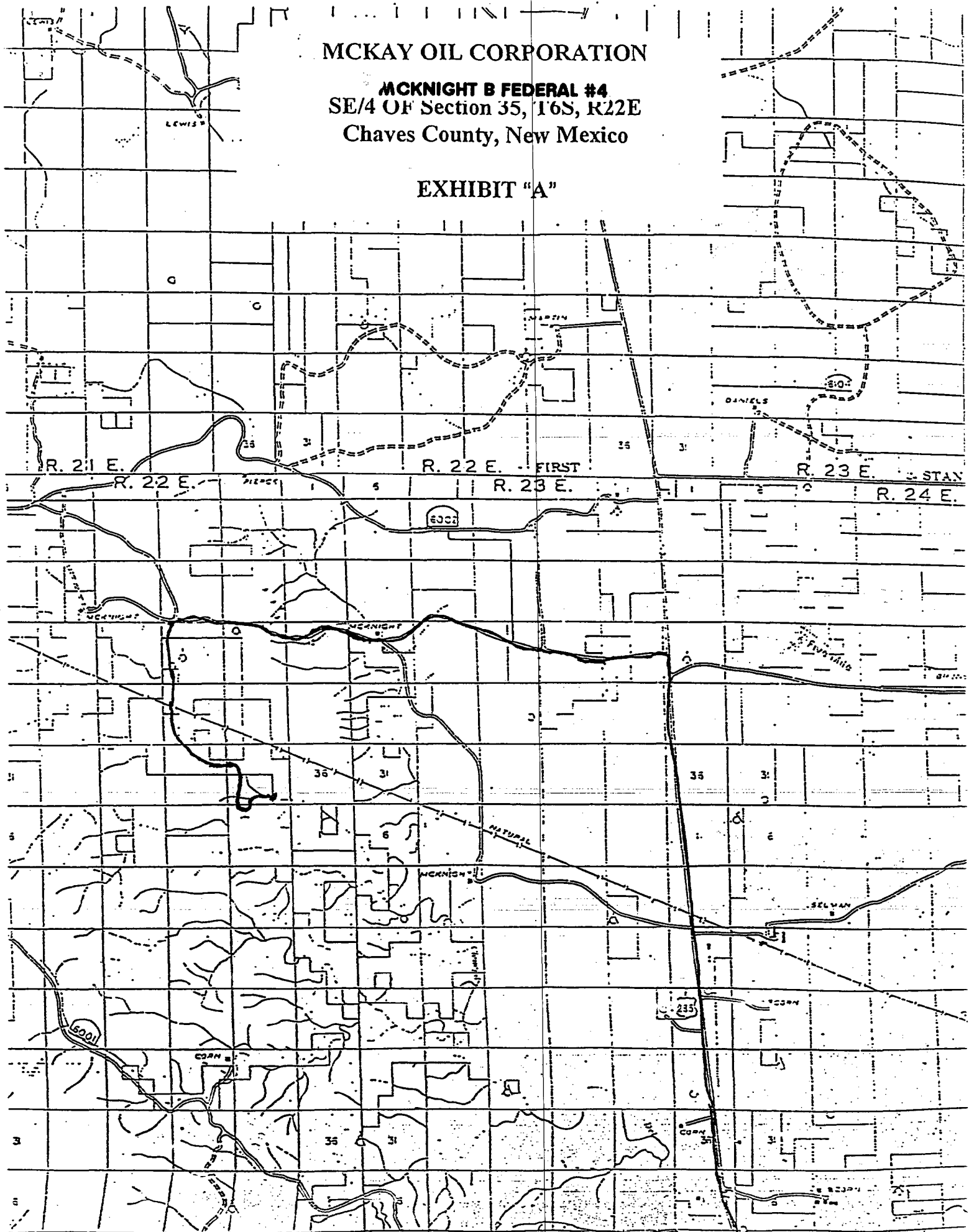
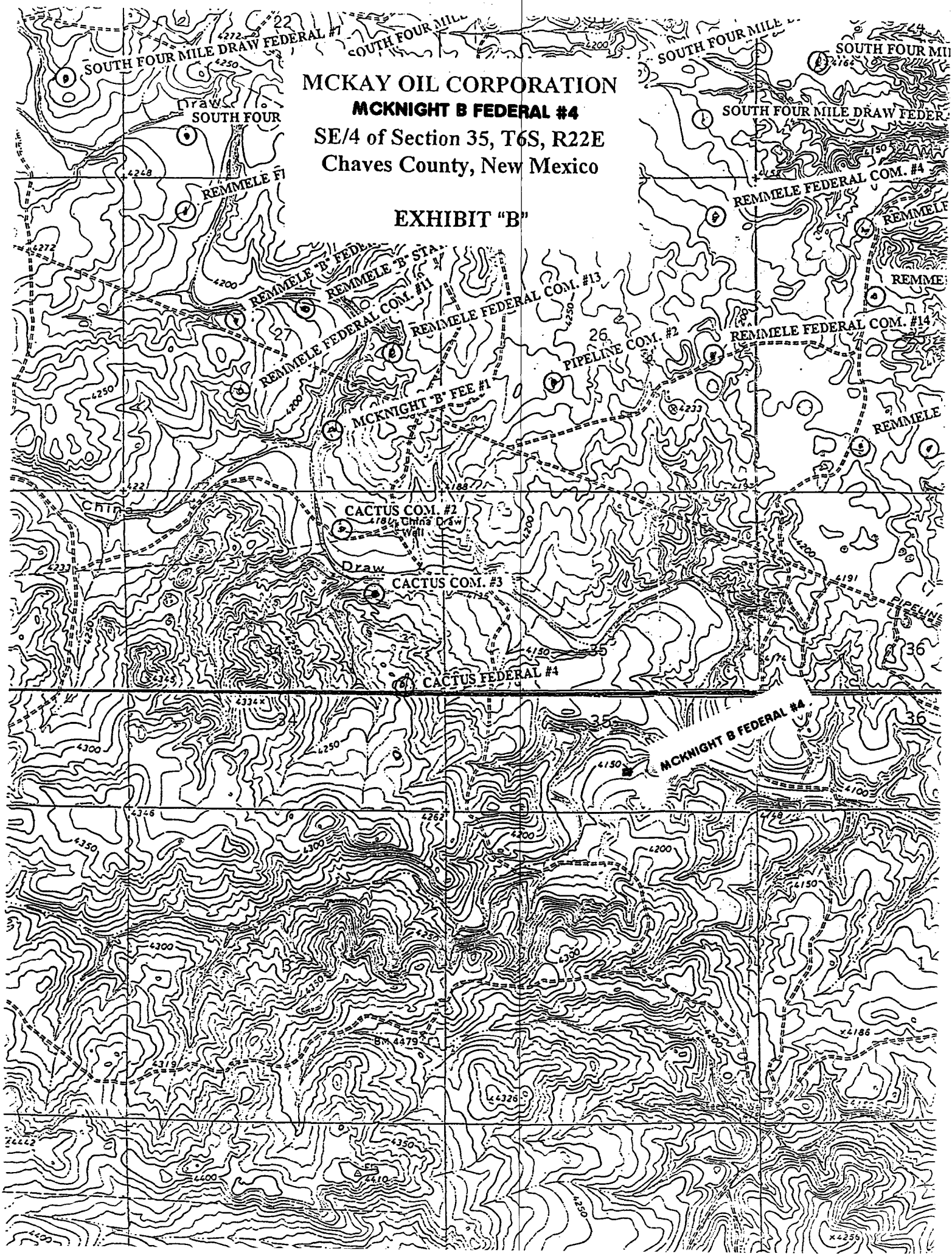
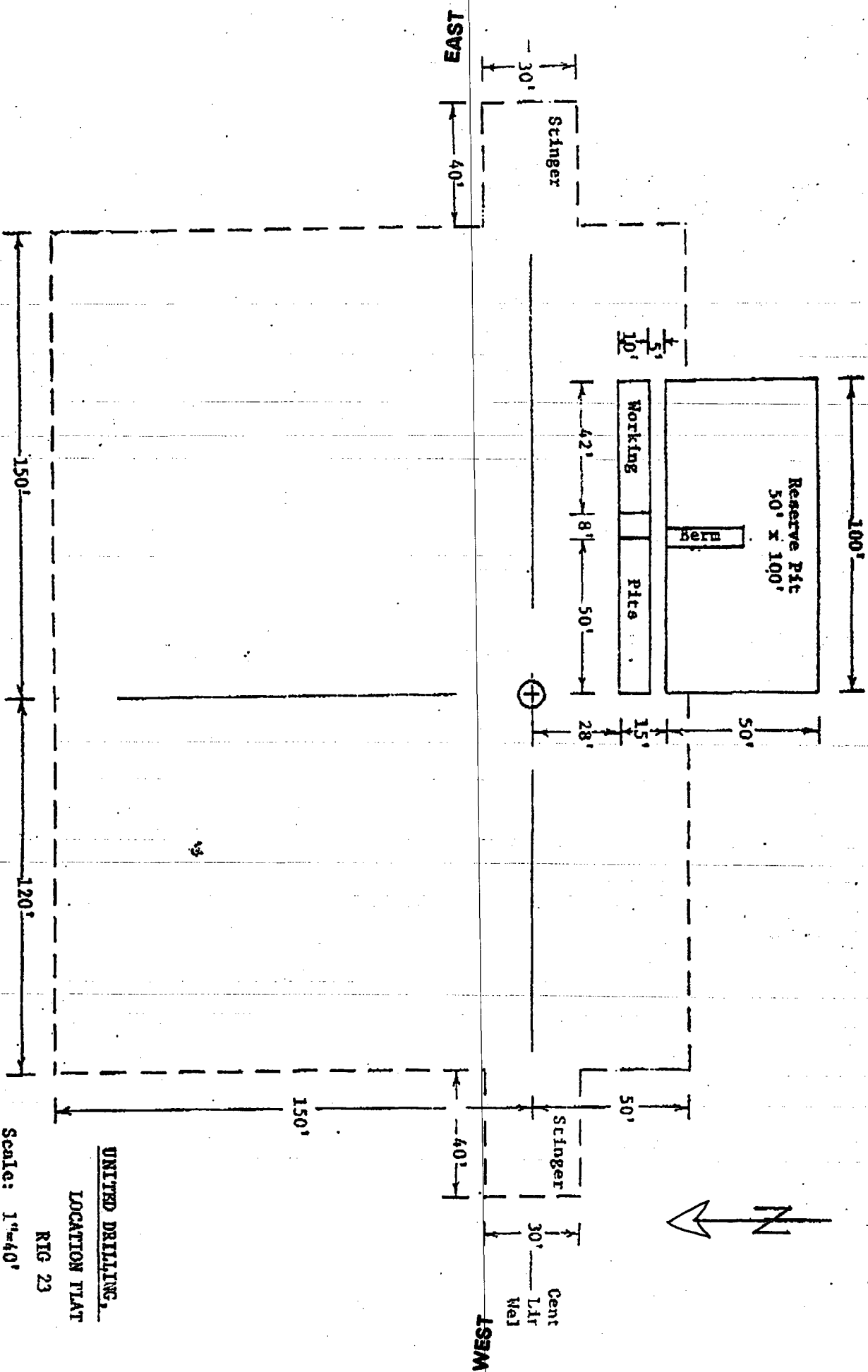


EXHIBIT "B"



MCKNIGHT B FEDERAL #4

NORTH



Scale: 1"=40'

RIG 23

LOCATION PLAT

UNITED DRILLING,

EAST

WEST

SOUTH

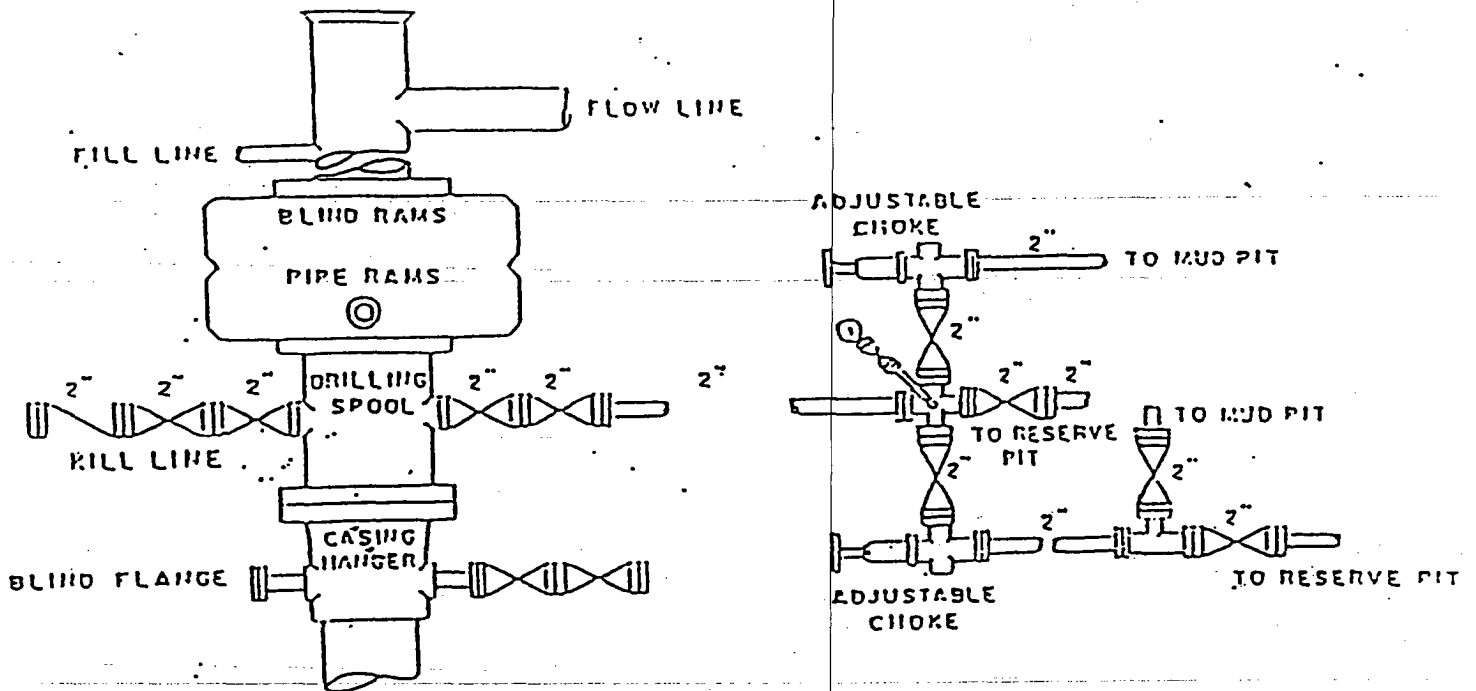
MCKAY OIL CORPORATION

MCKNIGHT B FEDERAL #4

SE/4 of Section 35, T6S, R22E

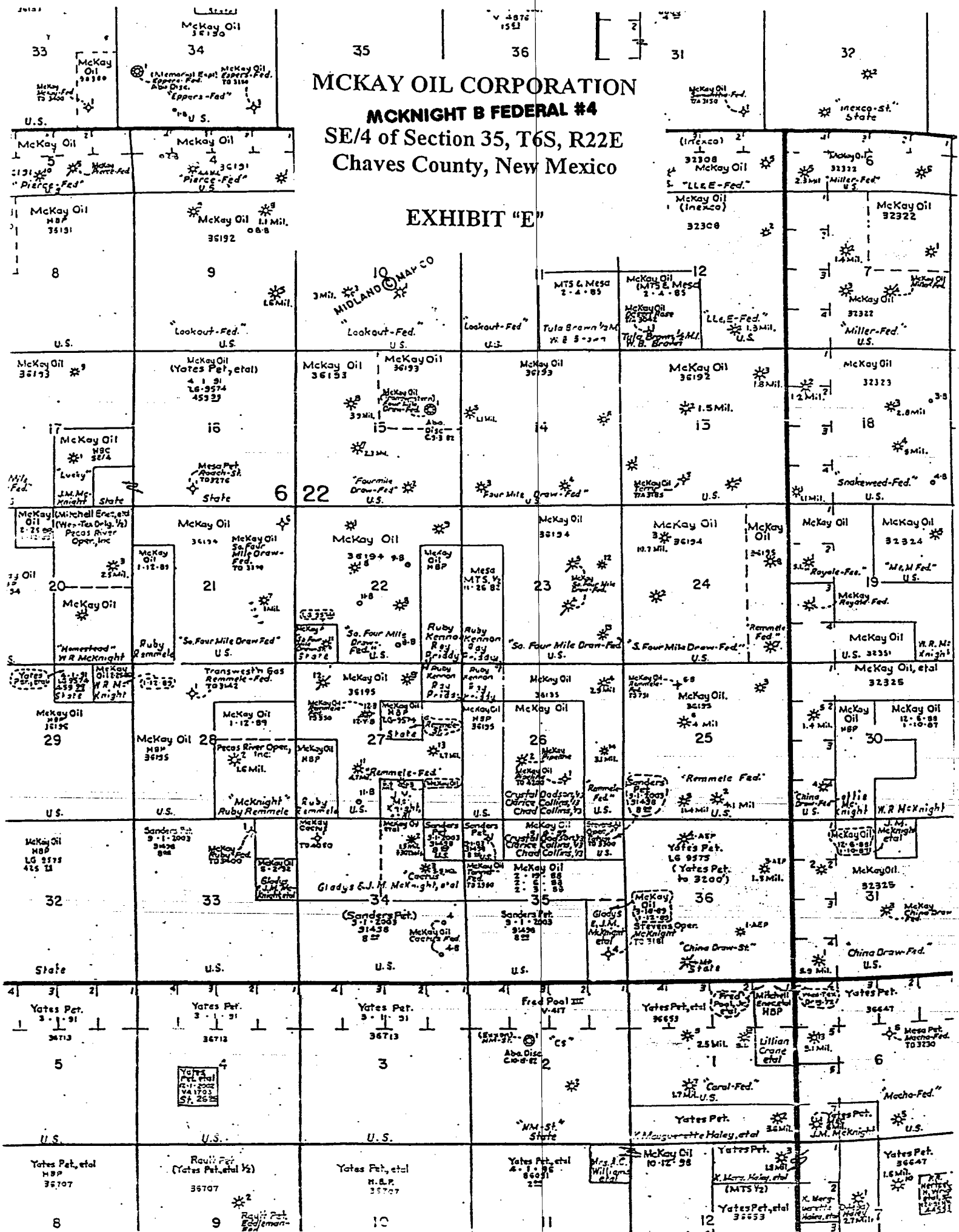
Chaves County, New Mexico

EXHIBIT "D"



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

EXHIBIT "E"



PERTINENT INFORMATION

FOR

MCKAY OIL CORPORATION
MCKNIGHT B FEDERAL #4
660' FSL & 2310' FEL Sec. 35, T6S, R22E
Chaves County, New Mexico

LOCATED:

25 air miles Northwest of
Roswell, NM.

LEASE NUMBER:

NM-91498

LEASE ISSUED:

September 1, 1993

RECORD LESSEE:

McKay Petroleum Corporation

BOND COVERAGE:

Operator's \$25,000 Statewide

AUTHORITY TO OPERATE:

Assignment of Operating Rights

ACRES IN LEASE:

1,240.00 acres, more or less

SURFACE OWNERSHIP:

Federal

OWNER:

USA-BLM

POOL RULES:

General Statewide Rules

EXHIBITS:

- 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
MCKNIGHT B FEDERAL #4
660' FSL & 2310' FEL Sec. 35, 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 - 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	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.

SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
MCKNIGHT B FEDERAL #4
660' FSL & 2310' FEL Sec. 35, T6S, R22E
Chaves County, New Mexico

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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 May 1, 2004
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
MCKNIGHT B FEDERAL #4
660' FSL & 2310' FEL Sec. 35, T6S, R22E
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 21 miles and turn left on county road just before mile marker 137 (Cottonwood Road). Go approximately 2.0 miles, then turn north for approximately 1/4 mile to the lease road, turn west for approximately 1/2 mile, then turn south 1/4 mile to the location.

2. PLANNED ACCESS ROAD:

- A. Length and Width: 1/4 mile 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: 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 10' of cut and fill will be required for the pad size of 400' x 400'. (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 south in the vicinity of the access road and south-southwest in the vicinity of the drill pad. Regional slope is south-southwest toward the Arroyo del Macho, which is south-southwest 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: Arroyo del Macho south-southwest of the proposed location.

E. Residences and other Structures: The David Corn ranch house (old W.R. McKnight Ranch) is approximately 1 mile to the south-southwest.

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:

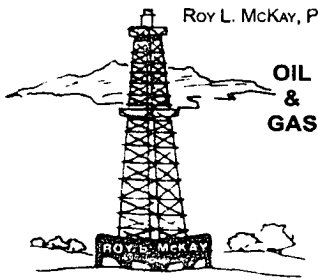
Humberto Perez
Roswell, New Mexico
(505) 623-4735 (O)
(505) 626-8580 (C)

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.

DATE

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

February 12, 2004

Oil Conservation Division

Bryan Arrant

1301 W. Grand Avenue

Artesia, NM 88211

Re: H2S Contingency Plan-McKnight B Federal #4

Bryan,

Please see attached Contingency Plan-H2S for the McKnight B Federal #4 located in Sec 35, T6S, R22E 660' FSL & 2310' FEL in Chaves County. Should you need any further information, please contact me at 505-623-4735.

Sincerely,

A handwritten signature in dark ink, appearing to read "April McKay".

April McKay
Vice President

**MCKAY OIL CORPORATION
P.O. BOX 2014
ROSWELL, NM 88202-2014
505-623-4735**

**HYDROGEN SULFIDE (H₂S) CONTINGENCY PLAN FOR THE
MCKNIGHT B FEDERAL #4
LOCATED IN SEC 35, 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.**

MCKNIGHT 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 has an H2S indicator that puts off light and alarm of any indication of H2S being present.

MAPS-SEE ATTACHED

MCKAY OIL CORPORATION

MCKNIGHT B FEDERAL #4
SE/4 OF Section 35, T6S, R22E
Chaves County, New Mexico

EXHIBIT "A"

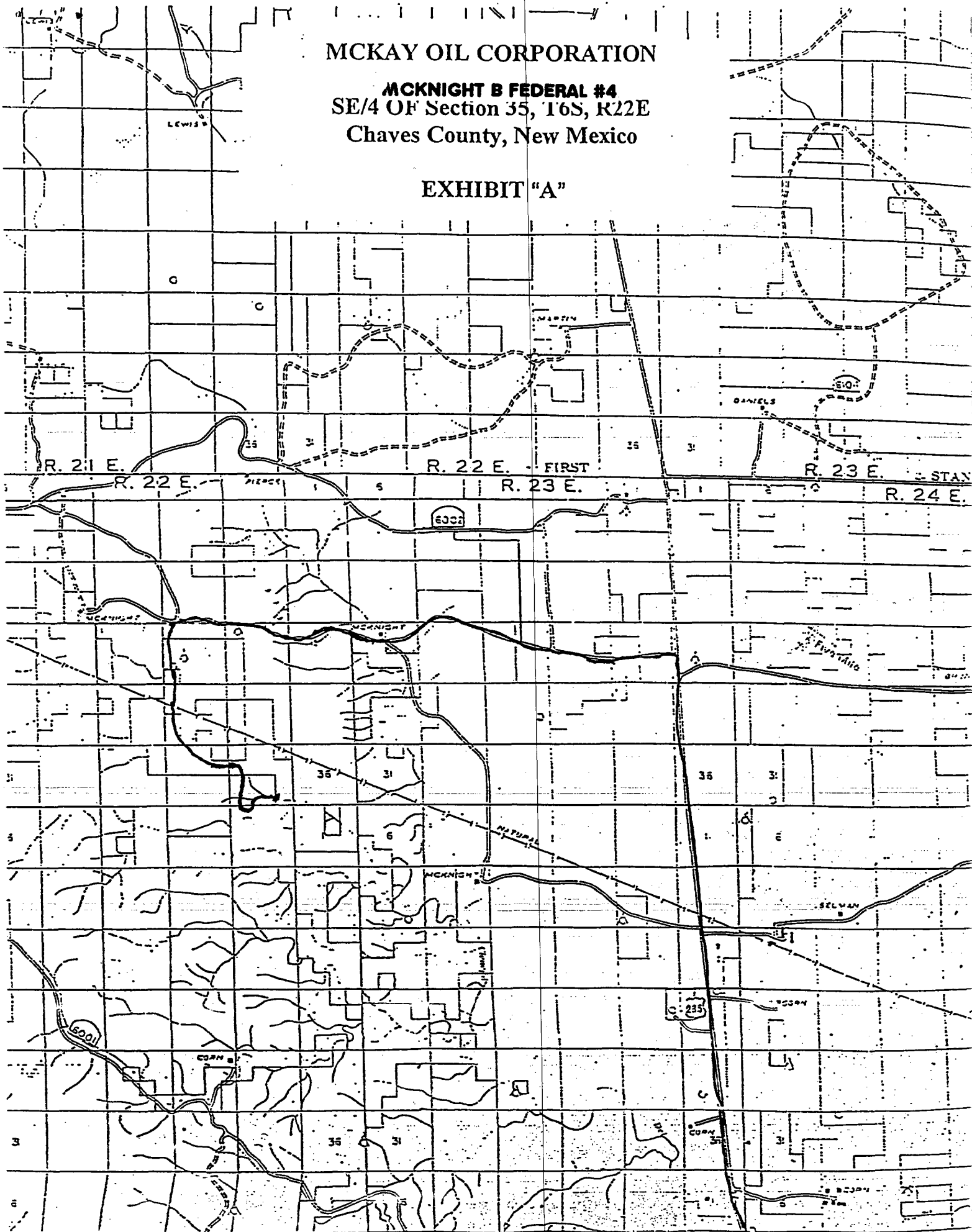
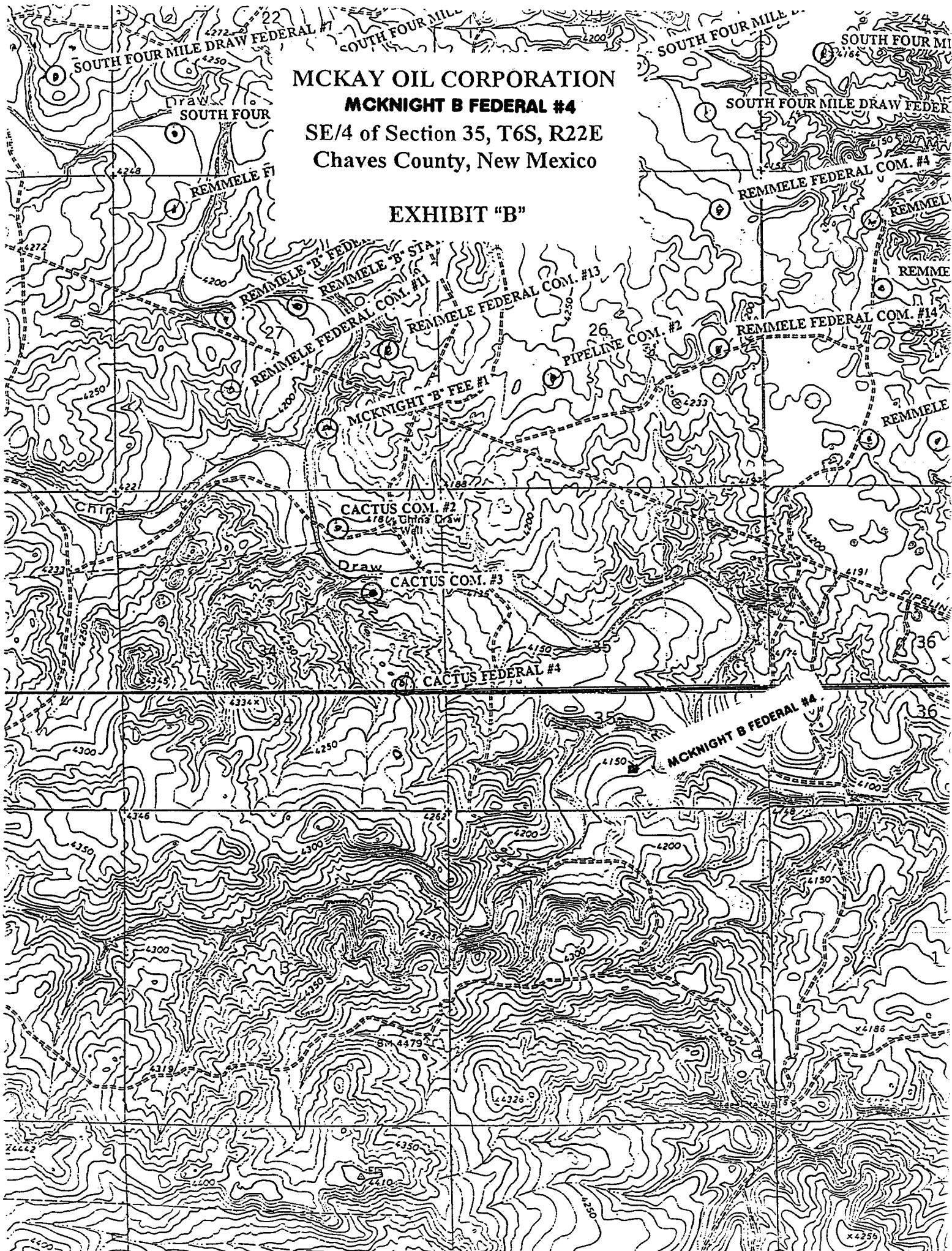


EXHIBIT "B"



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 the 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 on 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