

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

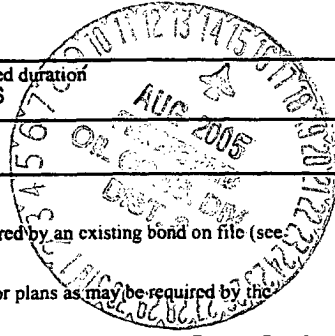
FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

2005 JUN 17 PM

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NO-G-0103-1462	
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 Navajo Allotted	
2. Name of Operator DUGAN PRODUCTION CORP. Contact: KURT FAGRELIUS E-Mail: kfagrelus@duganproduction.com		7. If Unit of CA Agreement, Name and No. 070 FARMINGTON NM	
3a. Address 709 EAST MURRAY DRIVE FARMINGTON, NM 87401	3b. Phone No. (include area code) Ph: 505.325.1821 Fx: 505.327.4613	8. Lease Name and Well No. Bitsili Com #90	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1860' FNL and 1975' FEL, Lat. 36.1806, Long. 107.4939 At proposed prod. zone Same as above.		9. API Well No. 30-045-33187	
14. Distance in miles and direction from nearest town or post office* Approx. 4-miles south of Blanco Trading Post, NM		10. Field and Pool, or Exploratory Basin Fruitland Coal	
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1860 feet	16. No. of Acres in Lease 160.0 acres	11. Sec., T., R., M., or Blk. and Survey or Area G Sec. 19, T24N, R9W	
18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 500'	19. Proposed Depth 1750'	12. County or Parish SAN JUAN	13. State NM
21. Elevations (Show whether DF, KB, RT, GL, etc.) GL-6883'	22. Approximate date work will start ASAP	17. Spacing Unit dedicated to this well E/2 320-acres	
24. Attachments		20. BLM/BIA Bond No. on file	
25. Signature <i>Kurt Fagrelus</i>		23. Estimated duration 5-DAYS	

H



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

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

25. Signature <i>Kurt Fagrelus</i>	Name (Printed/Typed) KURT FAGRELIUS	Date 6-18-2005
Title GEOLOGIST		
Approved by (Signature) <i>Roland Adams</i>	Name (Printed/Typed) ROLAND ADAMS	Date 08/12/05
Title Acting AFM	Office FARMINGTON DISTRICT OFFICE	

Application approval does not warrant or certify 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.

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 interval will be completed from approximately 1595' - 1605'. 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

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

✓

NMOC

District I
PO Box 1980, Hobbs, NM 88241-1980

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-1C
Revised February 21, 199
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

District II
PO Drawer DD, Artesia, NM 88211-0719

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

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

2005 JUN 17 10 24 AM AMENDED REPORT

District IV
PO Box 2088, Santa Fe, NM 87504-2088

RECEIVED

070 FARMINGTON NM

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 35063	*Property Name BITSILI COM		*Well Number 90
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6883

¹⁰ Surface Location

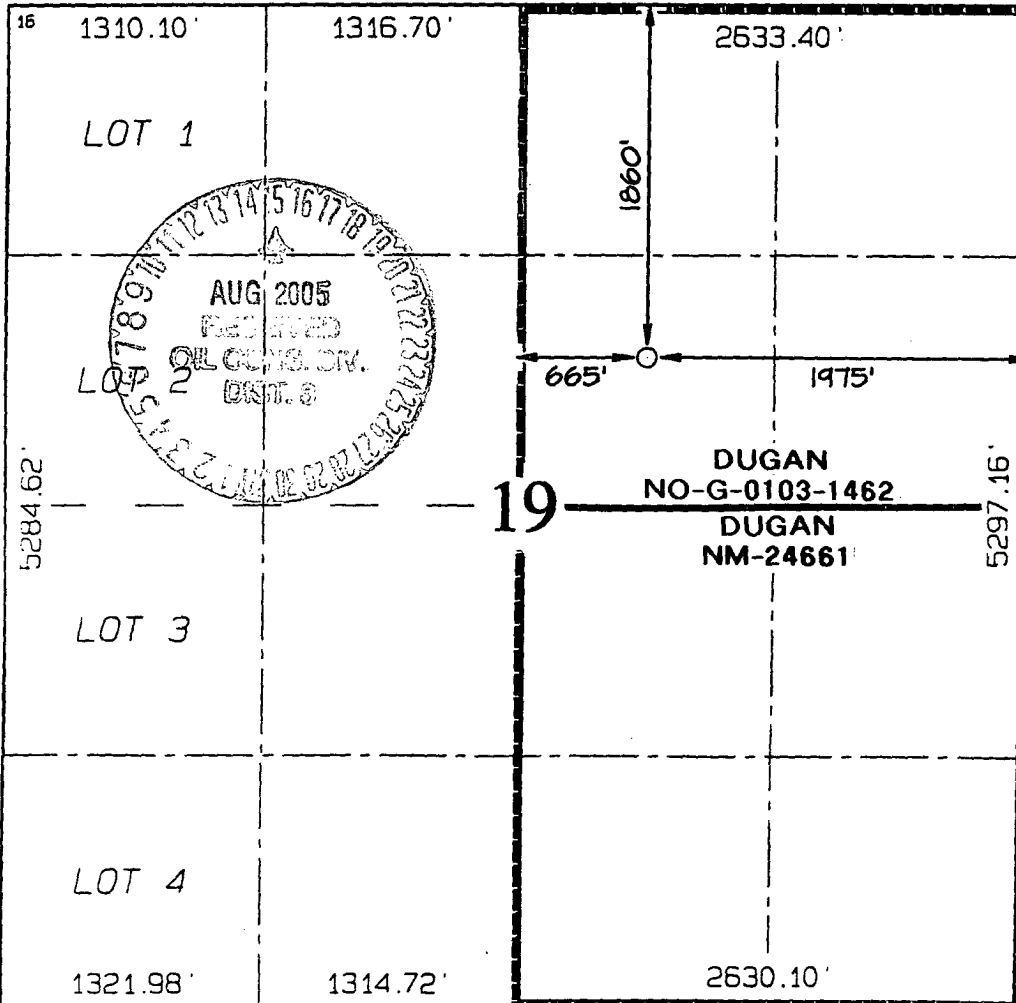
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	19	24N	9W		1860	NORTH	1975	EAST	SAN JUAN

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 320.0 ACRES - (E/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ 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



¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief

Kurt Fagrelius
Signature

Kurt Fagrelius
Printed Name

Geology
Title

June 18, 2005
Date

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 Revised: JUNE 1, 2005
Survey Date: FEBRUARY 3, 2005

Signature and Seal of Professional Surveyor



JASON C. EDWARDS
Certificate Number 15269

Submit 3 Copies To Appropriate District Office.
 District I
 1625 N. French Dr., Hobbs, NM 88240
 District II
 1301 W. Grand Ave., 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 and Natural Resources

Form C-103
 March 4, 2004

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

WELL API NO.
5. Indicate Type of Lease Navajo Allt. STATE <input type="checkbox"/> FEE <input type="checkbox"/> <u>ROY XX</u>
6. State Oil & Gas Lease No. Navajo Allotted NO-G-0103-1462
7. Lease Name or Unit Agreement Name Bitsili Com
8. Well Number #90
9. OGRID Number 06515
10. Pool name or Wildcat Basin Fruitland Coal

SUNDRY NOTICES AND REPORTS ON WELLS
 (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1. Type of Well:
 Oil Well Gas Well Other

2. Name of Operator Dugan Production Corp.

3. Address of Operator 709 East Murray Drive, Farmington, NM 87401

4. Well Location
 Unit Letter G : 1860 feet from the north line and 1975 feet from the east line
 Section 19 Township 24N Range 9W NMPM County San Juan

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
6883' G.L.

Pit or Below-grade Tank Application (For pit or below-grade tank closures, a form C-144 must be attached)
 Pit Location: UL G Sect 19 Twp 24N Rng 9W Pit type Drilling Depth to Groundwater 570' Distance from nearest fresh water well >1000'
 Distance from nearest surface water >200' Below-grade Tank Location UL _____ Sect _____ Twp _____ Rng _____ ;
 feet from the _____ line and _____ feet from the _____ line

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
PERFORM REMEDIAL WORK <input type="checkbox"/>	PLUG AND ABANDON <input type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input type="checkbox"/>	PLUG AND ABANDONMENT <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	MULTIPLE COMPLETION <input type="checkbox"/>	CASING TEST AND CEMENT JOB <input type="checkbox"/>	
OTHER: Reserve pit for drilling: lined <input checked="" type="checkbox"/>		OTHER: <input type="checkbox"/>	

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion. A water based gel-mud will be used for drilling surface and production casing hole. Standard 2,000 psi BOP will be used to drill production hole. The Fruitland Coal will be perforated and fracture stimulated. Reserve pit will be lined with an impervious material. Pits will be constructed and abandoned as per BLM stipulations.

Sand NM OCD Rules Equiv - Lines

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCDC guidelines a general permit or an (attached) alternative OCD-approved plan .
 Navajo Allotted lease pits will be constructed and abandoned as per BLM conditions of approval
 SIGNATURE Kurt Fagrelius TITLE Geology DATE 06/02/2005

Type or print name Kurt Fagrelius E-mail address kfagrelius@duganproduction.com Telephone No. 325-1821

(This space for State use)

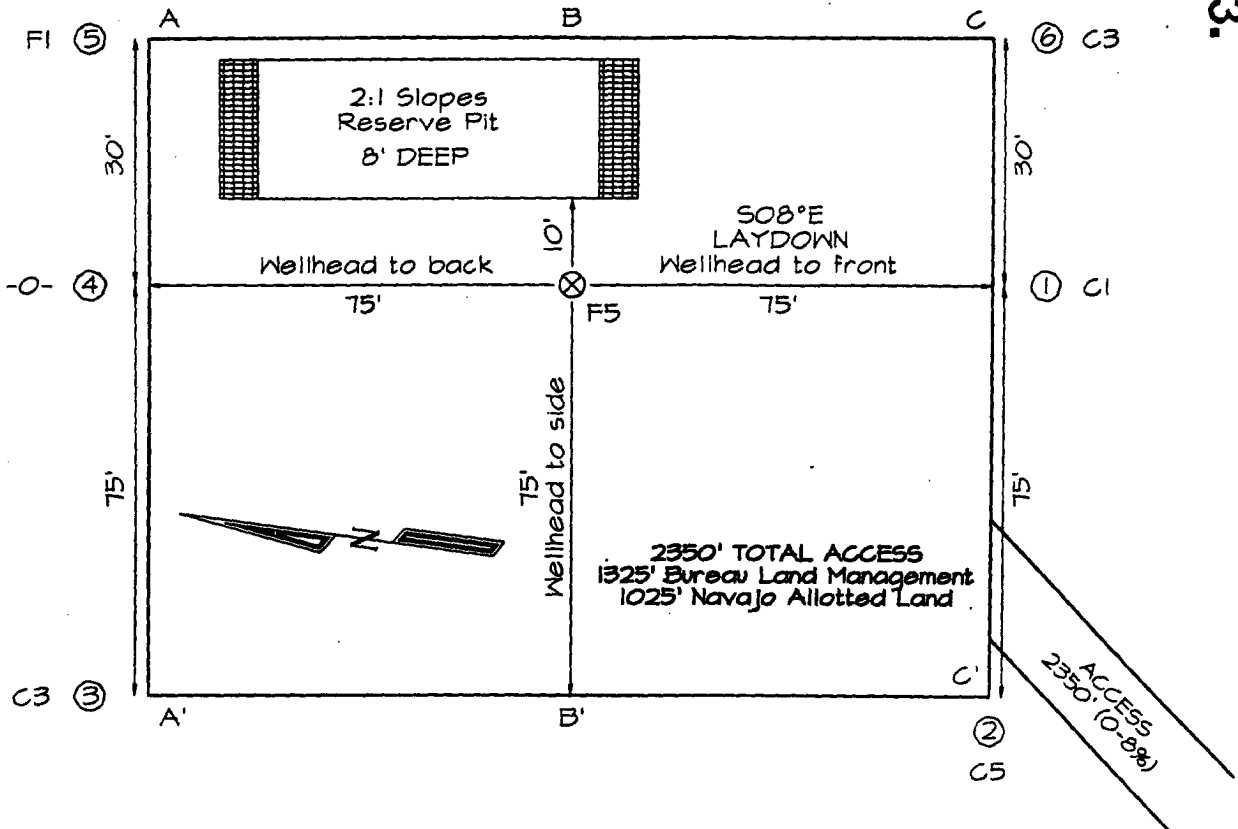
APPROVED BY [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. III DATE AUG 15 2005
 Conditions of approval, if any: Follow NM OCD guide lines for pit construction and abandonment

DUGAN PRODUCTION CORPORATION BITSILI #90
1860' FNL & 1975' FEL, SECTION 19, T24N, R9W, NMPM
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6883'

PLAT 3.

LATITUDE: 36°18'06"
LONGITUDE: 107°49'39"
 DATUM: NAD1927

PLAT NOTE:
 SURFACE OWNER
 Navajo Allotted Land



A-A'					
6898'					
6888'					
6878'					

B-B'					
6898'					
6888'					
6878'					

C-C'					
6898'					
6888'					
6878'					

Note: Contractor should call One-Call for location of any marked or unmarked buried pipelines or cables on well pad and/or access road at least two (2) working days prior to construction

EXHIBIT B
OPERATIONS PLAN
Bitsili Com #90

APPROXIMATE FORMATION TOPS:

Ojo Alamo	570'
Kirtland	650'
Fruitland	1210'
Pictured Cliffs	1610'
Total Depth	1750'

Catch samples every 10 feet from 1500 feet to total depth.

LOGGING PROGRAM:

Run case-dhole GR-CCL-CNL from total depth to surface.

CASING PROGRAM:

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./ft.</u>	<u>Setting Depth</u>	<u>Grade and Condition</u>
11"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1750'	J-55

Plan to drill a 11" hole and set 120' of 8-5/8" OD, 24#, J-55 surface casing. Then plan to drill a 7" hole to total depth with gel-water mud program to test the Fruitland Coal. 5-1/2", 14#, 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 70 cf Class B + 2% CaCl₂.
Circulate to surface.

Production Stage: Cement with 170 cf 2% lodense with
1/4# celloflake/sx followed by 90 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 260 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 usable 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, pump pressure, slurry density, and slurry volume for the cement job. The log will be sent to the BLM after completion of the job.

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#.

BOP and Related Equipment will include for a 2000 psi system:

(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 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.

Contacts:

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

Mark Brown 327-3632 (H)
320-8247 (M)

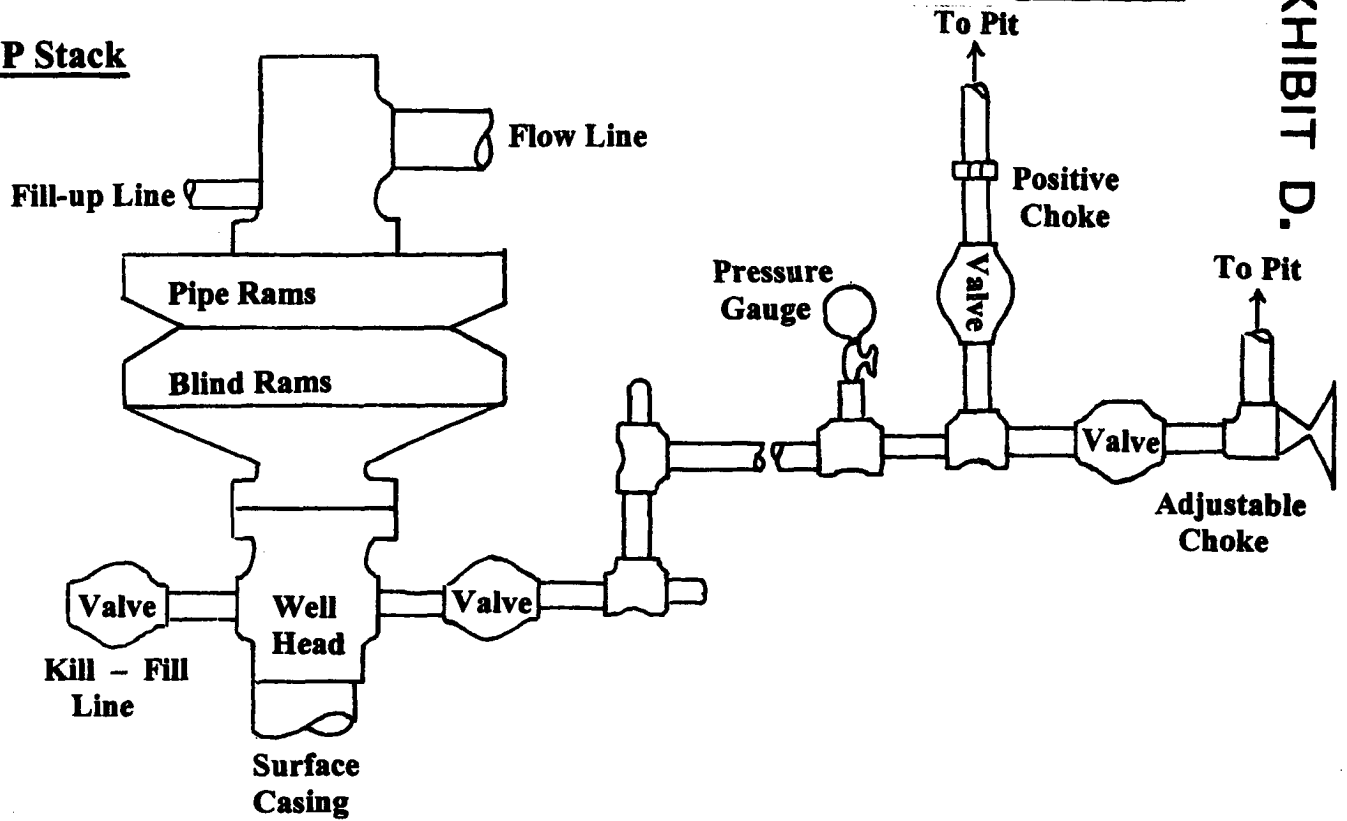
Kurt Fagrelus 325-4327 (H)
320-8248 (M)

John Alexander 325-6927 (H)
320-1935 (M)

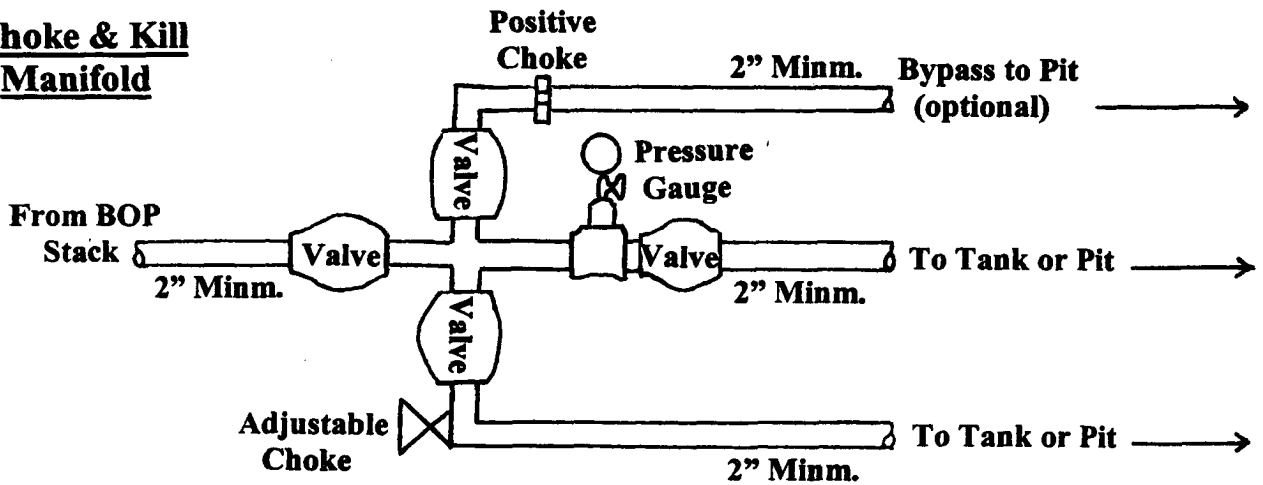
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

**DUGAN PRODUCTION CORP.
BITSILI COM #90**