

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

AUG 29 2008
OCD-ARTESIA

Form 3160-3
(April 2004)

S

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 36192		
1b Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone			6 If Indian, Allottee or Tribe Name		
2 Name of Operator McKay Oil Corporation 14424			7 If Unit or CA Agreement, Name and No		
3a Address PO Box 2014 Roswell, NM 88202-2014		3b Phone No. (include area code) 505-623-4735	8 Lease Name and Well No Lookout C Federal #3 37368		
9 API Well No. 30-005-64042			10 Field and Pool, or Exploratory W. Pecos ABO Slope 82740		
4 Location of Well (Report location clearly and in accordance with any State requirements *) At surface 2310' FSL & 330' FWL At proposed prod. zone L			11 Sec, T R, M or Blk and Survey or Area Unit L, Sec. 10, T6S, R22E		
12 Distance in miles and direction from nearest town or post office* Approximately 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 dng unit line, if any) 330' FWL		16 No of acres in lease 2400.00	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 4300'	20 BLM/BIA Bond No. on file		
21 Elevations (Show whether DF, KDB, RT, GL, etc) 4334'		22 Approximate date work will start* 06/15/2008	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 L. Schultz		Date 05/15/2008	
Title Agent					
Approved by (Signature) ISI Angel Mayes		Name (Printed/Typed) ISI Angel Mayes		Date 8-27-08	
Title Assistant Field Manager, Lands And Minerals		Office ROSWELL FIELD OFFICE		APPROVED FOR 2 YEARS	
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					

NOTE: NEW PIT RULE

19-15-17 NMAC PART 17

A form C-144 must be approved
before starting drilling operations.

RECEIVED

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

85"
CIRCULATED
WITNESS

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., HOBBS, NM 88240

Energy, Minerals and Natural Resources Department

Form C-102

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION

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

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code 82740	Pool Name W. Pecos Slope; ABO
Property Code	Property Name LOOKOUT C FEDERAL	Well Number 3
OGRID No. 14424	Operator Name MCKAY OIL CORPORATION	Elevation 4334'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	10	6-S	22-E		2310	SOUTH	330	WEST	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.						

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 herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.	
				Signature _____ Date _____ James L. Schultz Printed Name	
GEODETIC COORDINATES NAD 27 NME Y=1022165.6 N X=383872.6 E LAT.=33 809252° N LONG.=104.715640° W				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 Certificate No. GARY EIDSON 12641 RONALD J. EIDSON 3239	

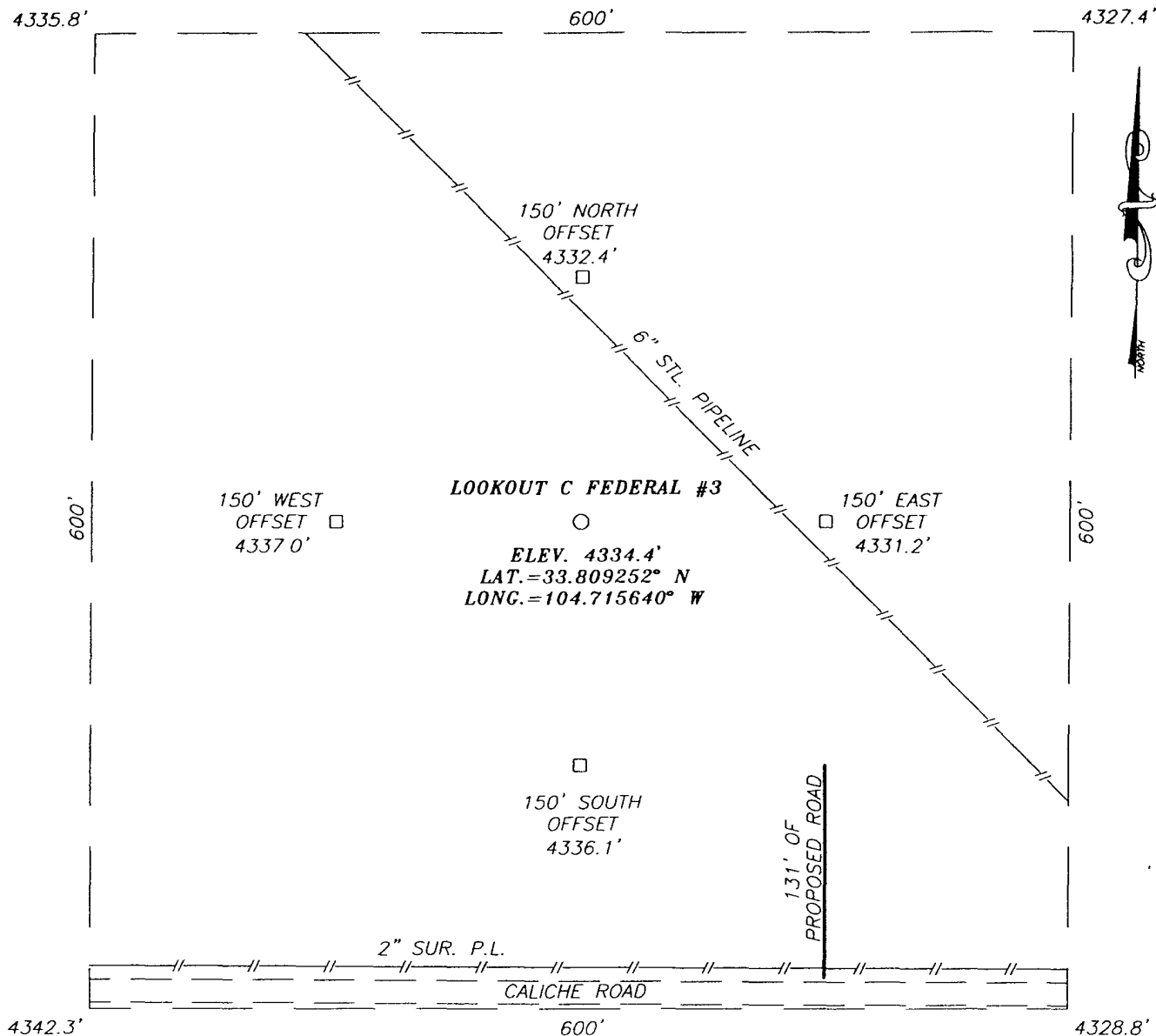
PERTINENT INFORMATION

FOR
MCKAY OIL CORPORATION
LOOKOUT C FEDERAL #3
2310' FSL & 330' FWL Sec. 10, T6S, R22E

Chaves County, New Mexico

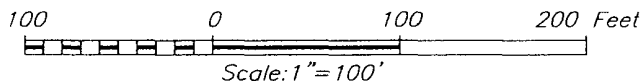
<u>LOCATED:</u>	25 air miles Northwest of Roswell, NM.
<u>LEASE NUMBER:</u>	NM 36192
<u>LEASE ISSUED:</u>	05/01/1981
<u>RECORD LESSEE:</u>	McKay Petroleum Corporation
<u>BOND COVERAGE:</u>	Operator's \$25,000 Statewide
<u>AUTHORITY TO OPERATE:</u>	Assignment of Operating Rights
<u>ACRES IN LEASE:</u>	2400.00
<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 10, TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

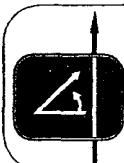
FROM THE INTERSECTION OF U.S. HWY. #285 AND CO. RD. #40 (STARGRASS RD.), GO WEST ON CO. RD. #40 WEST APPROX. 8.0 MILES. TURN RIGHT AT "Y" AND GO NORTHWEST APPROX. 1.2 MILES. TURN RIGHT AT "Y" AND GO NORTH APPROX. 0.2 MILES. TURN RIGHT AT EXISTING WELL PAD AND GO EAST APPROX. 0.2 MILES TO A PROPOSED ROAD SURVEY. FOLLOW SURVEY APPROX. 300 FEET TO THIS LOCATION.



MCKAY OIL CORPORATION

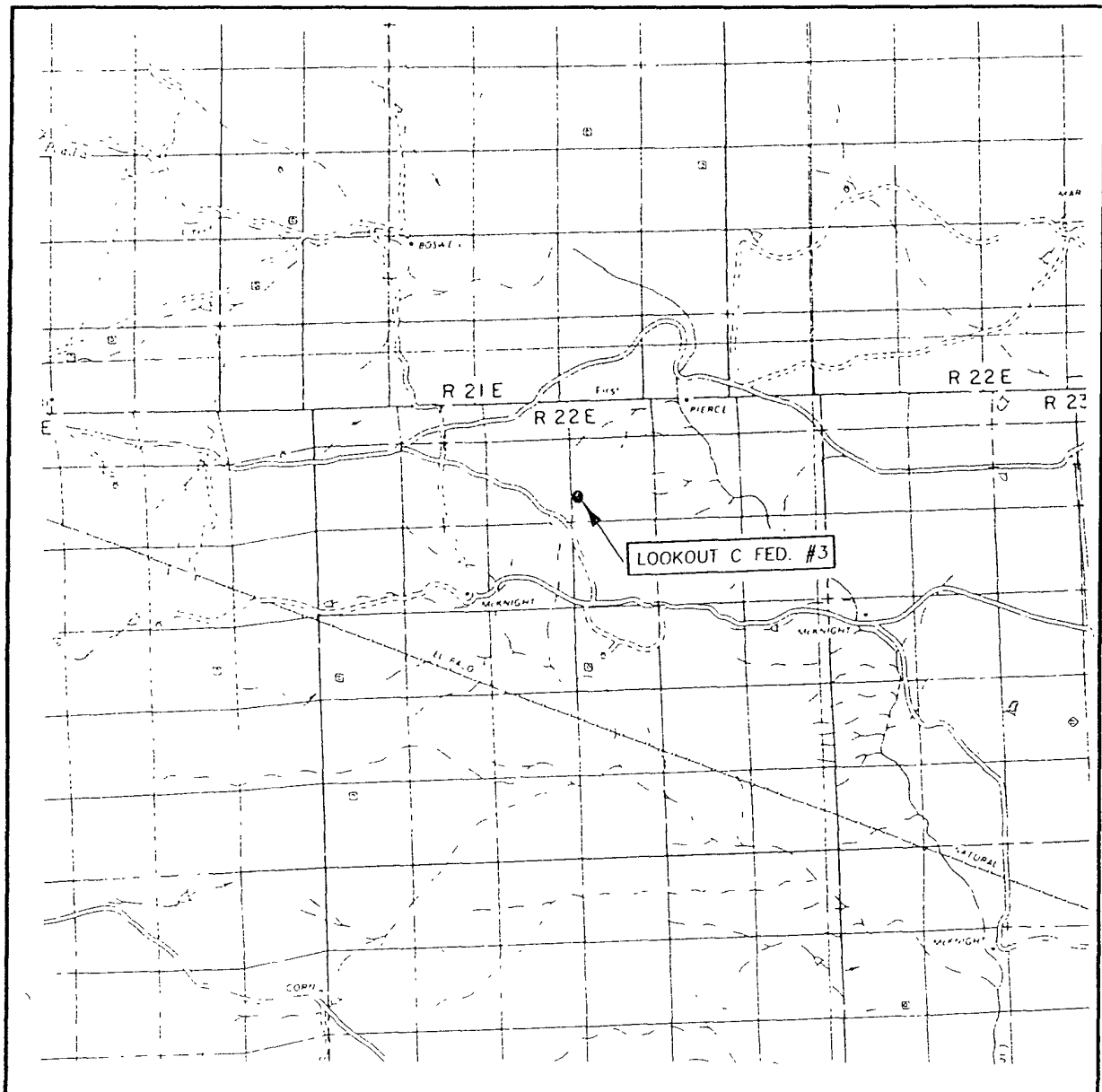
LOOKOUT C FEDERAL #3 WELL
 LOCATED 2310 FEET FROM THE SOUTH LINE
 AND 330 FEET FROM THE WEST LINE OF SECTION 10,
 TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

Survey Date: 4/30/08	Sheet 1 of 1 Sheets
W.O. Number: 08.11.0649	Dr By: LA
Date: 5/6/08	08110649
	Scale: 1"=100'



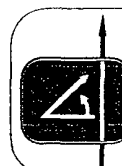
PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

VICINITY MAP



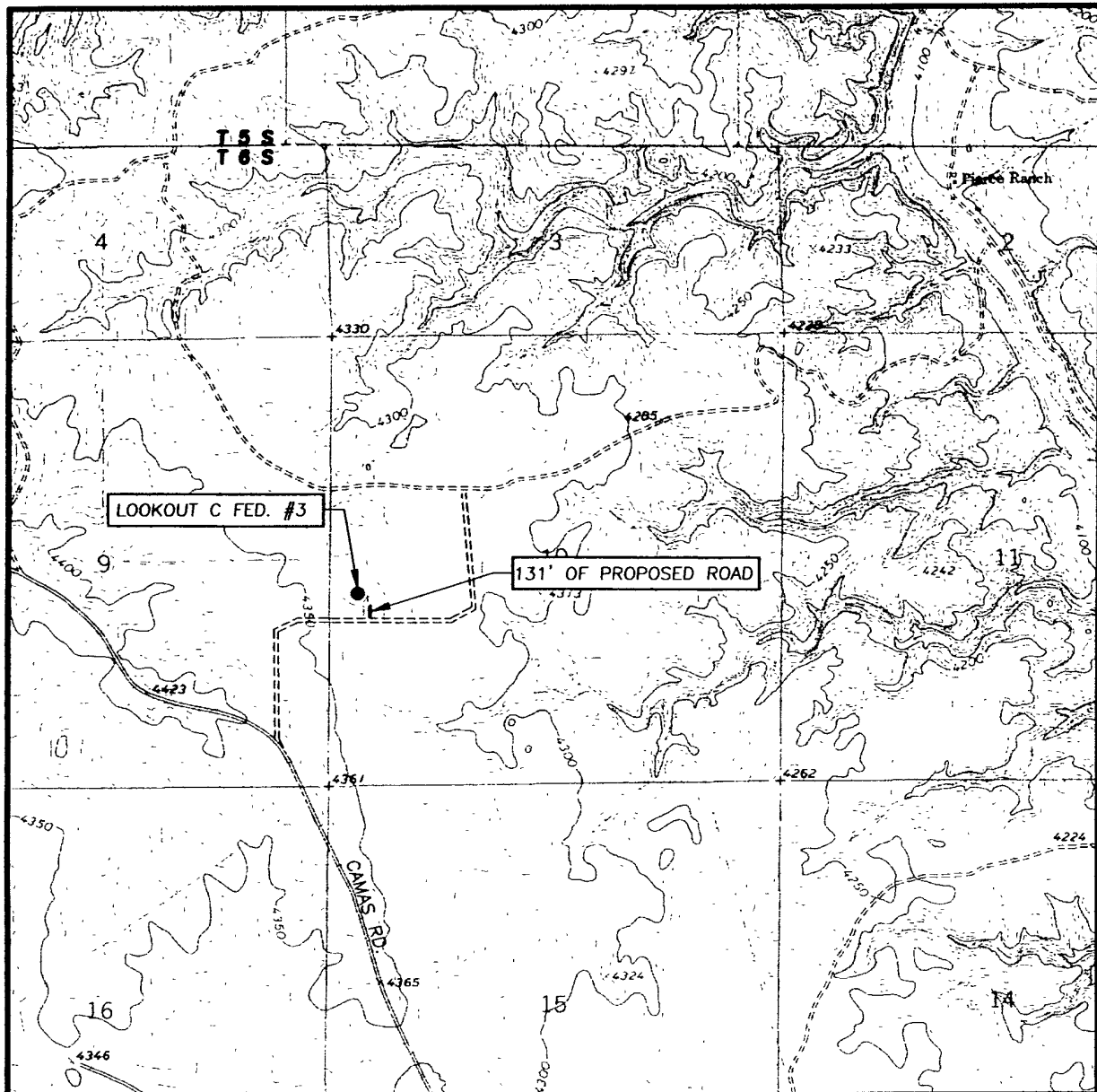
SCALE: 1" = 2 MILES

SEC. 10 TWP. 6-S RGE. 22-E
 SURVEY N.M.P.M.
 COUNTY CHAVES STATE NEW MEXICO
 DESCRIPTION 2310' FSL & 330' FWL
 ELEVATION 4334'
 OPERATOR MCKAY OIL CORPORATION
 LEASE LOOKOUT C FEDERAL



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

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

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

SEC. 10 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

DESCRIPTION 2310' FSL & 330' FWL

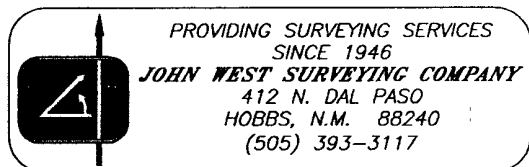
ELEVATION 4334'

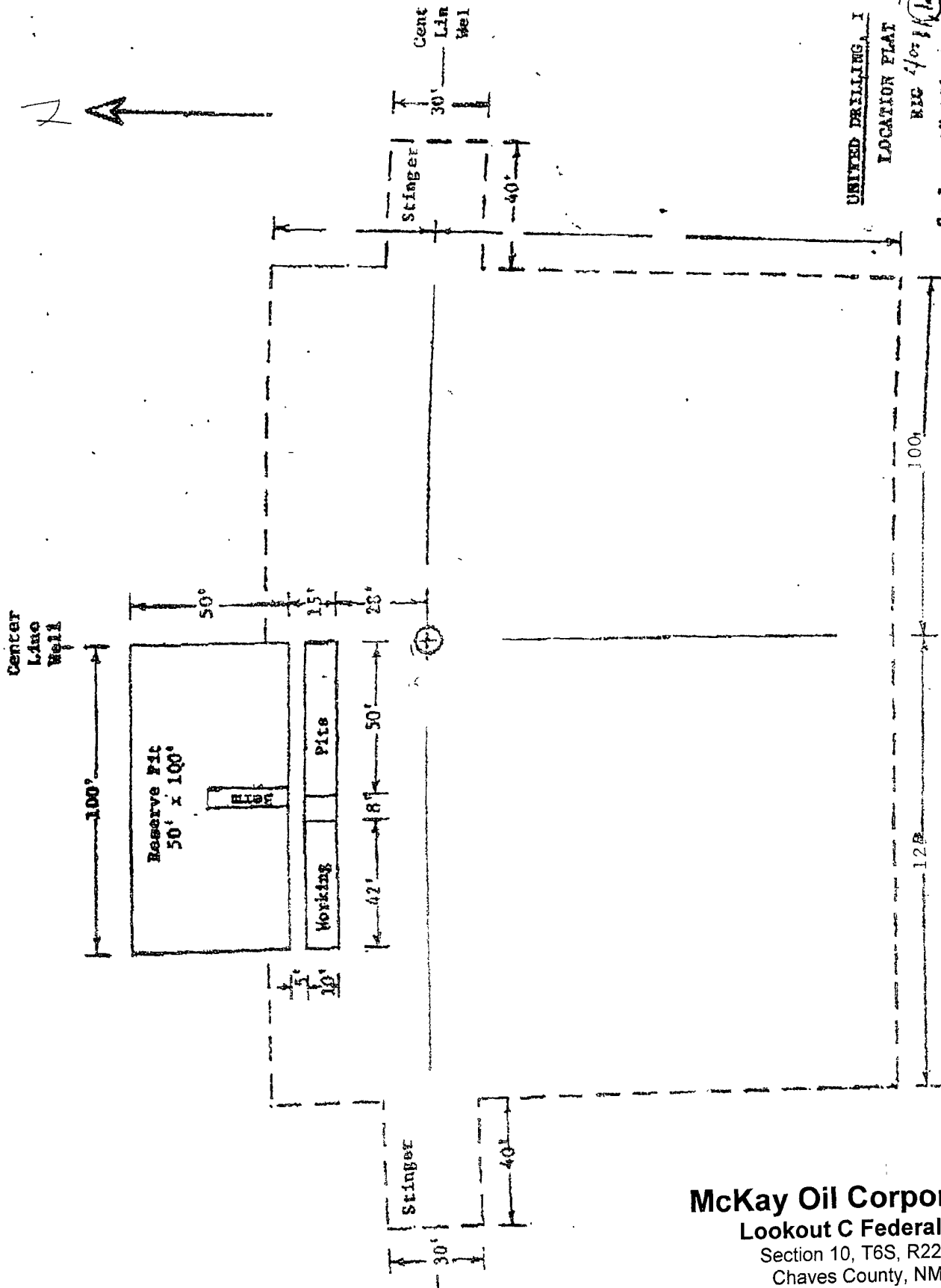
OPERATOR MCKAY OIL CORPORATION

LEASE LOOKOUT C FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

MESA SW, N.M.





McKay Oil Corporation
Lookout C Federal #3
 Section 10, T6S, R22E
 Chaves County, NM
Exhibit 'C'

McKay Oil Corporation

Lookout C Federal #3
Section 10, T6S, R22E
Chaves County, New Mexico

Exhibit "D"

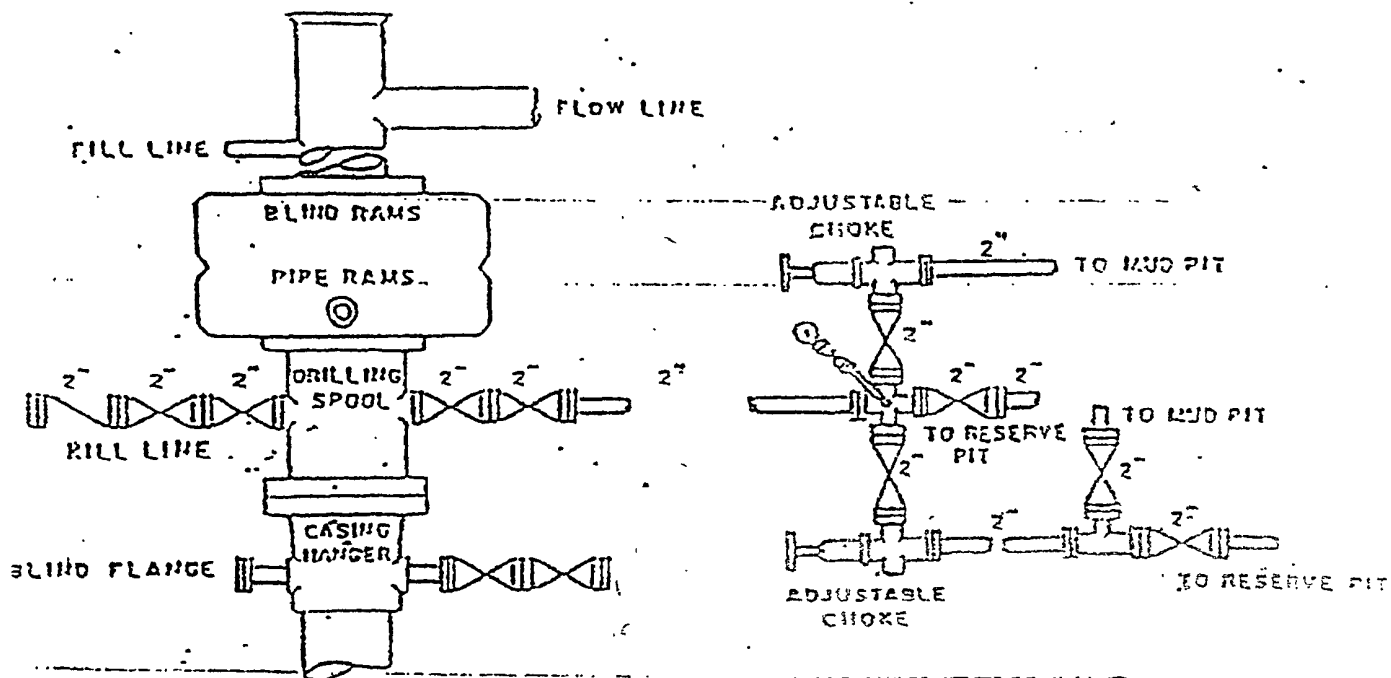
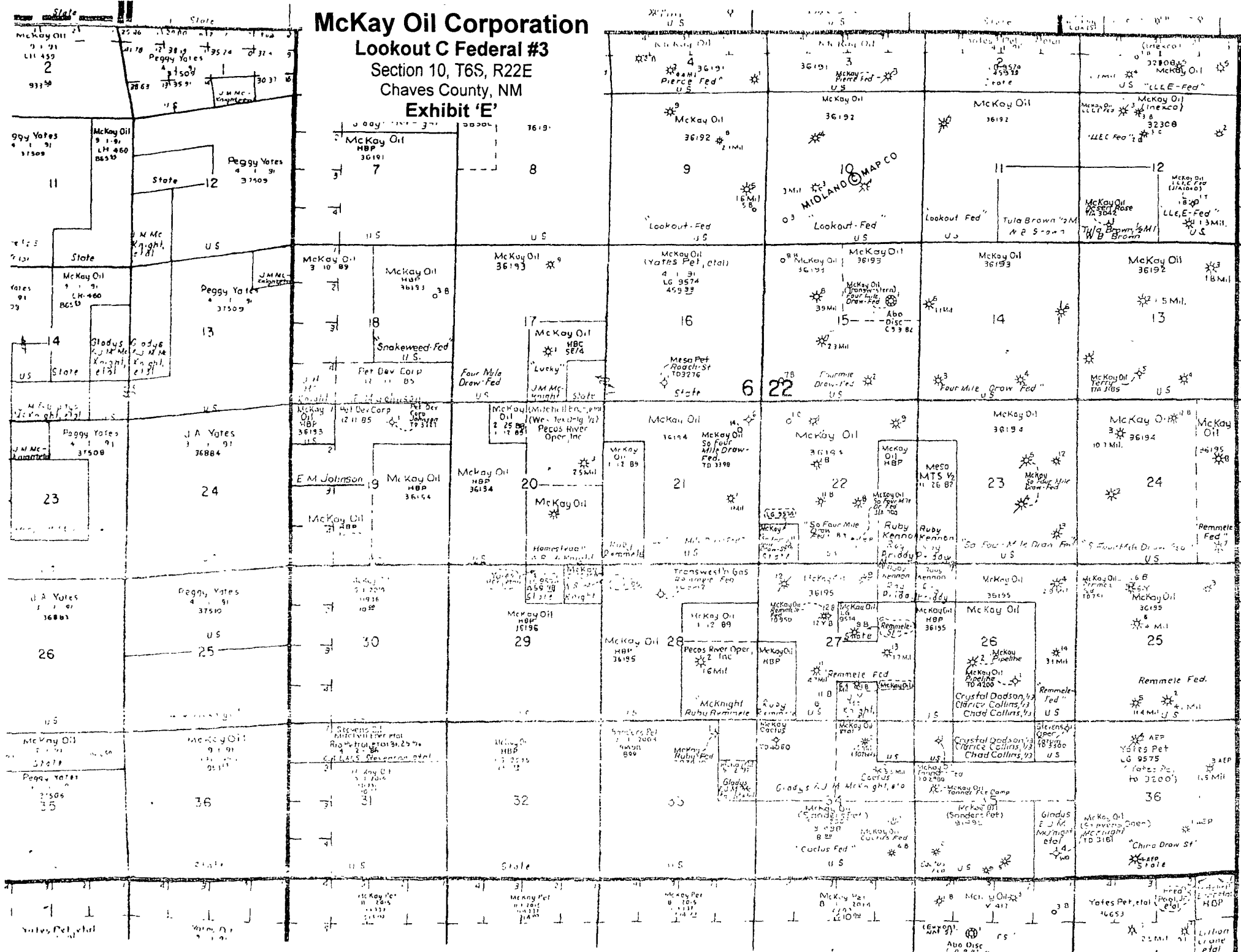


Exhibit 'E'



SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
LOOKOUT C FEDERAL #3
2310' FSL & 330' FWL Sec. 10, 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" X-42 J55	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. **T.C. HAVE 500'**

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: 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 C FEDERAL #3
2310' FSL & 330' FWL 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 Hwy #285 and Co. Rd #40 (Stargrass Rd), go West on Co. Rd #40 West approx. 8.0 miles. Turn right at "Y" and go Northwest approx 1.2 miles. Turn right at "Y" and go North approx 0.2 miles. Turn right at existing wellpad and go East approx 0.2 miles to a proposed road survey. Follow survey approx 300 feet to this location.

2. PLANNED ACCESS ROAD:

A. Length and Width: 131' 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, 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 "C")

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 north-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: Arroyo del Macho north-northeast 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 east-southeast. The Cox ranch house is approximately 1 mile to the northeast. The Dinwiddie ranch house is approximately 1 mile 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:

Jim Robinson
Roswell, New Mexico
(575) 623-4735 (O)
(575) 626-8579 (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

5-23-08
DATE

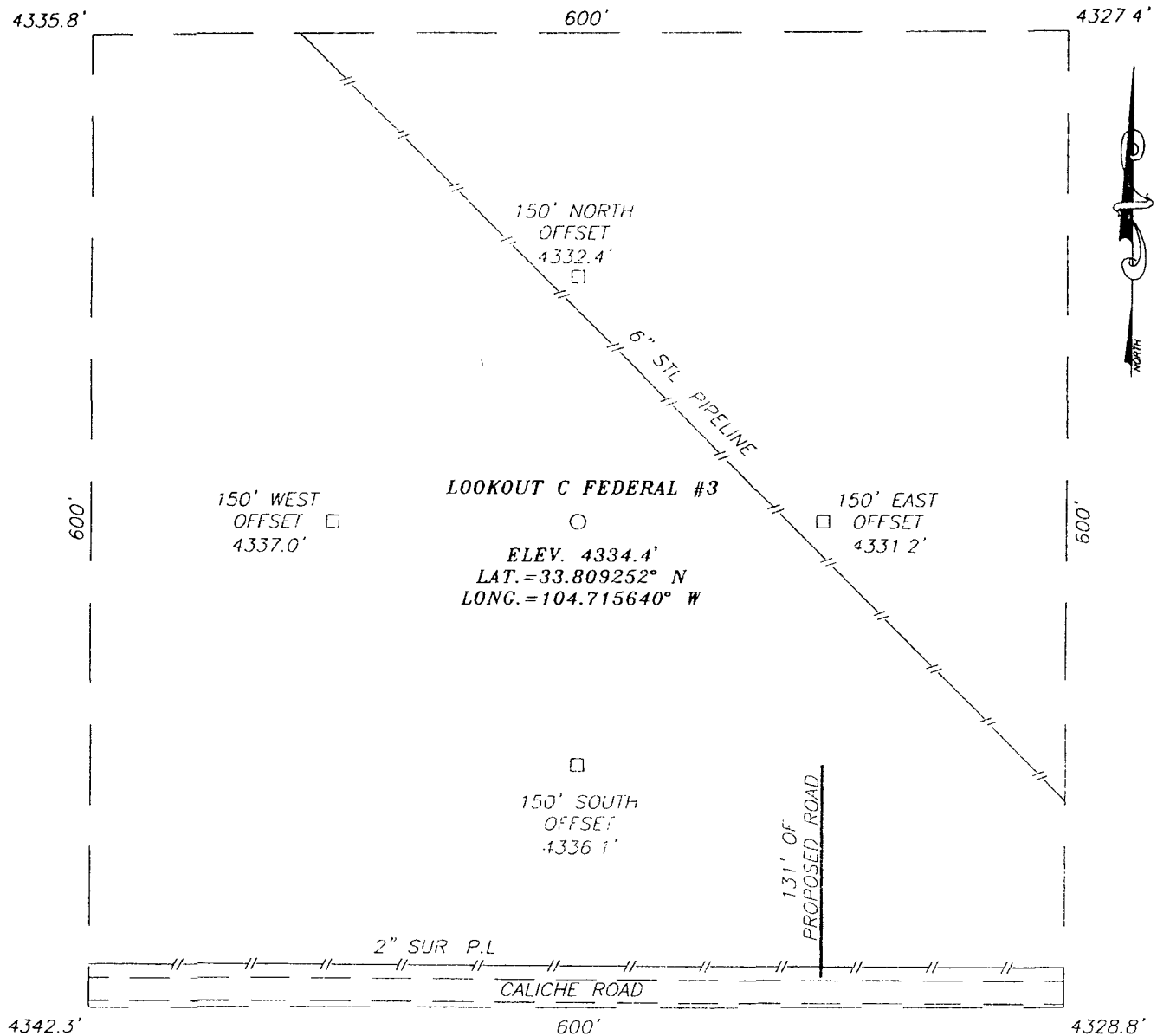
MCKAY OIL CORPORATION
LOOKOUT C FEDERAL #3
2310' FSL & 330' FWL Sec. 10, T6S, R22E

Chaves County, New Mexico

Other Specific Information and Plans

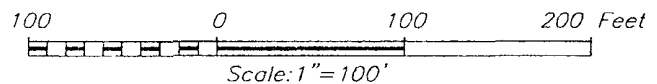
Proposed Pipeline
50' pipeline route as set forth on attached survey plat
Buried 2" steel low pressure (30-50 psi) pipeline

SECTION 10, 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 CO RD #40 (STARGRASS RD), GO WEST ON CO RD #40 WEST APPROX. 8.0 MILES. TURN RIGHT AT "Y" AND GO NORTHWEST APPROX. 1.2 MILES. TURN RIGHT AT "Y" AND GO NORTH APPROX. 0.2 MILES. TURN RIGHT AT EXISTING WELL PAD AND GO EAST APPROX. 0.2 MILES TO A PROPOSED ROAD SURVEY FOLLOW SURVEY APPROX. 300 FEET TO THIS LOCATION.



MCKAY OIL CORPORATION

LOOKOUT C FEDERAL #3 WELL
 LOCATED 2310 FEET FROM THE SOUTH LINE
 AND 330 FEET FROM THE WEST LINE OF SECTION 10,
 TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO

Survey Date. 4/30/08	Sheet 1 of 1 Sheets
W.O. Number: 08 11 0649	Dr By: LA
Date 5/6/08	08110649
	Scale: 1"=100'



PROVIDING SURVEYING SERVICES
 SINCE 1946
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
(575) 622-6713
(575) 622-9282 fax

May 15, 2008

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

Re: H2S Contingency Plan-Lookout C Federal #3

Bryan,

Please see attached Contingency Plan-H2S for the Lookout C Federal #3 located in Sec 10, T6S, R22E 2310' FSL & 330' FWL in Chaves County. Should you need any further information, please contact me at 575-626-6879.

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 C FEDERAL #3
LOCATED IN SEC 10, T6S, R22E IN
CHAVES COUNTY, NEW MEXICO

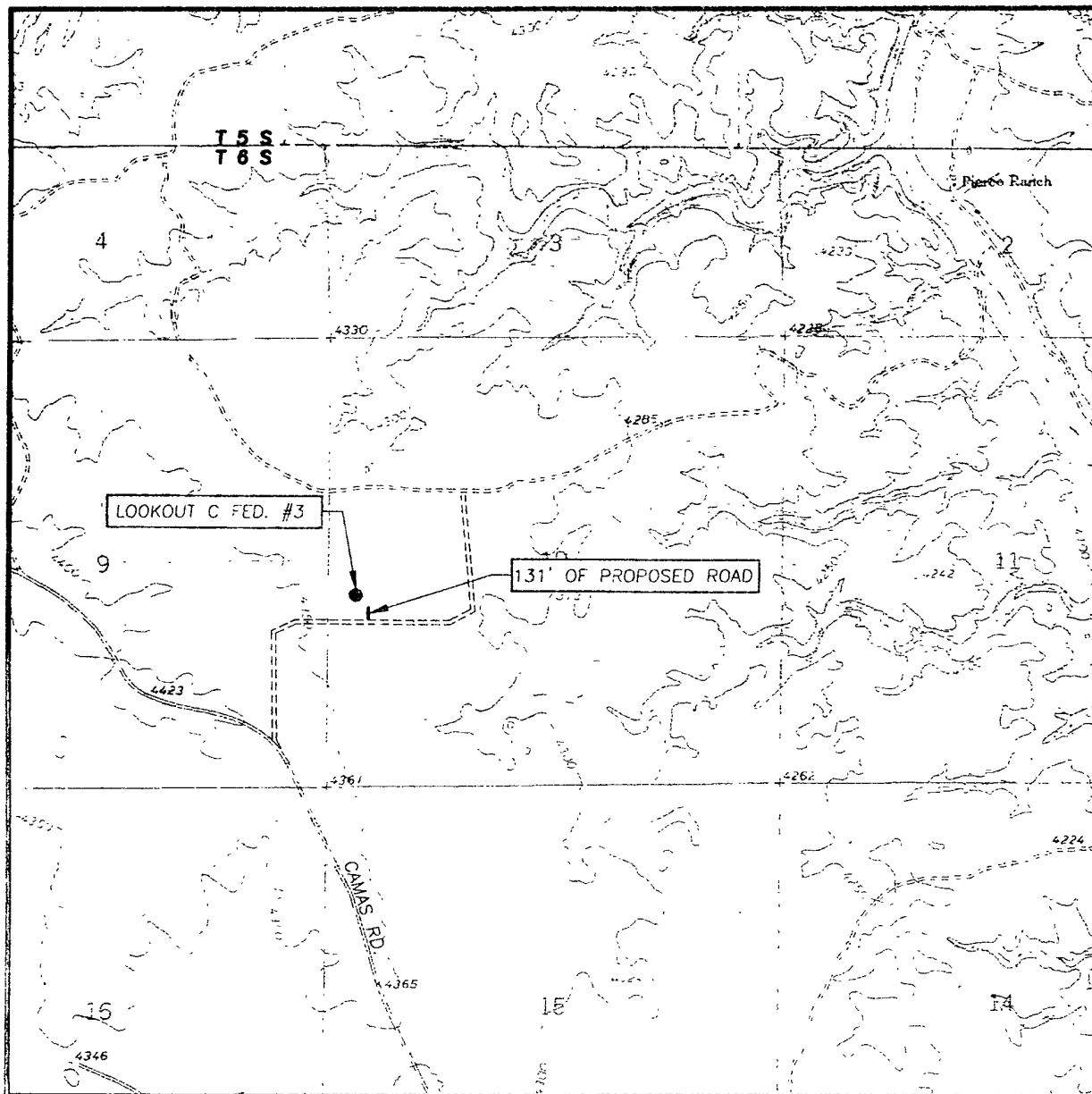
NO HYDROGEN SULFIDE OR OTHER HAZARDOUS GASES OR FLUIDS HAVE
BEEN ENCOUNTERED, REPORTED OR KNOWN TO EXIST AT THIS DEPTH IN
THIS AREA.

LOOKOUT C FEDERAL #3

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'

SEC. 10 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES STATE NEW MEXICO

DESCRIPTION 2310' FSL & 330' FWL

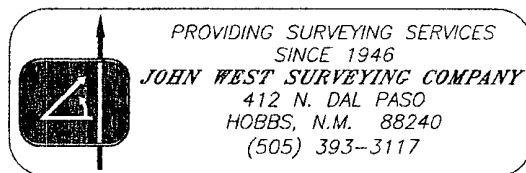
ELEVATION 4334'

OPERATOR MCKAY OIL CORPORATION

LEASE LOOKOUT C FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

MESA 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 (575)	OFFICE	CELL PHONE	HOME PHONE
JIM ROBINSON	625-1154	626-8579	624-1093
JENNIFER CORN	623-4735	6268576	653-4469

CHAVES COUNTY (575)

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
PECOS DISTRICT
ROSWELL FIELD OFFICE
CONDITIONS OF APPROVAL**

Lookout C Federal #3
2310' FSL & 330' FWL, Unit L, Sec. 10 T6S-R22E
Chaves County, New Mexico NMPM
McKay Oil Corporation
NM-36193

GENERAL PROVISIONS

The approval of the Application For Permit To Drill (APD) is in compliance with all applicable laws and regulations: 43 Code of Federal Regulations 3160, the lease terms, Onshore Oil and Gas Orders, Notices To Lessees, New Mexico Oil Conservation Division (NMOCD) Rules, National Historical Preservation Act As Amended, and instructions and orders of the Authorized Officer. Any request for a variance shall be submitted to the Authorized Officer on Form 3160-5, Sundry Notices and Report on Wells.

I. PERMIT EXPIRATION

If the permit terminates prior to drilling and drilling cannot be commenced within 60 days after expiration, an operator is required to submit Form 3160-5, Sundry Notices and Reports on Wells, requesting surface reclamation requirements for any surface disturbance. However, if the operator will be able to initiate drilling within 60 days after the expiration of the permit, the operator must have set the conductor pipe in order to allow for an extension of 60 days beyond the expiration date of the APD (Filing of a Sundry Notice is required for this 60 day extension).

II. ARCHAEOLOGICAL, PALEONTOLOGY & HISTORICAL SITES

Any cultural and/or Paleontological resource discovered by the operator or by any person working on the operator's behalf shall immediately report such findings to the Authorized Officer. The operator is fully accountable for the actions of their contractors and subcontractors. The operator shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery shall be made by the Authorized Officer to determine the appropriate actions that shall be required to prevent the loss of significant cultural or scientific values of the discovery. The operator shall be held responsible for the cost of the proper mitigation measures that the Authorized Officer assesses after consultation with the operator on the evaluation and decisions of the discovery. Any unauthorized collection or disturbance of cultural or Paleontological resources may result in a shutdown order by the Authorized Officer.

III. NOXIOUS WEEDS

The operator shall be held responsible if noxious weeds become established within the areas of operations (access road and/or well pad). Weed control shall be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipeline corridor, and adjacent land affected by the establishment of weeds due to this action. The operator shall consult with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policies.

IV. CONSTRUCTION

A. NOTIFICATION:

The BLM shall administer compliance and monitor construction of the access road and well pad. Notify the Roswell Field Office at (505) 627-0247 at least 3 working days prior to commencing construction of the access road and/or well pad.

When construction operations are being conducted on this well, the operator shall have the approved Application for Permit to Drill and Conditions of Approval on the well site and they shall be made available upon request by the Authorized Officer.

B. TOPSOIL:

The operator shall stockpile the topsoil of the well pad. The topsoil to be stripped to approximately 6 inches in depth. The topsoil shall not be used to backfill the reserve pit and shall be used for interim and final reclamation of the well pad. The topsoil shall be stockpiled in the farthest side of the well pad away from the reserve pit.

C. RESERVE PITS:

The reserve pit shall be constructed and closed in accordance with current NMOCD rules.

The reserve pit shall be constructed 100' x 50' on the west side of the well pad.

The reserve pit shall be constructed, so that upon completion of drilling operations, the dried pit contents shall be buried a minimum depth of four feet below ground level. Should the pit content level not meet the four foot minimum depth requirement, the excess contents shall be removed until the required minimum depth of four feet below ground level has been met. The operator shall properly dispose of the excess contents at an authorized disposal site.

The reserve pit shall be constructed and maintained so that runoff water from outside the location is not allowed to enter the pit. The berms surrounding the entire perimeter of the pit shall extend a minimum of two (2) feet above ground level. At no time will standing fluids in the pit be allowed to rise above ground level.

The reserve pit shall be fenced on three (3) sides during drilling operations. The fourth side shall be fenced immediately upon rig release.

D. FEDERAL MINERAL MATERIALS PIT:

If the operator elects to surface the access road and/or well pad, mineral materials extracted during construction of the reserve pit may be used for surfacing the well pad and access road and other facilities on the lease.

Payment shall be made to the BLM prior to removal of any additional federal mineral materials from any site other than the reserve pit. Call the Roswell Field Office at (505) 627-0236.

E. WELL PAD SURFACING:

Surfacing of the well pad is not required.

If the operator elects to surface the well pad, the surfacing material may be required to be removed at the time of reclamation.

The well pad shall be constructed in a manner which creates the smallest possible surface disturbance, consistent with safety and operational need.

F. ON LEASE ACCESS ROADS:

Road Width

The access road shall have a driving surface that creates the smallest possible surface disturbance and does not exceed fourteen (14) feet in width. The maximum width of surface disturbance, when constructing the access road, shall not exceed thirty (30) feet.

Surfacing

Surfacing material is not required on the new access road driving surface. If the operator elects to surface the new access road or pad, the surfacing material may be required to be removed at the time of reclamation.

Where possible, no improvements should be made on the unsurfaced access road other than to remove vegetation as necessary, road irregularities, safety issues, or to fill low areas that may sustain standing water.

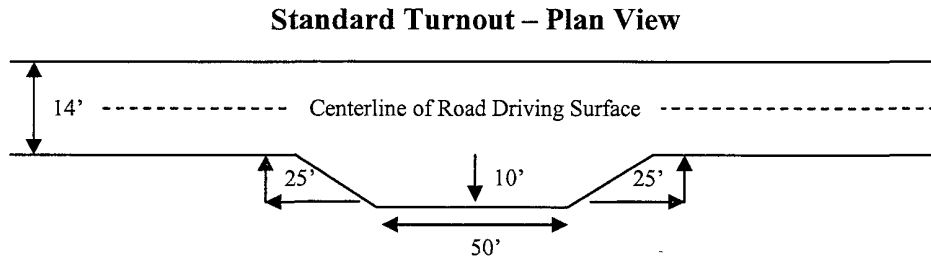
The Authorized Officer reserves the right to require surfacing of any portion of the access road at any time deemed necessary. Surfacing may be required in the event the road deteriorates, erodes, road traffic increases, or it is determined to be beneficial for future field development. The surfacing depth and type of material will be determined at the time of notification.

Crowning

Crowning shall be done on the access road driving surface. The road crown shall have a grade of approximately 2% (i.e., a 1" crown on a 14' wide road). The road shall conform to Figure 1; cross section and plans for typical road construction.

Turnouts

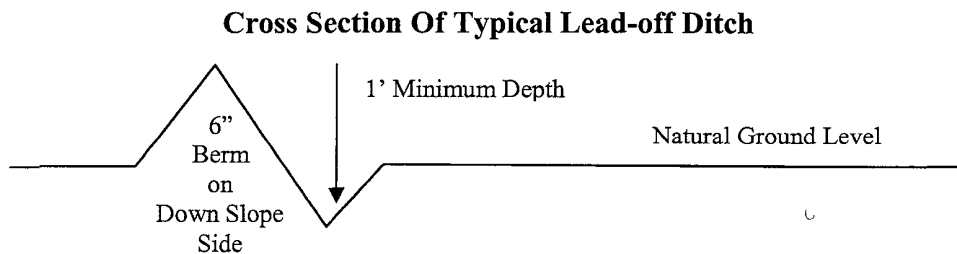
Vehicle turnouts shall be constructed on the road. Turnouts shall be intervisible with interval spacing distance less than 1000 feet. Turnouts shall be constructed on all blind curves. Turnouts shall conform to the following diagram:



Drainage

Drainage control systems shall be constructed on the entire length of road (e.g. ditches, sidehill outslowing and insloping, lead-off ditches, culvert installation, and low water crossings).

A typical lead-off ditch has a minimum depth of 1 foot below and a berm of 6 inches above natural ground level. The berm shall be on the down-slope side of the lead-off ditch.



All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval are variable for lead-off ditches and shall be determined according to the formula for spacing intervals of lead-off ditches, but may be amended depending upon existing soil types and centerline road slope (in %);

Formula For Spacing Interval Of Lead-off Ditches

Example - On a 4% road slope that is 400 feet long, the water flow shall drain water into a lead-off ditch. Spacing interval shall be determined by the following formula:

$$400 \text{ foot road with } 4\% \text{ road slope: } \frac{400'}{4\%} + 100' = 200' \text{ lead-off ditch interval}$$

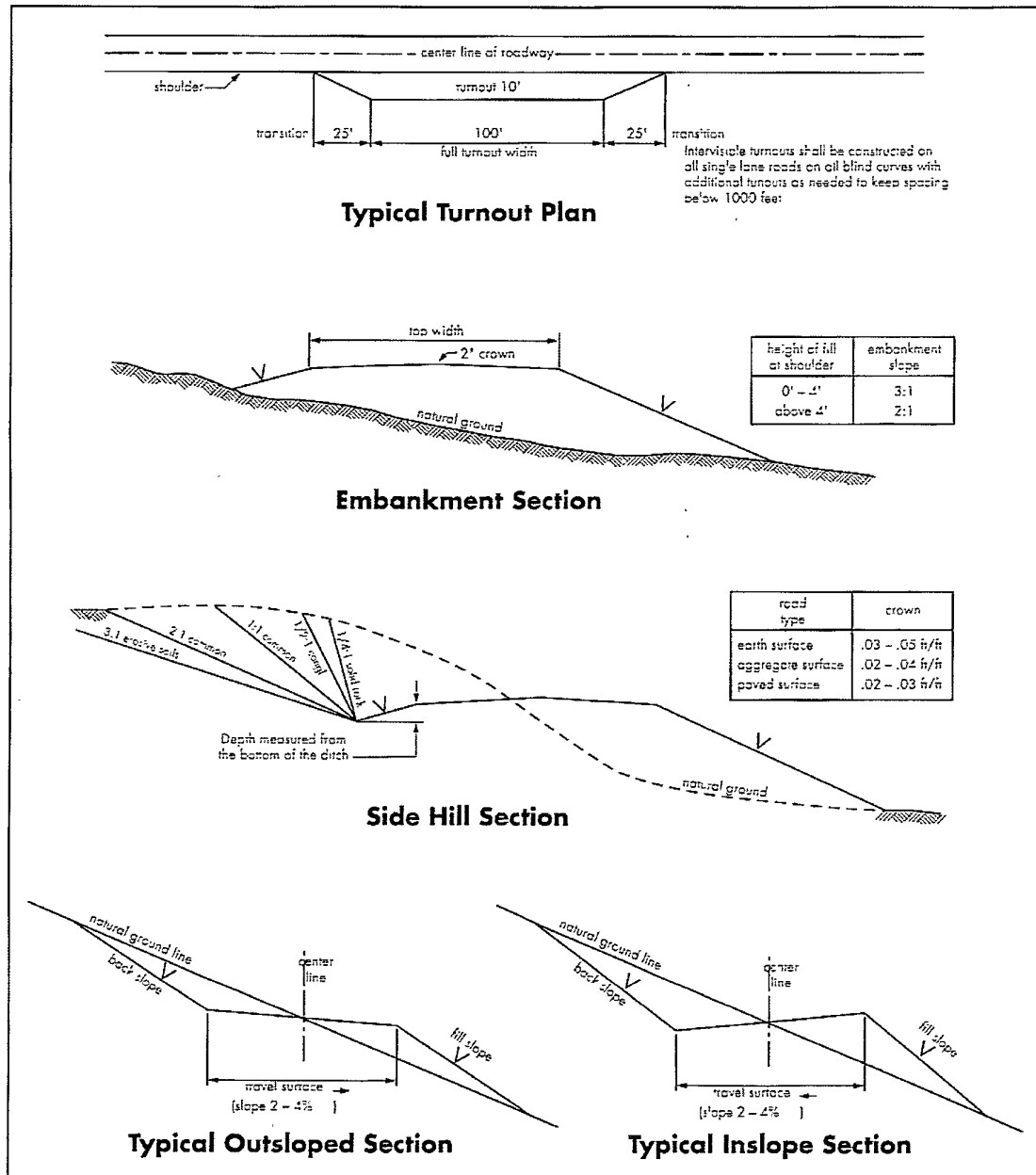
Public Access

Public access on this road shall not be restricted by the operator without specific written approval granted by the Authorized Officer.

Pipeline Protection Requirement

Precautionary measures shall be taken by the operator during construction of the access road to protect any existing pipeline(s) that the access road will cross over. An earthen berm; 2 feet high by 3 feet wide and 14 feet across the access road travelway (2' X 3' X 14'), shall be constructed over each of the existing pipeline(s). The operator shall be held responsible for any damage to the existing pipeline(s). If the either pipeline is ruptured and/or damaged the operator shall immediately cease construction operations and repair the pipeline(s). The operator shall be held liable for any unsafe construction operations that threaten human life and/or cause the destruction of equipment.

Figure 1 – Cross Sections and Plans For Typical Road Sections



V. DRILLING

A. DRILLING OPERATIONS REQUIREMENTS

1. Call the Roswell Field Office, 2909 West Second St., Roswell, NM 88201. During office hours call (575) 627-0205 or after office hours call (575) 910-6024. Engineer on call during office hours call (575) 627-0275 or after office hours call (575) 626-5749.

2. The Roswell Field Office is to be notified a minimum of 24 hours in advance for a representative to witness:

a. Spudding

b. Cementing casing: **8-5/8 inch 5-1/2 inch**

The Roswell Field Office is to be notified a minimum of 4 hours in advance for a representative to witness

BOPE Tests

3. 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.

4. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

B. CASING:

1. The **8-5/8 inch** surface casing shall be set **at approximately 950 feet** and cemented to the surface.

a. If cement does not circulate to the surface, the Roswell Field Office shall be notified and a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.

b. Wait on cement (WOC) time for a primary cement job will be a minimum 18 hours for a water basin or 500 pounds compression strength, whichever is greater. (This is to include the lead cement).

c. Wait on cement (WOC) time for a remedial job will be a minimum of 4 hours after bringing cement to surface or 500 pounds compression strength, whichever is greater.

d. If cement falls back, remedial action will be done prior to drilling out that string.

2. The minimum required fill of cement behind the **5-1/2 inch** production casing is **sufficient to tie back 500 feet above the uppermost perforation in the pay zone**. If cement does not

circulate, a temperature survey utilizing an electronic type temperature survey with a surface log readout will be used or a cement bond log shall be run to verify the top of the cement.

3. If hardband drill pipe is rotated inside casing, returns will be monitored for metal. If metal is found in samples, drill pipe will be pulled and rubber protectors which have a larger diameter than the tool joints of the drill pipe will be installed prior to continuing drilling operations.

4. All casing shall be new or reconditioned and tested casing and meet API standards for new casing. The use of reconditioned and tested casing shall be subject to approval by the authorized officer. Approval will be contingent upon the wall thickness of any casing being verified to be at least 87-1/2 per cent of the nominal wall thickness of new casing. In a Sundry Notice submitted August 20, 2008, the operator is proposing a casing program of mixed pipe run for 8 5/8" surface casing J55-24#, J55-32#, K55-24#, and K55-32#.

C. PRESSURE CONTROL:

1. Before drilling below the **8-5/8** inch surface casing shoe, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve.

2. Before drilling below the **8-5/8** inch surface casing shoe, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **2000** psi.

3. The BOPE shall be installed before drilling below the **8-5/8** inch surface casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

a. The BLM Roswell Field office shall be notified a minimum of 4 hours in advance for a representative to witness the tests.

b. The tests shall be done by an independent service company.

c. The BOP/BOPE test shall include a low pressure test from 250 to 300 psi. The test will be held for a minimum of 10 minutes if test is done with a test plug and 30 minutes without a test plug.

d. All tests are required to be recorded on a calibrated test chart. A copy of the BOP/BOPE test chart and a copy of independent service company test will be submitted to the BLM Roswell Field Office at 2909 West Second Street, Roswell, New Mexico 88201.

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.

VI. PRODUCTION

Painting Requirement

All above-ground structures including meter housing that are not subject to safety requirements shall be painted a semi-gloss non-reflective paint color, Juniper Green, Standard Environmental Colors (June 2008).

VRM Facility Requirement

Low-profile tanks not greater than eight-feet-high shall be used.

VII. INTERIM RECLAMATION & RESERVE PIT CLOSURE

A. INTERIM RECLAMATION

If the well is a producer, interim reclamation shall be conducted on the well site in accordance with the orders of the Authorized Officer.

The operator shall submit a Sundry Notices and Reports on Wells (Notice of Intent), Form 3160-5, prior to conducting interim reclamation.

During the life of the development, all disturbed areas not needed for active support of production operations should undergo "interim" reclamation in order to minimize the environmental impacts of development on other resources and uses.

During reclamation, the removal of caliche is important to increasing the success of re-vegetating the site. Removed caliche may be used in road repairs, fire walls or for building other roads and locations. In addition, in order to operate the well or complete workover operations, it may be necessary to drive, park and operate on restored interim vegetation within the previously disturbed area. Disturbing re-vegetated areas for production or workover operations will be allowed. If there is significant disturbance and loss of vegetation, the area will need to be re-vegetated. Communicate with the appropriate BLM office for any exceptions/exemptions if needed.

B. RESERVE PIT CLOSURE

At the time reserve pits are to be reclaimed, operators should work with BLM surface management specialists to devise the best strategies to reduce the size of the location. Any reductions should allow for remedial well operations, as well as safe and efficient removal of oil and gas.

Upon closure of the reserve pit, all of the gypsum rock material that is excavated and removed from the reserve pit during reserve pit construction shall be placed back into the reserve pit below ground level.

The reserve pit, when dried and closed, shall be re-contoured, all trash removed, and reseeded as follows:

The following soil or soil associations may represent these ecological sites:

Shallow SD-3 Ecological Site
Very Shallow, CP-4 Ecological Site

Common Name and Preferred Variety	Scientific Name	Pounds of Pure Live Seed Per Acre
Blue grama	<i>(Bouteloua gracilis)</i>	3.00
Or Black grama	<i>(B. eriopoda)</i>	
Sideoats grama	<i>(Bouteloua curtipendula)</i>	2.00
New Mexico Feathergrass	<i>(Stipa neomexicana)</i>	1.00
Or Green sprangletop	<i>(Leptochloa dubia)</i>	
Desert or Scarlet Globemallow	<i>(Sphaeralcea ambigua</i> or <i>S. coccinea)</i>	1.00
Croton	<i>(Croton spp.)</i>	1.00
Buckwheat	<i>(Eriogonum spp.)</i>	<u>1.00</u>
TOTAL POUNDS PURE LIVE SEED (pls) PER ACRE		9.00
Certified Weed Free Seed		

If one species is not available
Increase ALL other proportionately
Use no less than four (4) species, including one (1) forb.
No less than 9 pounds pls per acre shall be applied.

APPROVED: /s/ Douglas J. Burger

District Manager, Pecos District

VIII. FINAL ABANDONMENT & REHABILITATION REQUIREMENTS

- a. Upon abandonment of the well and/or when the access road is no longer in service, a Notice of Intent for Final Abandonment with the proposed surface restoration procedure must be submitted for approval.
- b. Upon abandonment of the well, all casing shall be cut-off at the base of the cellar or 3-feet below final restored ground level (whichever is deeper). A 4-inch pipe, 10 feet in length, shall be installed 4 feet above ground and embedded in cement. The following information shall be permanently inscribed on the dry hole marker: Well name and number, the name of the operator, the lease serial number, the surveyed location (the quarter-quarter section, section, township and range or other authorized survey designation acceptable to the authorized officer; such as metes and bounds).
- c. Surface Reclamation must be completed within 6 months of well plugging. If the operator proposes to modify the plans for surface reclamation approved on the APD, the operator must attach these modifications to the Subsequent Report of Plug and Abandon using Sundry Notices and Reports on Wells, Form 3160-5.

**EXHIBIT B
ROSWELL FIELD OFFICE
PECOS DISTRICT
STANDARD STIPULATIONS FOR SURFACE INSTALLED PIPELINES**

Lookout C Federal #3
2310' FSL & 330' FWL, Unit L, Sec. 10 T6S-R22E
Chaves County, New Mexico NMPM
McKay Oil Corporation
NM-36193

A. THE APD AND/OR THE SUNDRY NOTICE WAS USED FOR THE ON-LEASE SURFACE PIPELINE CONSTRUCTION.

1. The APD and/or Sundry Notice And Report On Wells can act, to the extent possible, as an application for the on-lease construction of the surface pipeline on Federal surface lands. In combination with the approved APD, the following standard terms and conditions are hereby attached to the APD/SN on-lease authorization.

B. The holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer, BLM.

1. The BLM shall administer compliance and monitor construction of the pipeline. Notify the Roswell Field Office of Surface Protection at least 3 working days prior to commencing construction of the pipeline at (575) 627-0247.

2. PIPELINE CONSTRUCTION:

A.) The on-lease pipeline (100 feet) shall be laid on the surface within a maximum disturbance width of 10 feet from the outer edge of the road and buried on the well pads 36 inches.

B.) The 2 inch steel pipeline shall parallel the new access road on the west side of the road.

C.) The on-lease pipeline centerline shall be constructed 25 feet from the centerline of all existing access roads.

D.) The holder shall bury the pipeline in a trench 46 inches deep under all existing access roads.

E.) All operations shall be contained within the perimeters of the archaeological cleared areas.

3. All maintenance activity shall be confined within the authorized pipeline corridor width of 15 feet.

4. No blading or clearing of any vegetation will be allowed unless approved in writing by the Authorized Officer.

5. The holder shall install the pipeline on the surface in such a manner that will minimize suspension of the pipeline across low areas in the terrain.

6. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under the Sundry Notice approval for construction of a surface pipeline.

7. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976 as amended, 15 USC 2601 *et seq.* (1982) with regards to any toxic substances that are used, generated by or stored on the pipeline corridor or on facilities authorized under this approval. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193). Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation, and Liability Act, section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.

8. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, *et seq.* or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, *et seq.*) on the pipeline corridor (unless the release or threatened release is wholly unrelated to the holder's activity on the pipeline corridor), or resulting from other activities of the holder on the pipeline corridor. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

9. The holder shall be liable for damage or injury to the United States to the extent provided by 43 CFR Sec. 2883.1-4. The holder shall be held to a standard of strict liability for damage or injury to the United States resulting from pipeline rupture, fire, or spills caused or substantially aggravated by any of the following within the pipeline corridor or permit area:

a. Activities of the holder including, but not limited to construction, operation, maintenance and termination of the facility.

b. Activities of other parties including, but not limited to:

- (1) Land clearing.
- (2) Earth-disturbing and earth-moving work.
- (3) Blasting.

(4) Vandalism and sabotage.

c. Acts of God.

a. The maximum limitation for such strict liability damages shall not exceed one million dollars (\$1,000,000) for any one event, and any liability in excess of such amount shall be determined by the ordinary rules of negligence of the jurisdiction in which the damage or injury occurred.

b. This section shall not impose strict liability for damage or injury resulting primarily from an act of war or from the negligent acts or omissions of the United States.

10. If, during any phase of the construction, operation, maintenance, or termination of the pipeline, any gas, salt water, or other pollutant should be discharged from the pipeline system, impacting Federal land, the control and total removal, disposal, and cleaning up of such gas, salt water, or other pollutant, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal land, or to repair all damages resulting therefrom, on the Federal land, the Authorized Officer may take such measures as he deems necessary to control and clean up the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any responsibility as provided herein.

11. The holder shall minimize disturbance to existing fences and other improvements on public land. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer.

12. In those areas where erosion control structures are required to stabilize soil conditions, the holder will install such structures as are suitable for those being encountered and which are in accordance with sound resource management practices.

13. Excluding the pipe, all above-ground structures not subject to safety requirements shall be painted by the holder to blend with the natural color of the landscape. The paint used shall be Juniper Green, Standard Environmental Colors (June 2008).

14. The pipeline will be identified by signs at the point of origin and completion of the pipeline and at all road crossings. At a minimum, signs will state the holder's name, BLM leaser number, and the product being transported. Signs will be maintained in a legible condition for the life of the pipeline.

15. The holder shall not use the pipeline route as a road for purposes other than routine maintenance as determined necessary by the Authorized Officer in consultation with the holder.

The holder will take whatever steps are necessary to ensure that the pipeline route is not used as a roadway.

Exhibit C
Map

