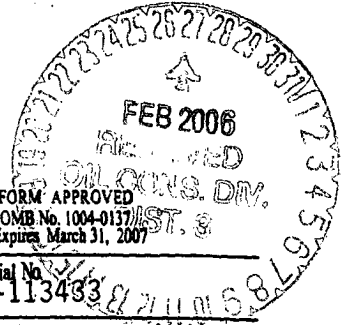


UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

2006 JAN 5 PM 12 59

FORM APPROVED
OMB No. 1004-0137/ST. 8
Expires March 31, 2007



APPLICATION FOR PERMIT TO DRILL OR REENTER

| | | | |
|--|---|--|--|
| 1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER | | 5. Lease Serial No. NM-113433 | |
| 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 Dugan Production Corp. | | 7. If Unit or CA Agreement, Name and No. | |
| 3a. Address 709 East Murray Drive, Farmington, NM 87401 | | 8. Lease Name and Well No. Cutie Patutie #90-S | |
| 3b. Phone No. (include area code) 505-325-1821 | | 9. API Well No. 30-045-33494 | |
| 4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1650' FSL & 1650' FEL, Lat. 36.4933, Long. 108.1838 At proposed prod. zone Same as above Same as above. | | 10. Field and Pool, or Exploratory Basin Fruitland Coal | |
| 11. Sec., T. R. M. or Blk and Survey or Area J Sec. 9, T30N, R14W NMPM | | 12. County or Parish San Juan | |
| 13. State NM | | 14. Distance in miles and direction from nearest town or post office* Approx. 8-miles north of Kirtland, New Mexico | |
| 15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1650' | 16. No. of acres in lease 320.0 acres | 17. Spacing Unit dedicated to this well E/2 320 acres | |
| 18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 2700' | 19. Proposed Depth 1360' | 20. BLM/BIA Bond No. on file On file | |
| 21. Elevations (Show whether DF, KDB, RT, GL, etc.) GL-5633 | 22. Approximate date work will start* ASAP | 23. Estimated duration 7-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 <i>Kurt Fagrelus</i> | Name (Printed/Typed) Kurt Fagrelus | Date 2/4/2006 |
|---------------------------------------|---------------------------------------|------------------|

| | | |
|---|--|-----------------|
| Title Geology | Name (Printed/Typed) <i>[Signature]</i> | Date 2/24/06 |
| Approved by (Signature) <i>[Signature]</i> | 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 1180' - 1192'. The interval will be fractured.



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

NMOC

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

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

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

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

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

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION

PO Box 2088 2006 JAN 5 PM 12 59
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994

Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

RECEIVED ☐ AMENDED REPORT
070 FARMINGTON NM

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | | |
|-----------------------------|--|---------------------|------------------------------------|
| *API Number 30-045-33494 | | *Pool Code 71629 | *Pool Name BASIN FRUITLAND COAL |
| *Property Code 354160 | *Property Name CUTIE PATUTIE | | *Well Number 90S |
| *GRID No. 006515 | *Operator Name DUGAN PRODUCTION CORPORATION | | *Elevation 5633 |

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 |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| J | 9 | 30N | 14W | | 1650 | SOUTH | 1650 | 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 |
|---|---------|----------|-------|---------|------------------|---------------------|---------------|----------------|--------|
| | | | | | | | | | |
| *Dedicated Acres 320.0 Acres - (E/2) | | | | | *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

| | | | | | |
|----------|----------|----------|--------------------|----------|----------|
| 15 | 5306.40' | | DUGAN NM-113433 | | 1314.06' |
| | | | | | |
| | | | | | |
| | | | | | |
| 5280.00' | | 9 | | 1320.00' | |
| | | | | 2634.06' | |
| | | | | 1650' | |
| | | | | 1650' | |
| | | 5280.00' | | | |

¹⁷ OPERATOR CERTIFICATION
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief
Kurt Fagrelus
Signature
Kurt Fagrelus
Printed Name
Geology
Title
Jan. 4, 2006
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.
Survey Date: NOVEMBER 23, 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
May 27, 2004

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

| | |
|--------------------------------------|---|
| WELL API NO. | 30-045-33494 |
| 5. Indicate Type of Lease | FEDERAL <input checked="" type="checkbox"/> STATE <input type="checkbox"/> FEE <input type="checkbox"/> |
| 6. State Oil & Gas Lease No. | Federal NM-113433 |
| 7. Lease Name or Unit Agreement Name | Cutie Patutie |
| 8. Well Number | 90-S |
| 9. OGRID Number | 006515 |
| 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

4. Well Location
Unit Letter J : 1650 feet from the south line and 1650 feet from the east line
Section 9 Township 30N Range 14W NMPM County San Juan

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
GL-5633

Pit or Below-grade Tank Application ☒ or Closure ☐

Pit type Drilling Depth to Groundwater +100' Distance from nearest fresh water well +1000' Distance from nearest surface water +200'

Pit Liner Thickness: 12 mil Below-Grade Tank: Volume bbls; Construction Material Synthetic

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

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☐
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐

OTHER: Reserve pit for drilling (lined) ☒

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: ☐

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 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 1180' - 1192'. The interval will be fractured.

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 NMOCD guidelines ☒ (a general permit ☐ or an (attached) alternative OCD-approved plan ☐.

SIGNATURE Kurt Fagrellius TITLE Geology DATE 2/4/2006

Type or print name Kurt Fagrellius

E-mail address: kfagrellius@duganproduction.com

Telephone No. 325-1821

For State Use Only

APPROVED BY: [Signature]

TITLE DEPUTY OIL & GAS INSPECTOR, DIST. #3

DATE FEB 27 2006

Conditions of Approval (if any):

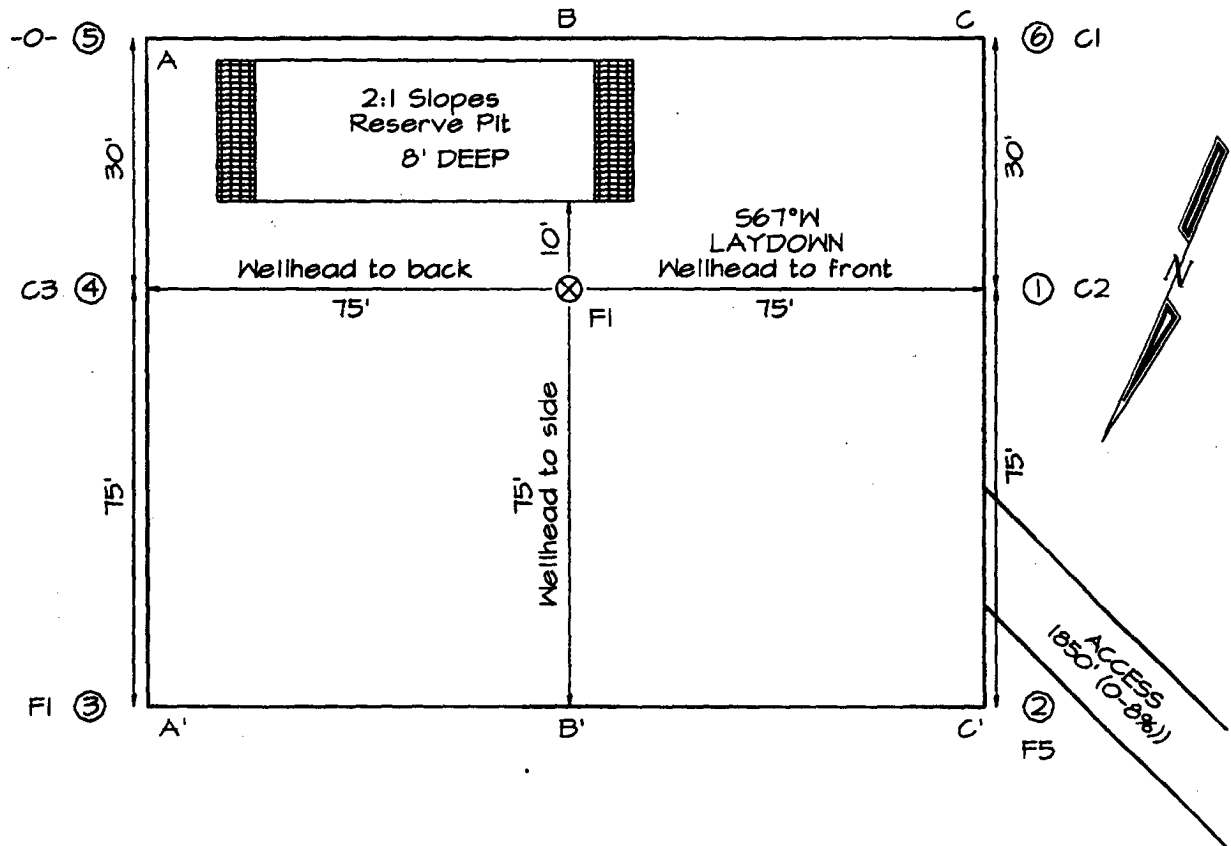
DUGAN PRODUCTION CORPORATION CUTIE PATUTIE #90S
1650' FSL & 1650' FEL, SECTION 9, T30N, R14W, NMPM
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 5633'

PLAT 3.

LATITUDE: 36°49'33"
LONGITUDE: 108°18'38"
 DATUM: NAD1927

PLAT NOTE:

SURFACE OWNER
 Bureau of Land
 Management



| A-A' | | | | | | |
|-------|--|--|--|--|--|--|
| 5644' | | | | | | |
| 5634' | | | | | | |
| 5624' | | | | | | |

| B-B' | | | | | | |
|-------|--|--|--|--|--|--|
| 5644' | | | | | | |
| 5634' | | | | | | |
| 5624' | | | | | | |

| C-C' | | | | | | |
|-------|--|--|--|--|--|--|
| 5644' | | | | | | |
| 5634' | | | | | | |
| 5624' | | | | | | |

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
CUTIE PATUTIE #90-S

APPROXIMATE FORMATION TOPS:

| | | | |
|-----------|---------|--------------------|--------------|
| Kirtland | Surface | Pictured Cliffs | 1195' |
| Fruitland | 775' | Total Depth | 1360' |

Catch samples every 10 feet from 1100 feet to TD.

LOGGING PROGRAM:

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

CASING PROGRAM:

| <u>Hole</u> <u>Size</u> | <u>Casing</u> <u>Size</u> | <u>Wt./ft.</u> | <u>Setting</u> <u>Depth</u> | <u>Grade and</u> <u>Condition</u> |
|----------------------------|------------------------------|----------------|--------------------------------|--------------------------------------|
| 12-1/4" | 8-5/8" | 24# | 120' | J-55 |
| 7" | 5-1/2" | 14# | 1360' | 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" 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 140 cf 2%Lodense with
1/4# celloflake/sx followed by 70 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 210 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) |

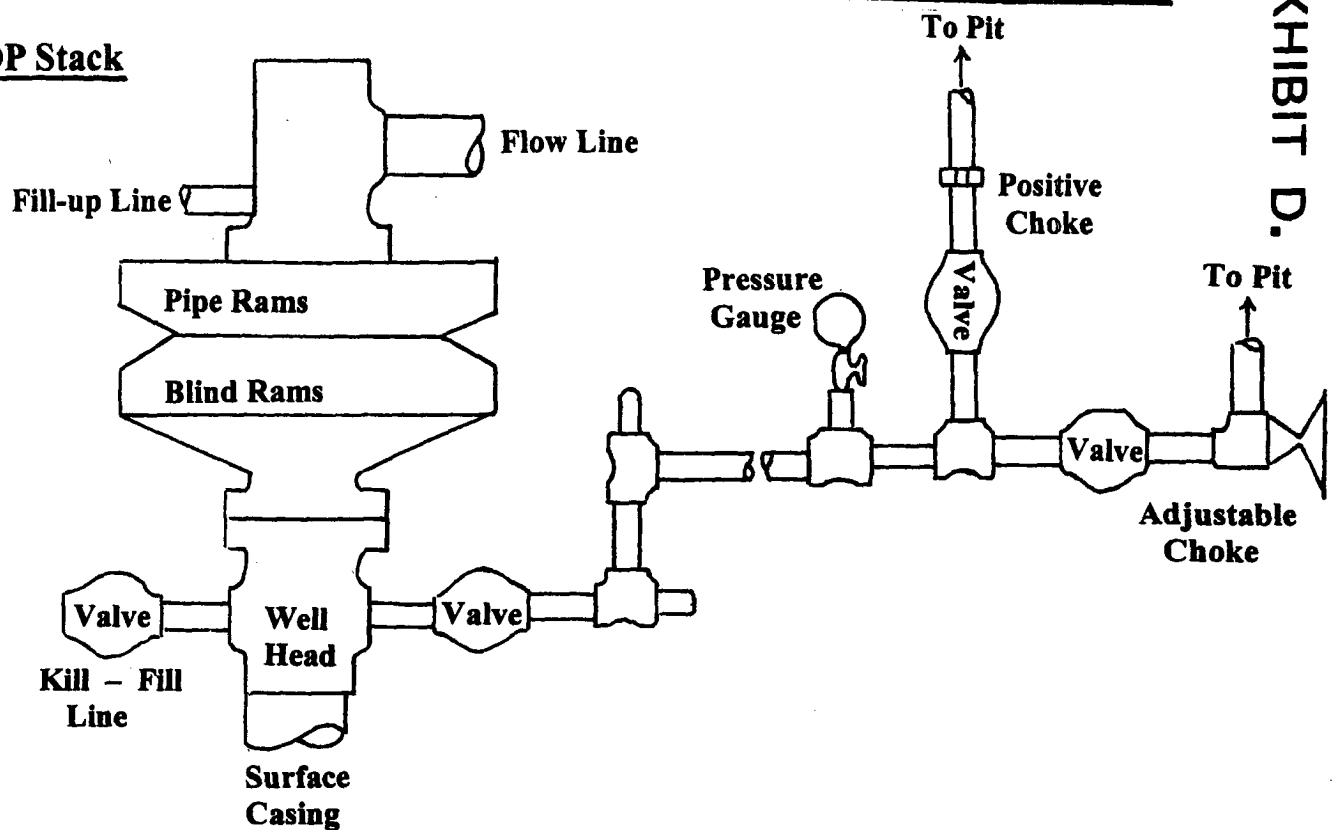
| | |
|---------------|--------------|
| Kurt Fagrelus | 325-4327 (H) |
| | 320-8248 (M) |

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

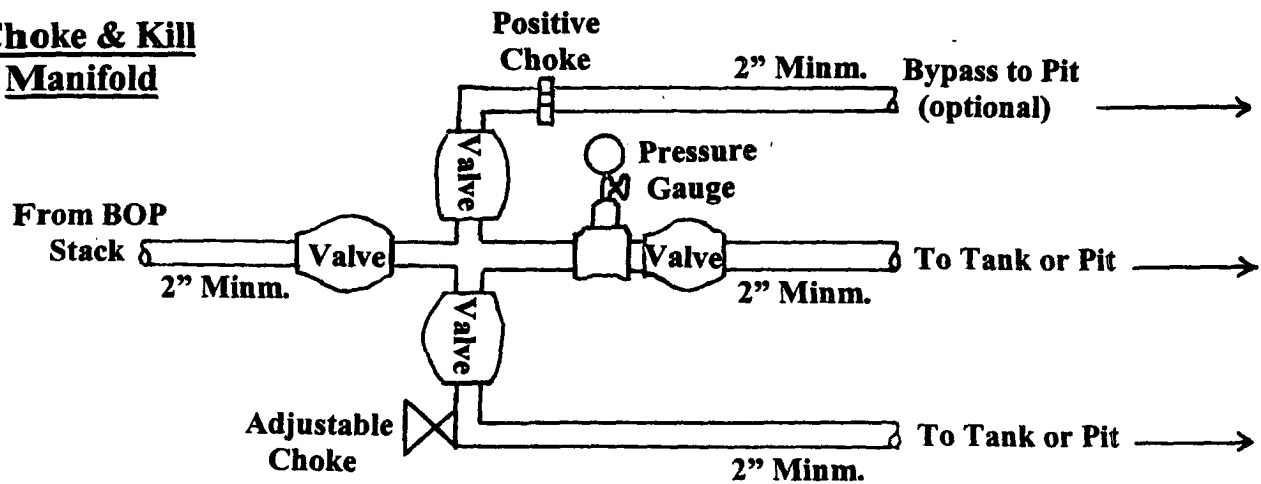
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
CUTIE PATUTIE #90-S