

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

DIV-Dist. 2
1 Avenue
88210

Form 3160-3
(April 2004)

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

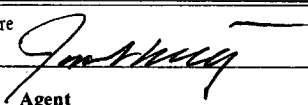
1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM 36193
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other		6. If Indian, Allottee or Tribe Name
2. Name of Operator McKay Oil Corporation		7. If Unit or CA Agreement, Name and No.
3a. Address PO Box 2014 Roswell NM, 88202-2014	3b. Phone No. (include area code) 505-623-4735	8. Lease Name and Well No. Four Mile Draw B Federal 7
4. Location of Well (Report location clearly and in accordance with any State requirements:*) At surface 660' FSL & 660' FWL At proposed prod. zone		9. API Well No. 30-005-63865
14. Distance in miles and direction from nearest town or post office* Approximately 25 miles		10. Field and Pool, or Exploratory W. Pecos ABO Slope
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'		11. Sec., T. R. M. or Blk. and Survey or Area Lot M, Sec. 15, T6S, R22E
16. No. of acres in lease 927.51		12. County or Parish Chaves
17. Spacing Unit dedicated to this well 160'		13. State NM
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. 1100'		
19. Proposed Depth 4300'		
20. BLM/BIA Bond No. on file		
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 4358'		
22. Approximate date work will start* 11/10/2006		
23. Estimated duration 7 - 10 days		

24. Attachments

NO WATER BASIN

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 09/05/2006
Title Agent		

Approved by (Signature) /s/ JOHN S. SIMITZ	Name (Printed/Typed) /s/ JOHN S. SIMITZ	Date OCT 06 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)

DECLARED WATER BASIN

CEMENT BEHIND THE 8 5/8"
CASING MUST BE CIRCULATED

WITNESS

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS ATTACHED

State of New Mexico

DISTRICT I

1625 N. FRENCH DR., HOHBS, 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 JUNE 10, 2003

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 Pecos Slope, Abo, West
Property Code	Property Name FOUR MILE DRAW B FEDERAL	Well Number 7
OGRID No.	Operator Name McKAY OIL CORPORATION	Elevation 4358'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	15	6-S	22-E		660	SOUTH	660	WEST	CHAVES

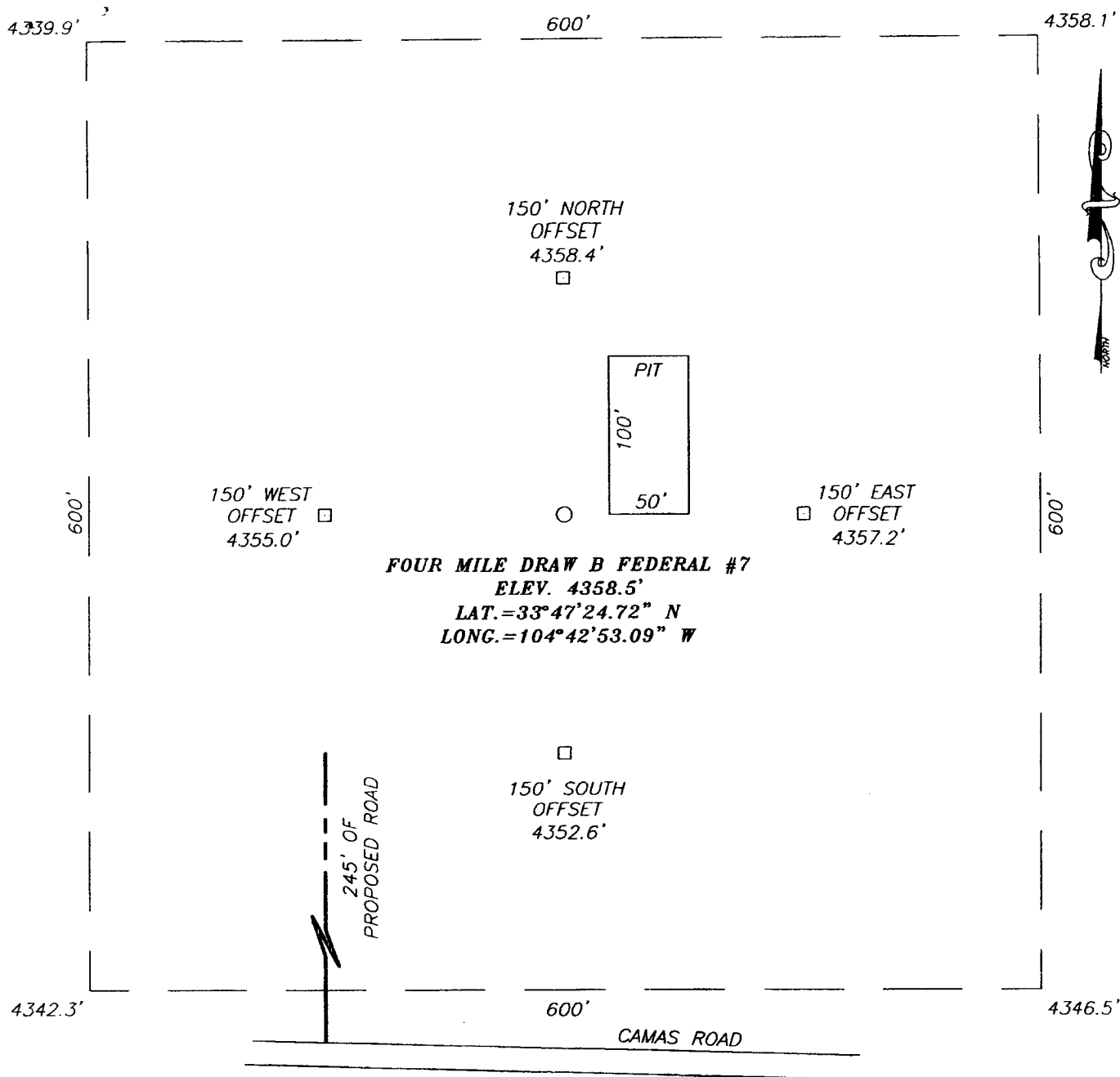
Bottom Hole Location If Different From Surface

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

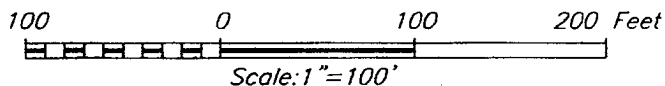
<p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=1015231.8 N X=384117.4 E</p> <p>LAT.=33°47'24.72" N LONG.=104°42'53.09" W</p>	<h3>OPERATOR CERTIFICATION</h3> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p>Signature <i>James Schultz</i> James Schultz Printed Name Agent Title 03/16/05 Date</p>	
	<h3>SURVEYOR CERTIFICATION</h3> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>DECEMBER 8, 2004</p> <p>Date Surveyed Signature <i>GARY G. EIDSON</i> Professional Surveyor NEW MEXICO 3/2/05 04.11.1636 Certificate No. GARY EIDSON 12641</p>	

SECTION 15, TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF U.S. HWY. #285 AND
 COUNTY ROAD #40 (STAEGRASS RD.). GO WEST
 ON CR. RD. #40 APPROX. 8.3 MILES TO CAMAS
 RD. CONTINUE WEST ON CAMAS RD. APPROX. 0.1
 MILES TO A PROPOSED ROAD SURVEY ON THE
 RIGHT. FOLLOW ROAD SURVEY NORTH APPROX.
 250' TO THIS WELL.



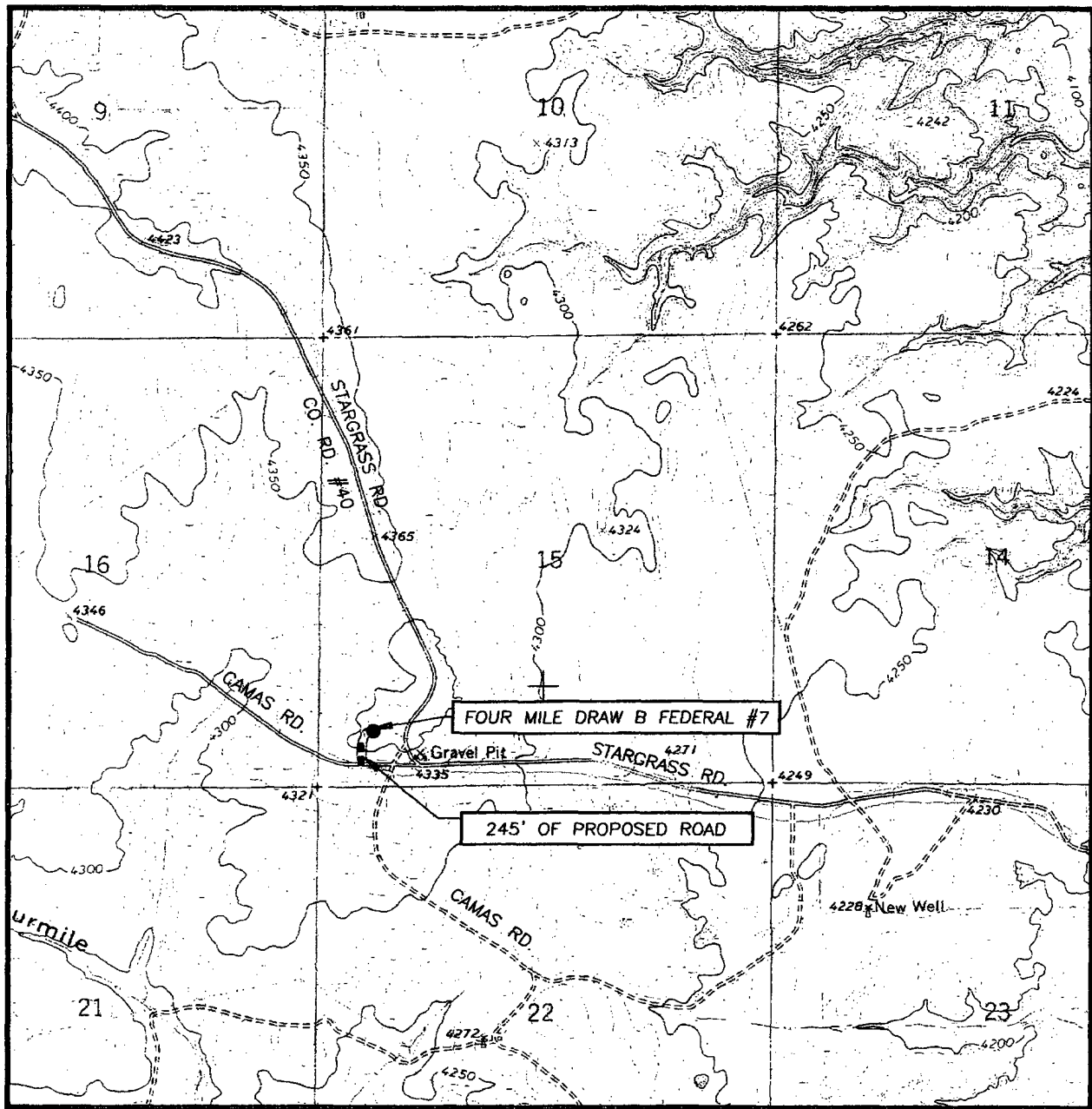
McKAY OIL CORPORATION

FOUR MILE DRAW B FEDERAL #7 WELL
 LOCATED 660 FEET FROM THE SOUTH LINE
 AND 660 FEET FROM THE WEST LINE OF SECTION 15,
 TOWNSHIP 6 SOUTH, RANGE 22 EAST, N.M.P.M.,
 CHAVES COUNTY, NEW MEXICO.

Survey Date: 12/08/04	Sheet 1 of 1 Sheets
W.O. Number: 04.11.1636	Dr By: D. LOVE
Date: 02/28/05	Disk: CD#4
04111636	Scale: 1"=100'

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

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

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

SEC. 15 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES

DESCRIPTION 660' FSL & 660' FWL

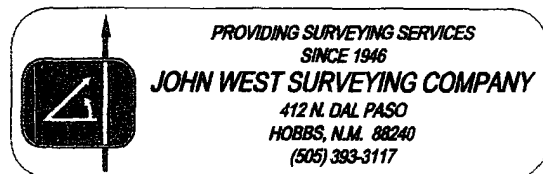
ELEVATION 4358'

OPERATOR McKAY OIL CORPORATION

LEASE FOUR MILE DRAW B FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

MEAS SW, N.M.



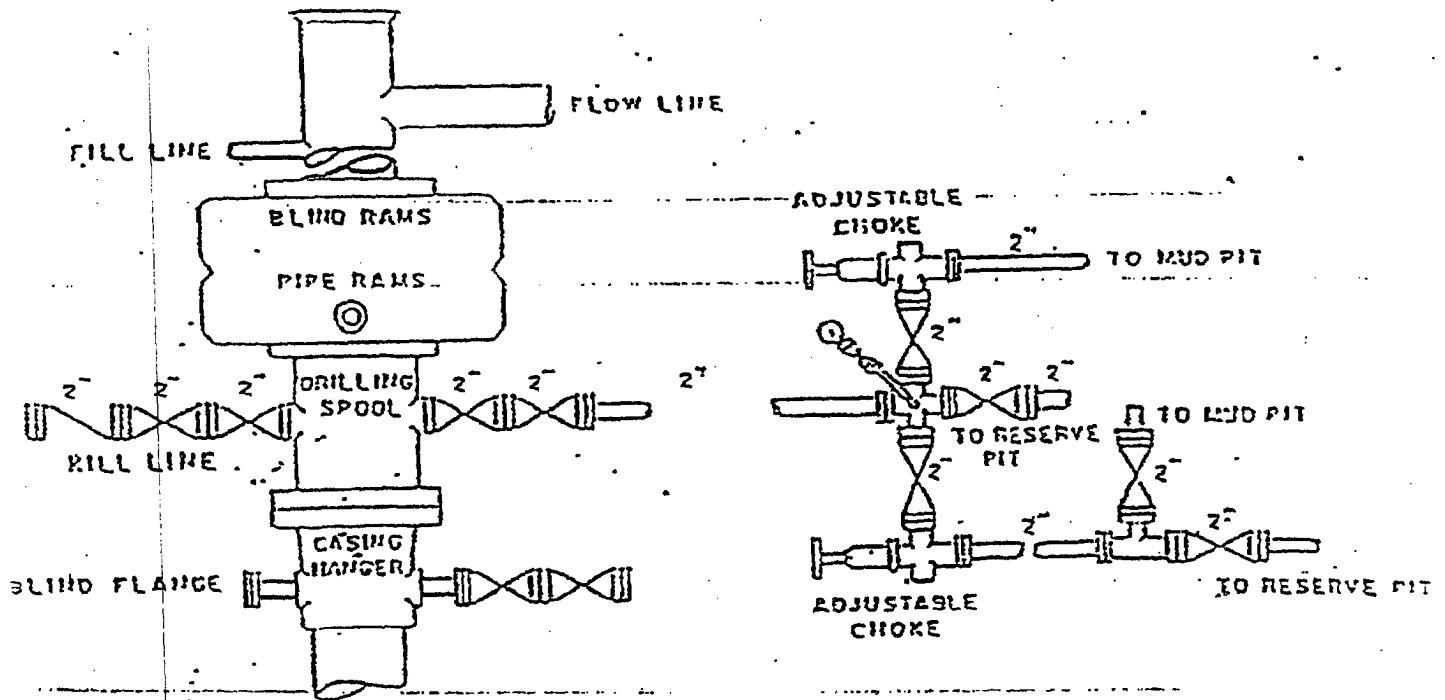
McKay Oil Corporation

Four Mile Draw B Federal #7

Section 15, T6S, R22E

Chaves County, New Mexico

Exhibit "D"



SUPPLEMENTAL DRILLING DATA

MCKAY OIL CORPORATION
MCKAY B FEDERAL 4
660' FSL & 660' FWL Sec 15, T6S, R22E

Chaves County, New Mexico

The following items supplement Form 3160-3 in accordance with instruction contained in Onshore Oil and Gas Order No. 1:

1. SURFACE FORMATION: San Andres

2. ESTIMATED TOPS OF GEOLOGICAL MARKERS:

Yeso - 1077'
Tubb - 2573'
Abo - 2801'

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

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

4. PROPOSED CASING PROGRAM:

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

5. PROPOSED CEMENTING PROGRAM:

Surface to 950' class "C" - 350 sxs cemented and circulated to surface.
Production Casing class "C" - 300 sxs cemented with adequate cover.

6. PROPOSED DRILLING PROGRAM:

McKay Oil Corporation proposes to drill and test the ABO formation. Approximately 950' of surface casing will be set and cemented to surface. 5-1/2" production casing will be set and cemented with adequate cover, perforated and stimulated as needed for production.

7. PRESSURE CONTROL EQUIPMENT: Blowout preventer will consist of 2 ram, 2M system. A sketch of the BOP is attached.

8. CIRCULATION MEDIUM: 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
FOUR MILE DRAW B FEDERAL #7
660' FSL & 660' FWL Sec 15, T6S, R22E

Chaves County, New Mexico

NM 36193

This plan is submitted with the application for permit to drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of necessary surface disturbance involved, and the procedures to be followed in rehabilitating the surface after completion of the operation so that a complete appraisal can be made of the environmental effects associated with the operation.

1. EXISTING ROADS:

- A. Exhibit "A" is a portion of a road map showing the location of the proposed well is staked. The well is approximately 21 miles north of Roswell, NM.
- B. Directions: From the intersection of US Highway #285 and county road #40 (Starrgrass Rd) go west on CR Road #40 approximately 8.3 miles to Camas Rd. continue west on Camas Rd. approximately 0.1 miles to a proposed road survey on the right. Follow road survey north approximately 250' to this well.

2. PLANNED ACCESS ROAD:

- A. Length and Width: 245 long and 50' 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 400' x 400'. (See Exhibit "D")

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.. Regional slope is northeast in the direction of 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: The Arroyo del Macho is north northeast of the proposed location. Four mile draw is southwest of the planned location.

E. Residences and other Structures:

F. Archaeological, Historical and Other Cultural Sites: A report from Southern New Mexico Archeological Services, LLC has previously been filed.

G. Land Use: Grazing.


H. Surface Ownership: USA-BLM.

12. OPERATOR'S REPRESENTATIVE:

Jim Robinson
Roswell, New Mexico
(505) 623-4735 (O)
(505) 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

9-5-06

DATE

**Southwest Petroleum
Land Services, LLC**

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

September 5, 2006

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

Re: H2S Contingency Plan-Four Mile Draw B Federal 7

Bryan,

Please see attached Contingency Plan-H2S for the Four Mile Draw located in Sec 15, T6S, R22E 660' FSL & 660' FWL 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
FOUR MILE DRAW B FEDERAL 7
LOCATED IN SEC 15, T6S, R22E IN
CHAVES COUNTY, NEW MEXICO

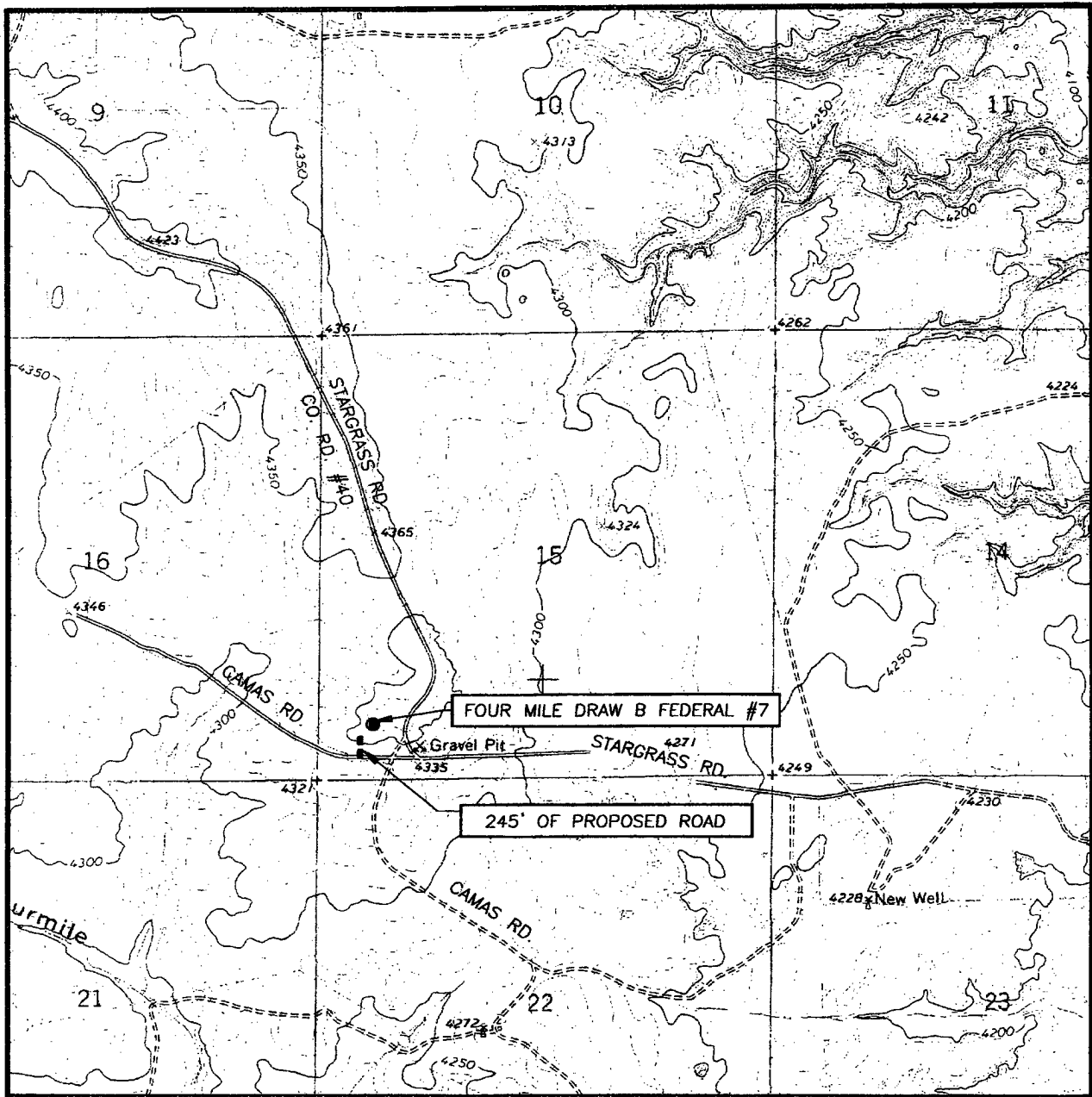
NO HYDROGEN SULFIDE OR OTHER HAZARDOUS GASES OR FLUIDS HAVE
BEEN ENCOUNTERED, REPORTED OR KNOWN TO EXIST AT THIS DEPTH IN
THIS AREA.

FOUR MILE DRAW B FEDERAL 7

This is an open drilling Site. H₂S monitoring 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 pits off light and alarm on any indication of H₂S being present.

MAPS – SEE ATTACHED

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

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

SEC. 15 TWP. 6-S RGE. 22-E

SURVEY N.M.P.M.

COUNTY CHAVES

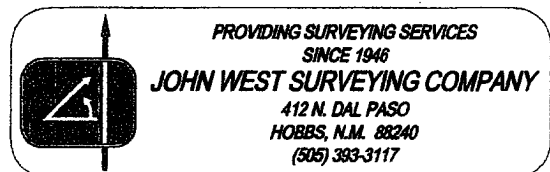
DESCRIPTION 660' FSL & 660' FWL

ELEVATION 4358'

OPERATOR McKAY OIL CORPORATION

LEASE FOUR MILE DRAW B FEDERAL

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



EMERGENCY PROCEDURES

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

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

IGNITION OF GAS SOURCE

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

CHARACTERISTICS OF H₂S & SO₂

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

CONTACTING AUTHORITIES

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

MCKAY OIL CORPORATION CALL LIST

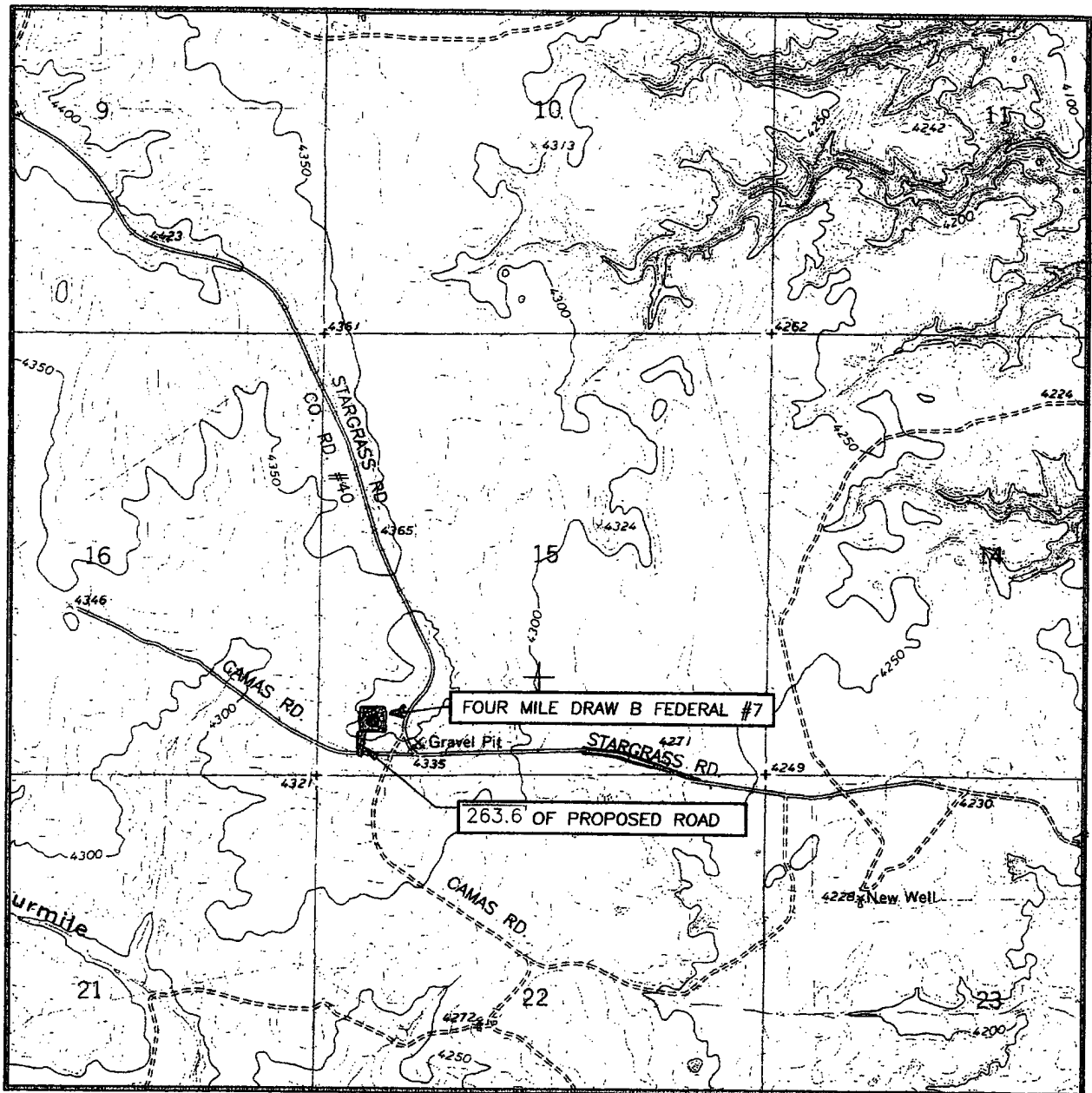
CHAVES COUNTY (505)	OFFICE	CELL PHONE	HOME PHONE
HUMBERTO PEREZ	625-1154	626-8580	627-1985
JIM ROBINSON	625-1154	626-8579	624-1093
APRIL MCKAY	623-4735	626-8575	625-2848

CHAVES COUNTY (505) ROSWELL

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

EXHIBIT A

OPERATORS NAME: McKay Oil Corporation LEASE NO.: NM-36193
WELL NAME & NO: Four Mile Draw "B" Federal #7
QUARTER/QUARTER & FOOTAGE: SW¼SW¼ - 660' FSL & 660' FWL
LOCATION: Section 15, T. 6 S., R. 22 E., NMPM
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-36193
WELL NAME & NO: Four Mile Draw "B" Federal #7
QUARTER/QUARTER & FOOTAGE: SW¼SW¼ - 660' FSL & 660' FWL
LOCATION: Section 15, T. 6 S., R. 22 E., NMPM
COUNTY: Chaves County, New Mexico

I. GENERAL PROVISIONS:

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

II. WELL PAD CONSTRUCTION REQUIREMENTS:

- A. The BLM shall administer compliance and monitor construction of the access road and well pad. Notify Richard G. Hill at least 3 working days (72 Hours) prior to commencing construction of the access road and/or well pad. Roswell Field Office number (505) 627-0247.
- B. Prior to commencing construction of the access road, well pad, or other associated developments, the holder shall provide the dirt contractor with a copy of the approved APD signature page, a copy of the location map (EXHIBIT A), a copy of pages 1 & 2 from the Well Drilling Requirements (EXHIBIT B), and a copy of the Permanent Resource Road Requirements (EXHIBIT D).
- C. The holder shall stockpile the topsoil from the surface of the well pad for reclamation purposes. The topsoil on the Four Mile Draw "B" Federal #7 well pad is approximate 6 inches in depth. Approximately 800 cubic yards of topsoil shall be stockpiled on the Southeast corner of the well pad, opposite the reserve pit. Upon reclamation of the well pad, the topsoil stockpile shall be redistributed over the disturbed areas. See Well Drilling Requirements - VI. Seeding Requirements - for reclamation of the well pad.

D. Reserve Pit Requirements:

The reserve pit shall be constructed 50' X 100' on the **North** side of the well pad.

- 2. The reserve pit shall be constructed to a minimum depth of four (4) feet below ground level. The reserve pit shall be constructed, so that the cuttings in the reserve pit can be buried a minimum depth of three (3) feet below ground level. See Exhibit E – Surface Reclamation/Restoration Requirements.
- 3. A synthetic or fabricated liner 12 mil in thickness shall be used to line the reserve pit. The liner shall meet ASTM standards that are designed to be resistant to the reserve pit contents.

WELL DRILLING REQUIREMENTS

2 of 5 pages

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

E. Federal Mineral Materials Pit Requirements:

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 Four Mile Draw "B" Federal #7 gas well only. Removal of any additional material on location must be purchased from BLM prior to removal of any material.
 - a. An optional mineral material pit may be constructed within the archaeologically cleared area. The mineral material removed in the process can be used for pad and access road construction. However, a mineral material sales contract must be purchased from the BLM prior to removal of any material.

F. Well Pad Surfacing Requirement:

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

G. Cave Requirements:

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

III. DRILLING OPERATION REQUIREMENTS:

A. GENERAL DRILLING REQUIREMENTS:

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

A. Spudding B. Cementing casing: 8 $\frac{5}{8}$ inch 5 $\frac{1}{2}$ inch C. BOP tests
2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.
4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

B. CASING:

1. The 8 $\frac{5}{8}$ inch surface casing shall be set at 950' and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.
2. The minimum required fill of cement behind the 5 $\frac{1}{2}$ inch intermediate casing is **cement shall extend upward a minimum of 500 feet above the uppermost perforation.**

C. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8 $\frac{5}{8}$ inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.
2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be **2000** psi.
3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.
 - 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.

IV. ON LEASE - WELL REQUIREMENTS:

A. The holder shall post signs identifying the location permitted herein with the requirements contained in Onshore Oil and Gas Order #1 and 43 CFR 3162.6.

B. The following data is required on the well sign that shall be posted in a conspicuous place on the well pad. The sign shall be kept up with current identification and shall be legible for as long as the well is in existence:

Operator Name: McKay Oil Corporation
Well Name & No.: Four Mile Draw "B" Federal #7
Lease No.: NM-36193
Footage: 660' FSL & 660' FWL
Location: Section 15, T. 6 S., R. 22 E.

C. UPON ABANDONMENT OF THE WELL, THE SAME INFORMATION SHALL BE INSCRIBED ON THE DRY HOLE MARKER WITH A BEADED WELD.

D. The approval of the APD does not in any way imply or grant approval of any on-lease, off-lease, or off-unit action(s). It is the responsibility of the holder to obtain other approval(s) such as rights-of-way from the Roswell Field Office or other agencies, including private surface landowner(s).

E. All vehicles, including caterpillar track-type tractors, motor graders, off-highway trucks and any other type of motorized equipment that is used in the construction of the access road and well pad shall be confined to the area(s) herein approved. The drilling rig that is used to drill the well shall also be confined to the approved area(s).

F. Containment Structure Requirement:

1. A containment structure or earthen dike shall be constructed and maintained around all storage facilities/batteries. The containment structure or earthen dike shall surround the storage facilities/batteries.
2. The containment structure or earthen dike shall be constructed two (2) feet high around the facilities/batteries (the containment structure or earthen dike can be constructed higher than the two (2) feet high minimum).
3. The perimeter of the containment structure or earthen dike can be constructed substantial larger for greater holding capacity of the contents of the largest tank.
4. The containment structure or earthen dike shall be constructed so that in case of a spill the structure can contain the entire contents of the largest tank, plus 24 hour production, within the containment structure or earthen dike, unless more stringent protective requirements are deemed necessary by the Authorized Officer.

G. Painting Requirement:

All above-ground structures (e.g.: meter houses, tanks, above ground pipelines, and related appurtenance, etc.) 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 a color which simulates "Standard Environmental Colors" designated by the Rocky Mountain Five-State Interagency Committee. The color selected for painting all the well facilities is Olive Drab from the supplemental Environmental Soil Color Chart Number 18-0622 TPX

H. Fence Requirement:

The holder shall minimize disturbance to existing fences and other improvements on public land. The holder is required to promptly repair impacted improvements to at least their former state. On private surface the holder shall 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 shall be allowed unless approved by the Authorized Officer.

I. Open-vent Exhaust Stack Requirements:

1. All open-vent exhaust stacks associated with heater-treater, separators and dehydrator units shall be modified to prevent birds and bats from entering them and to the extent practical to discourage perching and nesting.
2. New production equipment installed on federal leases after November 1st, 1993, shall have the open-vent exhaust stacks constructed to prevent the entry of birds and bats and to the extent practical, to discourage perching, and nesting.

V. Invasive and Noxious Weeds Requirement:

A. The holder shall be held responsible if noxious weeds become established within the area. Evaluation of the growth of noxious weeds shall be made upon discovery. Weed control will be required on the disturbed land where noxious weeds exist, which includes the roads, pads, associated pipelines, and adjacent land affected by the establishment of weeds due to this action. The holder is responsible for consultation with the Authorized Officer for acceptable weed control methods, which include following EPA and BLM requirements and policy.

B. The holder shall insure that the equipment and or vehicles that will be used to construct, maintain and administer the access roads, well pad and resulting well are not polluted with invasive and noxious weed seed. Transporting of invasive and noxious weed seed could occur if the equipment and vehicles were previously used in noxious weed infested areas. In order to prevent the spread of noxious weeds, the Authorized Officer shall require that the equipment and vehicles be cleaned with either high pressure water or air prior to construction, maintenance and administration of the access roads, well pad, and resulting well.

VI. SPECIAL REQUIREMENT(S):

A. Low-profile facilities no greater than eight-feet-high shall be used. If necessary, multiple tanks shall be used.