Form 3160-3
(April 2004)

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Farmington Field Office
Bureau of Land Management

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

RCVD OCT 24 '11
OIL CONS. DIV.
DIST. 3

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No. NM-78060	
6. If Indian, Allotee or Tribe Name	
7. If Unit or CA Agreement, Name and No.	
8. Lease Name and Well No. St. Moritz #90	
9. API Well No. 30-045-35282	
10. Field and Pool, or Exploratory Basin Fruitland Coal	
11. Sec., T. R. M. or Blk. and Survey or Area N Sec. 26, T24N, R10W NMPM	
12. County or Parish San Juan	13. State NM

1a. Type of work: [X] DRILL [ ] REENTER

1b. Type of Well: [ ] Oil Well [X] Gas Well [ ] Other [X] Single Zone [ ] Multiple Zone

2. Name of Operator: Dugan Production Corp.

3a. Address: 709 East Murray Drive, Farmington, NM 87401

3b. Phone No. (include area code): 505-325-1821

4. Location of Well (Report location clearly and in accordance with any State requirements.*)
At surface: 980' FSL & 1880' FWL Lat.36.28031 N
At proposed prod. zone: Same as above Long. 107.86841 W

14. Distance in miles and direction from nearest town or post office*: Approx. 40-miles SE of Farmington, New Mexico

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drlg. unit line, if any): 990-Feet	16. No. of acres in lease: 760-acres	17. Spacing Unit dedicated to this well: 320.0 Acres (S/2)
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.	19. Proposed Depth: 1370-ft.	20. BLM/BIA Bond No.: On File
21. Elevations (Show whether DF, KDB, RT, GL, etc.): G.L. 6749-Feet	22. Approximate date work will start*: ASAP	23. Estimated duration: 5-Days

RCVD OCT 25 '11
OIL CONS. DIV.
DIST. 3

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form:

1. Well plat certified by a registered surveyor.
2. A Drilling Plan.
3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification
6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature: Kurt Fagrelius	Name (Printed/Typed): Kurt Fagrelius	Date: 5-3-2011
Title: Geologist		
Approved by (Signature): /s/ Mankiewicz	Name (Printed/Typed):	Date: 10/21/11
Title: AFM	Office: FFO	

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)

A water based gel-mud will be used to drill surface and production casing hole. Standard 2,000 psi BOP will be used to drill production hole. The Fruitland Coal will be completed from approximately 1200' - 1220'. The interval will be fracture stimulated.

This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4

NOV 07 2011

NMOCD

DRILLING OPERATIONS AUTHORIZED ARE SUBJECT TO COMPLIANCE WITH ATTACHED "GENERAL REQUIREMENTS".

BLM'S APPROVAL OR ACCEPTANCE OF THIS ACTION DOES NOT RELIEVE THE LESSEE AND OPERATOR FROM OBTAINING ANY OTHER AUTHORIZATION REQUIRED FOR OPERATIONS ON FEDERAL AND INDIAN LANDS

District I
1625 N. French Dr., Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
1220 S St Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

MAY 03 2011
Farmington Field Office
Bureau of Land Management

Form C-102
Revised October 12, 2005
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

[1] API Number	[2] Pool Code	[3] Pool Name
30-045-35282	71629	BASIN FRUITLAND COAL

[4] Property Code	[5] Property Name	[6] Well Number
3845	ST. MORITZ	90

[7] OGRID No.	[8] Operator Name	[9] Elevation
006515	DUGAN PRODUCTION CORPORATION	6749'

[10] Surface Location

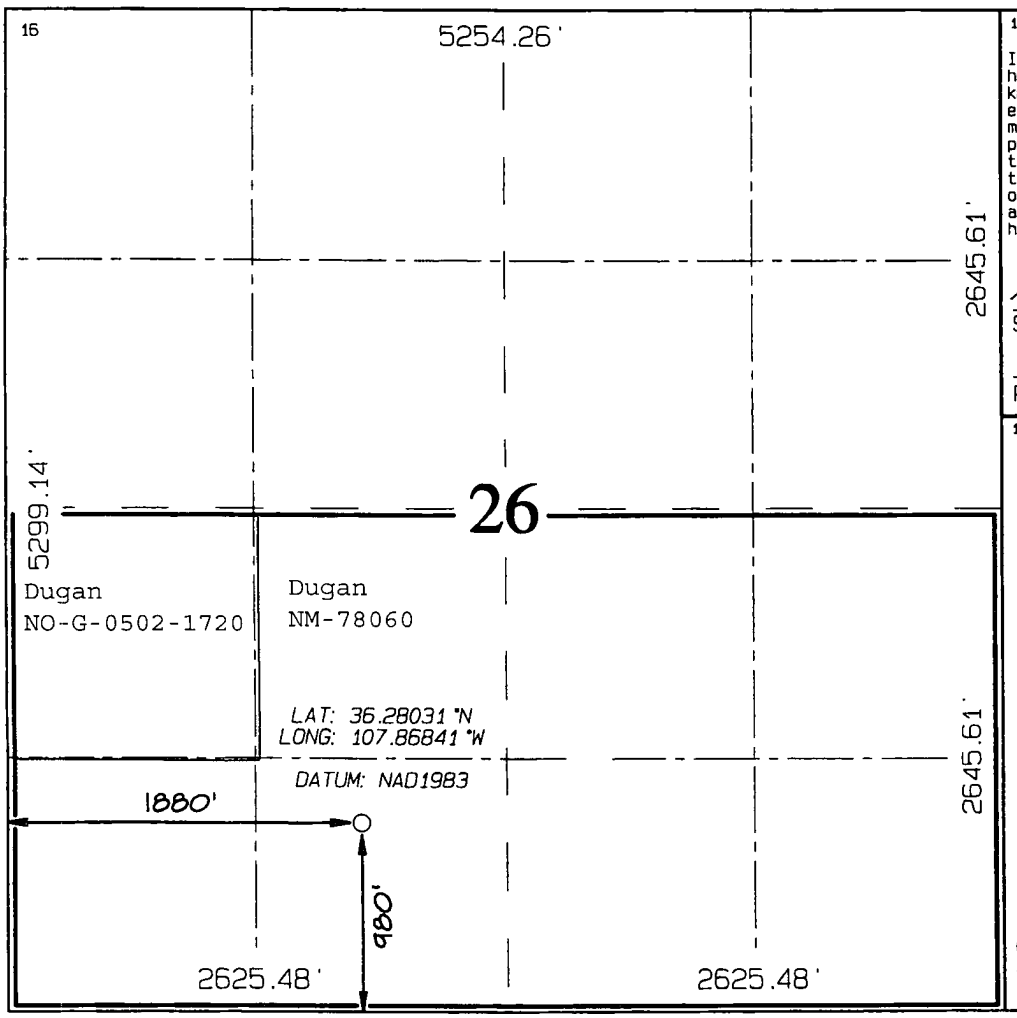
UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	26	24N	10W		980	SOUTH	1880	WEST	SAN JUAN

[11] 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

[12] Dedicated Acres	[13] Joint or Infill	[14] Consolidation Code	[15] Order No.
320.0 Acres - (S/2)			

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



[17] OPERATOR CERTIFICATION

I hereby certify that the information contained 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 a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Kurt Fagrelius — May 3, 2011
Signature — Date

Kurt Fagrelius
Printed Name

[18] 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 of Survey: MARCH 29, 2011

Signature and Seal of Professional Surveyor

JASON C. EDWARDS
NEW MEXICO
15269
REGISTERED PROFESSIONAL SURVEYOR

JASON C. EDWARDS
Certificate Number 15269

EXHIBIT B
OPERATIONS PLAN
St. Moritz #90

APPROXIMATE FORMATION TOPS:

Ojo Alamo	480'
Kirtland	565'
Fruitland	970'
Pictured Cliffs	1220'
Total Depth	**1370'**

Catch samples every 10 feet from 900-feet to total depth.

LOGGING PROGRAM:

Run cased hole GR-CCL-CNL from total depth to surface.

CASING PROGRAM:

Hole Size	Casing Size	Wt./ft.	Setting Depth	Grade and Condition
12-1/4"	8-5/8"	24#	120'	J-55
7-7/8"	5-1/2"	15.5#	1370'	J-55

Plan to drill a 12-1/4" hole and set 120' of 8-5/8" OD, 24#, J-55 surface casing, then plan to drill a 7-7/8" hole to total depth with gel-water mud program to test the Fruitland Coal. 5-1/2", 15.5#, J-55 production casing will be run and cemented. Cased hole GR-CCL-CNL log will be run. Productive zone will be perforated and fractured. After frac, the well will be cleaned out and production equipment will be installed.

CEMENTING PROGRAM:

Surface: Cement to surface with 75-cf Class B + 2% $CaCl_2$. Circulate to surface.

Production Stage- Cement w/~~160~~ 99-sx Premium Lite FM 3% BWOC Calcium Chloride + 0.25 lbs/sx Celloflake + 5 lbs/sk LCM-1 + 0.4% BWOC FL-52 + 8% BWOC Bentonite + 0.4% BWOC Sodium Metasilicate + 112.3% fresh water (12.1 lb/gal, 2.13 cu ft/sx - 210-cu ft slurry). Tail w/~~163~~ 100-sx Type III cement + 1 lb/sk Calcium Chloride + 0.25 lb/sx Celloflake + 0.2% BWOC FL-52 + 59% fresh water (14.6 lb/gal, 1.38 cu ft/sx-140-cu ft slurry).

Total cement slurry for production stage is 350-cf Circulate cement to surface.

An adequate spacer will be pumped ahead of the cement slurry to help prevent mud contamination of the cement. An adequate number of casing centralizers will be run through useable water zones to ensure that casing is centralized through these zones. The adequate number of centralizers will be determined based on API standards. Centralizers to impart a swirling action around the casing will be used just below and into the base of the lowest usable water zone. These devices will assist mud displacement, increase cement bonding potential and create an effective hydraulic seal.. A chronological log will be kept which records the pump rate, pressure, slurry density, and slurry volume for the cement job. The log will be sent to the BLM after completion of the job.

Maximum Anticipated Bottom Hole Pressure - 300 psi.

Drilling Fluid - will be fresh water with bentonite 8.9#/gal.

WELLHEAD EQUIPMENT:

Huber 8-5/8"x5-1/2" casing head, 1000# WP, tested to 2000#.
Huber 5-1/2"x2-7/8" tubing head, 1000# WP, tested to 2000#.

Blow-Out Preventer Equipment (BOPE): Exhibit D.

Annular preventer, double ram, or 2 rams with one being blind and one being a pipe ram.
Kill line (2" minimum)
1 kill line valve (2" minimum)
1 choke line valve
2 adjustable chokes
Upper kelly cock valve with handle available.
Safety valve and subs to fit all drill string connections in use.
Pressure gauge on choke manifold.
2" minimum choke line.
Fill-up line.

Working pressure for all BOPE will be 2,000 psi or greater.

Will test BOPE (blind rams, pipe rams, choke manifold and surface casing) separately. Each test will include a low pressure test to 250-psig held for five minutes and a high pressure test to 800-psig held for thirty minutes (with no more than a 10-percent pressure drop during the duration of the tests). If a 10-percent or greater pressure drop occurs; a packer will be run to isolate the surface casing and BOPE to locate the source of the leak.

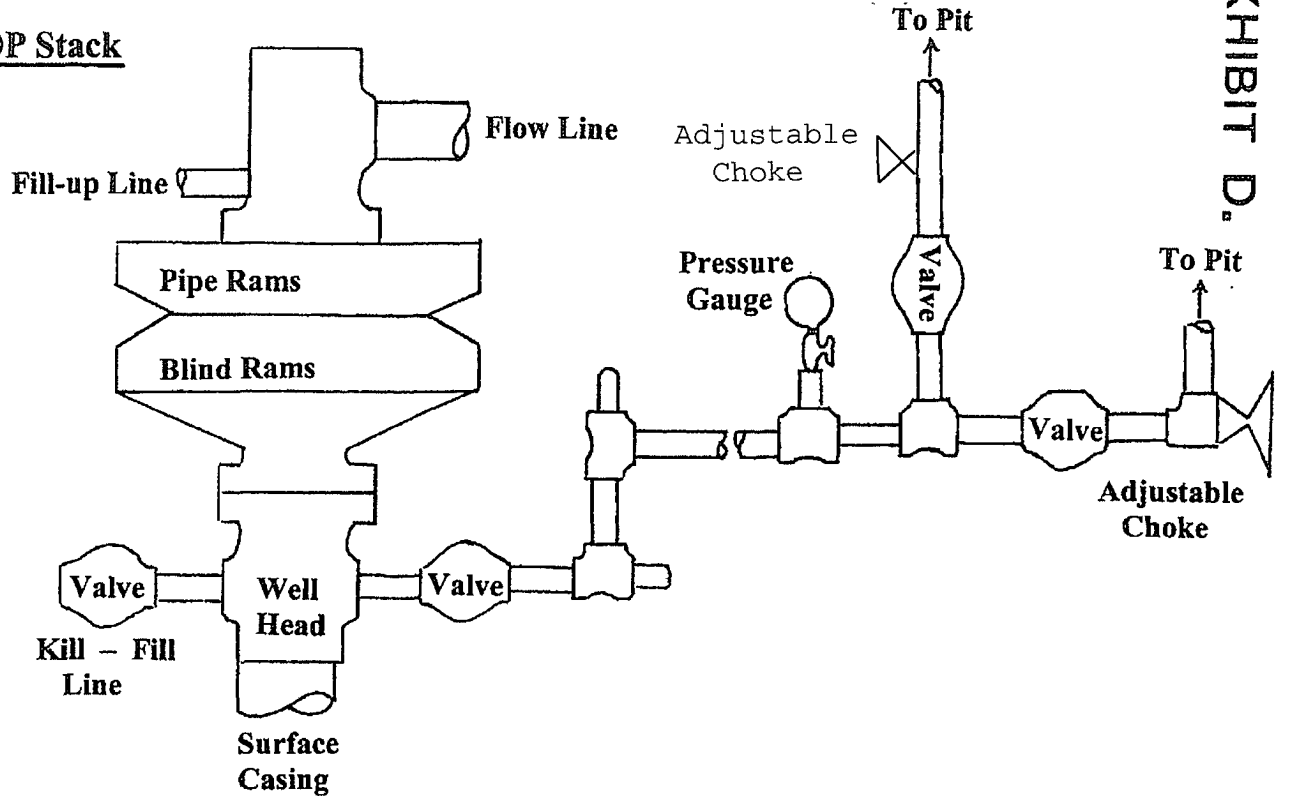
Contacts: Dugan Prod.Corp. Office & Radio Dispatch: 325-1821

Mark Brown	Kurt Fagrelius	John Alexander
327-3632 (H)	325-4327 (H)	325-6927 (H)
320-8247 (M)	320-8248 (M)	320-1935 (M)

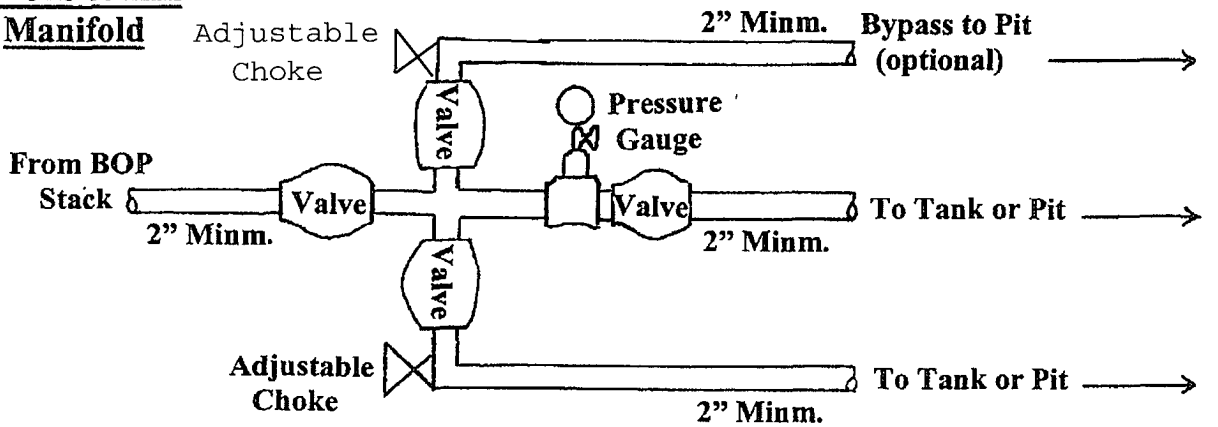
EXHIBIT D.

Well Control Equipment Schematic for 2,000 psi BOP

BOP Stack



Choke & Kill Manifold



Working Pressure for all equipment is 2,000 psi or greater

DUGAN PRODUCTION CORP.
St. Moritz #90