

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

FORM APPROVED  
OMB NO. 1004-0137  
Expires: January 31, 2018

**SUNDRY NOTICES AND REPORTS ON WELLS**  
*Do not use this form for proposals to drill or to re-enter an abandoned well. Use form 3160-3 (APD) for such proposals.*

*Carlsbad Field Office*  
*Hobbs*  
*HOBBS OCD*

5. Lease Serial No.  
NMNM19448

6. If Indian, Allottee or Tribe Name

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

8. Well Name and No.  
DOROTHY FEDERAL 2

9. API Well No.  
30-025-35717

10. Field and Pool or Exploratory Area  
EK BONE SPRING

11. County or Parish, State  
LEA COUNTY, NM

**SUBMIT IN TRIPLICATE - Other instructions on page 2**

NOV 28 2018

RECEIVED

1. Type of Well  
 Oil Well  Gas Well  Other

2. Name of Operator  
MCELVAIN ENERGY INC  
Contact: TONY G COOPER  
E-Mail: tony.cooper@mcelvain.com

3a. Address  
511 16TH STREET STE. 700  
DENVER, CO 80202

3b. Phone No. (include area code)  
Ph: 303-962-6489  
Fx: 303-893-0914

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)  
Sec 25 T18S R33E Mer NMP NESE 1980FSL 810FEL

**12. CHECK THE APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA**

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Hydraulic Fracturing	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	Venting and/or Flaring
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation: Clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports must be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 must be filed once testing has been completed. Final Abandonment Notices must be filed only after all requirements, including reclamation, have been completed and the operator has determined that the site is ready for final inspection.

McElvain is respectfully requesting a ?royalty free? determination along with a 180 day flaring extension for this well. McElvain is asking that the ?royalty free? determination be made retroactive back to May 31, 2018 when the BLM determined this gas to be royalty bearing. The regulatory basis for this request can found at 43 CFR 3179.201c(1).

This well has a nitrogen level in the gas that is over the gas contract specs and Frontier Field Services (FFS) has ceased purchasing the gas. McElvain is currently producing the wells and flaring the associated gas (under current BLM CFO approval) in an effort to continue to develop the oil resources.

**Cost vs. Revenue Analysis**

McElvain estimates a minimum of \$8,600 per month to lease a small nitrogen rejection skid and place

*Valid until*  
*May 7, 2019*

14. I hereby certify that the foregoing is true and correct.

Electronic Submission #442847 verified by the BLM Well Information System  
For MCELVAIN ENERGY INC, sent to the Hobbs  
Committed to AFMSS for processing by PRISCILLA PEREZ on 11/07/2018 ()

Name (Printed/Typed) TONY G COOPER Title REGULATORY MANAGER

Signature (Electronic Submission) Date 11/06/2018

**THIS SPACE FOR FEDERAL OR STATE OFFICE USE**

Approved By *Dylan Rosmango* Title *Petroleum Engineer* Date *11/8/18*

Conditions of approval, if any, are attached. Approval of this notice 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.

Office *Carlsbad Field Office*

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)

**\*\* OPERATOR-SUBMITTED \*\* OPERATOR-SUBMITTED \*\* OPERATOR-SUBMITTED \*\***

*MDS/OCD*  
*11/29/2018*

## **Additional data for EC transaction #442847 that would not fit on the form**

### **32. Additional remarks, continued**

at this site. This is assuming we can even get the N2 rejection equipment procured. Systems this small are not readily available on the open market. Please see attached costvsrevenueEF1 file for a breakdown on the project economics. The cost analysis shows that the cost of leasing the system, electric service, O&M costs, etc. will be cost prohibitive.

A nitrogen rejection system would be most cost effective at the FFS central processing plant than at individual well sites throughout the field. FFS has been approached by McElvain about this situation but McElvain has received no indication from FFS that they are interested in pursuing this option.

#### **Beneficial Use of Flared Gas**

All of the flared gas that can be used (fuel gas for heater treaters ~3 mcf/d) on lease is already currently being used. We currently have no propane being used on the leases that we could be substituted for flared gas. All of the pumping unit prime movers are electric.

I have attached the file ?GasContract2? which includes this well and the stated nitrogen specs. I have also attached the most recent gas analysis for this well.

**GAS PURCHASE CONTRACT 2**

**Between**

**CHESAPEAKE PERMIAN LP**

**"Seller"**

**and**

**FRONTIER FIELD SERVICES, LLC**

**"Buyer"**

**Date: JANUARY 1, 2004**

**4. QUALITY.**

4.1 Unless otherwise specified in the Base Contract, Gas delivered hereunder will be commercially free of dust, gum, gum forming constituents, treating chemicals and solid matter that might adversely affect the gathering thereof and will conform to the following specifications:

(a)	Carbon Dioxide	Not more than 2 mole percent (2%)
(b)	Free Water	None
(c)	Hydrogen Sulfide	Not more than 1/4 grain per 100 Cubic Feet
(d)	Mercaptan Sulfur	Not more than 1/10 grain per 100 Cubic Feet
(e)	Total Sulfur	Not more than 0.5 grains per 100 Cubic Feet
(f)	Oxygen	Not more than 0.001 mole percent (0.001%)
→ (g)	Total Inerts	Not more than 3 mole percent (3%), including Nitrogen
(h)	Heating Value	Not less than 1050 Btu per Cubic Foot
(i)	Temperature	Not more than 120 degrees Fahrenheit

4.2 The acceptance of Gas which does not meet the specifications of this Section 4 will not be deemed a waiver of the right to require future deliveries to conform to said specifications.

**5. ALLOCATION PROCEDURES.**

5.1 Buyer is capable of selectively recovering certain Products from time to time. In Buyer's sole judgment, Buyer may decide to recover some or none of the Products from a particular well or wells delivering Gas to the Plant(s).

5.2 If Buyer decides to recover less than the total Products recoverable from any well or wells, then it will determine on a well-by-well basis the total theoretical gallons that it wishes to recover. Products will be allocated to the wells from which Buyer elected to recover on a pro-rata basis including Allocated Fuel, Allocated Flare, System Use, and shrinkage, based on the available data concerning the well(s).

5.3 The Residue Gas will be allocated on a pro-rata basis to all well(s) based upon the total Btus from each well, as determined from available data, and the total Btus of Residue Gas sold, and taking into account on a well-by-well basis the shrinkage attributable to such well, if any, and the fuel needed to operate the Plant.

5.4 All allocations of Products and Residue Gas will be based on measurements and tests attributable to the Dedicated Gas. Seller agrees that this information is sufficient to make the allocations described herein.

**6. MEASUREMENT AND TESTING.**

6.1 The volume of Gas delivered to the Delivery Point(s) will be computed in accordance with the methods prescribed in Gas Measurement Committee Report No. 3 and/or Report No. 7, Natural Gas Department, American Gas Association, including the Appendix and any amendments or supplements thereto. The measurement and tests for quantity and quality of Gas will be made at the Delivery Point(s).

6.2 Buyer will install and maintain at no cost to Seller a natural gas measuring station properly equipped with an orifice meter and either an electronic flow recorder or a mechanical chart Integrator of standard design and manufacture. The measurements of this measuring station will fix the total quantity of gas delivery at the Delivery Point(s) and will be deemed the exclusive method of measuring gas delivered to Buyer.

6.3 Seller will have access to the metering equipment at reasonable times upon request, but only Buyer will do adjustments and calibration. Buyer will keep the measuring equipment accurate and in repair and will test the orifice meter in service semi-annually or more often at Buyer's option. Buyer will also test the measuring equipment upon request of Seller, but if the results of a test requested by Seller are within two percent (2%) by volume high or low of the most recent previous test, Seller will pay for such test.

6.4 The meter found on test to register nor more than two (2%) percent by volume high or low will be deemed to be correct as to past measurements but will be corrected to record accurately. If the meter upon test proves to be more than two percent (2%) by volume high or low, adjustment will be made for the gas delivered during the period such meter was registering inaccurately; provided that such period will not exceed half of the time since the last test, and no retroactive adjustments will be made for volume discrepancies less than 100 Mcf. If Buyer's meter is not registering accurately, the registration of Seller's check meter, if accurately indicating within the tolerances provided above, will be used to determine the volume of gas delivered to Buyer until such time as Buyer's meter is adjusted, repaired, or replaced. If Seller has not installed a check meter, or if such check meter has been installed and fails to record accurately, then the volume of gas delivered during the period Buyer's meter was inoperative will be determined upon the basis of the best data available, either by correcting the error if the percentage of error is

**EXHIBIT B**  
**DEDICATED INTERESTS**

<u>WELL NAME</u>	<u>LEGAL DESCRIPTION</u>	<u>COUNTY/STATE</u>
Archie Fed. #1	Sec. 26-18S-33E	Lea County, NM
State 32 #1	Sec. 32, T16S, R33E	Lea County, NM
Edith Federal #1 ✓	660' FSL, 2310' FWL of Sec. 25, T18S, R33E	Lea County, NM
Edith Federal #2 /	2130' FNL, 1980' FEL of Sec. 25, T18S, R33E	Lea County, NM
Edith Federal #3 /	2130' FNL, 660' FWL of Sec. 25, T18S, R33E	Lea County, NM
#2? Dorothy #1 ✓	Sec. 25, T18S, R33E	Lea County, NM
1 Airstrip Northwest Deep Unit	All of Sec. 20, T18S, R34E	Lea County, NM

### Sample Information

Sample Information	
Sample Name	McElvin__Dorothy Federal 2__GC1-72618-02
Station Number	Wellhead
Lease Name	Dorothy Federal 2
Analysis For	McElvin Energy
Producer	McElvin Energy
Field Name	529
County	Lea
State	NM
Frequency	Spot
Sample Deg F	60
Atmos Deg F	102
Flow Rate	N/A
Line PSIG	100
Date Sampled	7-19-18
Sampled By	Mike West
Analysis By	Pat Silvas
Report Date	2018-07-26 10:07:06

### Component Results

Component Name	Ret. Time	Peak Area	Norm%	PPMV	GPM (Dry) (Gal. / 1000 cu.ft.)
Nitrogen	22.120	81360.8	15.77013	157701.300	0.000
H2S	46.000	0.0	0.00000	0.000	0.000
Methane	23.060	240711.6	59.99360	599936.000	0.000
Carbon Dioxide	26.800	8547.8	1.38829	13882.900	0.000
Ethane	37.180	62035.9	9.24611	92461.100	2.468
Propane	78.860	64570.6	7.16952	71695.200	1.972
i-butane	28.780	69105.0	0.99752	9975.200	0.326
n-Butane	30.340	176308.5	2.45209	24520.900	0.772
i-pentane	35.460	65893.8	0.77747	7774.700	0.284
n-Pentane	37.560	57972.0	0.66578	6657.800	0.241
Hexanes Plus	120.000	136773.0	1.53949	15394.900	0.667
<b>Total:</b>			100.00000	1000000.000	6.729

### Results Summary

Result	Dry	Sat. (Base)
Total Raw Mole% (Dry)	101.54626	
Pressure Base (psia)	14.650	
Temperature Base	60.00	
Gross Heating Value (BTU / Ideal cu.ft.)	1195.4	1174.5
Gross Heating Value (BTU / Real cu.ft.)	1200.1	1179.6
Relative Density (G), Ideal	0.8658	0.8615
Relative Density (G), Real	0.8688	0.8649
Compressibility (Z) Factor	0.9961	0.9956

	BOPM	Flared Gas/MCFM	Gas Revenue /Mth (if sold)	N2 Reject Cost /Mth (est)	Differance	Comment
DOROTHY FEDERAL #2	396	569	\$1,707	\$8,600	-\$6,893	
<b>Totals</b>	<b>396</b>	<b>569</b>	<b>\$1,707</b>	<b>\$8,600</b>	<b>-\$6,893</b>	

Net Gas price = \$2.5 / mcf

3