

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT 2006 JAN
TION FOR PERMIT TO DRILL OR REENTER



RECEIVED

070 FARMINGTON N

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		070 FARMINGTON NM		7. If Unit or CA Agreement, Name and No.	
				Federal 21-6-28	
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				8. Lease Name and Well No. 3	
2. Name of Operator SG Interests I, LTD				9. API Well No. 30-043-21010	
3a. Address P.O. Box 2677 Durango, CO 81302	3b. Phone No. (include area code) (970) 259-2701	10. Field and Pool, or Exploratory Basin Fruitland Coal			
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1310' FSL & 1310' FWL At proposed prod. zone		11. Sec., T., R., M., or Blk. and Survey or Area M Section 28, 21N, 6W			
14. Distance in miles and direction from nearest town or post office* approximately 13 miles southwest of Counselor Trading Post, New Mexico		12. County or Parish Sandoval		13. State NM	
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1310'	16. No. of Acres in lease 1,161.35	17. Spacing Unit dedicated to this well W/2 320			
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. See attached map	19. Proposed Depth 985'	20. BLM/BIA Bond No. on file PIB0003277 NM 1935			
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 6,868 GR	22. Approximate date work will start* as soon as permitted		23. Estimated duration 1 month		
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 	Name (Printed/Typed) William Schwab III	Date 1/5/06
Title		
Agent for SG Interests I, LTD		
Approved by (Signature) 	Name (Printed/Typed)	Date 3/7/06
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.

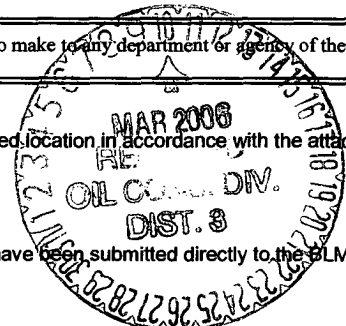
Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

**(Instructions on reverse)*

SG Interests I, LTD. proposes to drill a well to develop the Basin Fruitland Coal formation at the above described location in accordance with the attached drilling and surface use plans.

The surface is under jurisdiction of the Bureau of Land Management, Farmington Field Office.

This location has been archaeologically surveyed by Aztec Archaeological Consultants. Copies of their report have been submitted directly to the BLM.



MMOC

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

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

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1008 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

Form C-102

Revised June 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

'API Number 30-043-21010	'Pool Code 71629	'Pool Name Basin Fruitland Coal
'Property Code 35512	'Property Name FEDERAL 21-6-28	'Well Number 3
'OGRID No. 20572	'Operator Name SG INTERESTS I, LTD.	'Elevation 6868'

10 Surface Location

UL or lot no. M	Section 28	Township 21N	Range 6W	Lot Idn	Feet from the 1310	North/South line SOUTH	Feet from the 1310	East/West line WEST	County SANDOVAL
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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" 320W "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

	17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. Signature: <i>William Schubert</i> Printed Name: William Schubert Title and E-mail Address: Agent for SG Interests. Date: 12/1/05
	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: November 4, 2005 Signature and Seal of Professional Surveyor: <i>William E. Mahnke II</i> Certificate Number: 8466

Submit 3 Copies To Appropriate District Office

District I

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District II

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State of New Mexico
Energy, Minerals and Natural Resources

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.

Santa Fe, NM 87505

Form C-103

May 27, 2004

WELL API NO.

5. Indicate Type of Lease

STATE ☐ FEE ☐ FED X

6. State Oil & Gas Lease No.

Federal NMNM-113429

lease number being verified with NMSO

7. Lease Name or Unit Agreement Name

Federal 21-6-28

8. Well Number #3

9. OGRID Number

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 SG Interests I, Ltd

3. Address of Operator

C/O Nika Energy Operating, PO Box 2677, Durango, CO, 81303

4. Well Location

Unit Letter: M 1310 feet from the south line and 1310 feet from the west line

Section 28 Township 21N Range 6W NMPM County Sandoval

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

6,868 ft

Pit or Below-grade Tank Application ☒ or Closure ☐

Pit type Drilling Depth to Groundwater >1,000' Distance from nearest fresh water well >1,000' Distance from nearest surface water approx. 500'

Pit Liner Thickness: 12 mil Below-Grade Tank: Volume 1000 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: Pit Application ☒

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.

See attached Drilling Program and BOP

Drilling/Completion pit to be located approximately 15 feet from wellhead. Pit multi-use drilling and completion to avoid additional site disturbance and pit will be considered out of service once production tubing set. Pit to be 75 feet long by 15 feet wide by 10 feet deep. Pit to be constructed, operated and closed in accordance with NMOCD guidelines and SGI procedures.

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 William Schwab III TITLE Agent for SG Interests I, Ltd. DATE 1/5/06

Type or print name William Schwab III

E-mail address: tripp@nikaenergy.com

Telephone No. 970-259-2701

For State Use Only

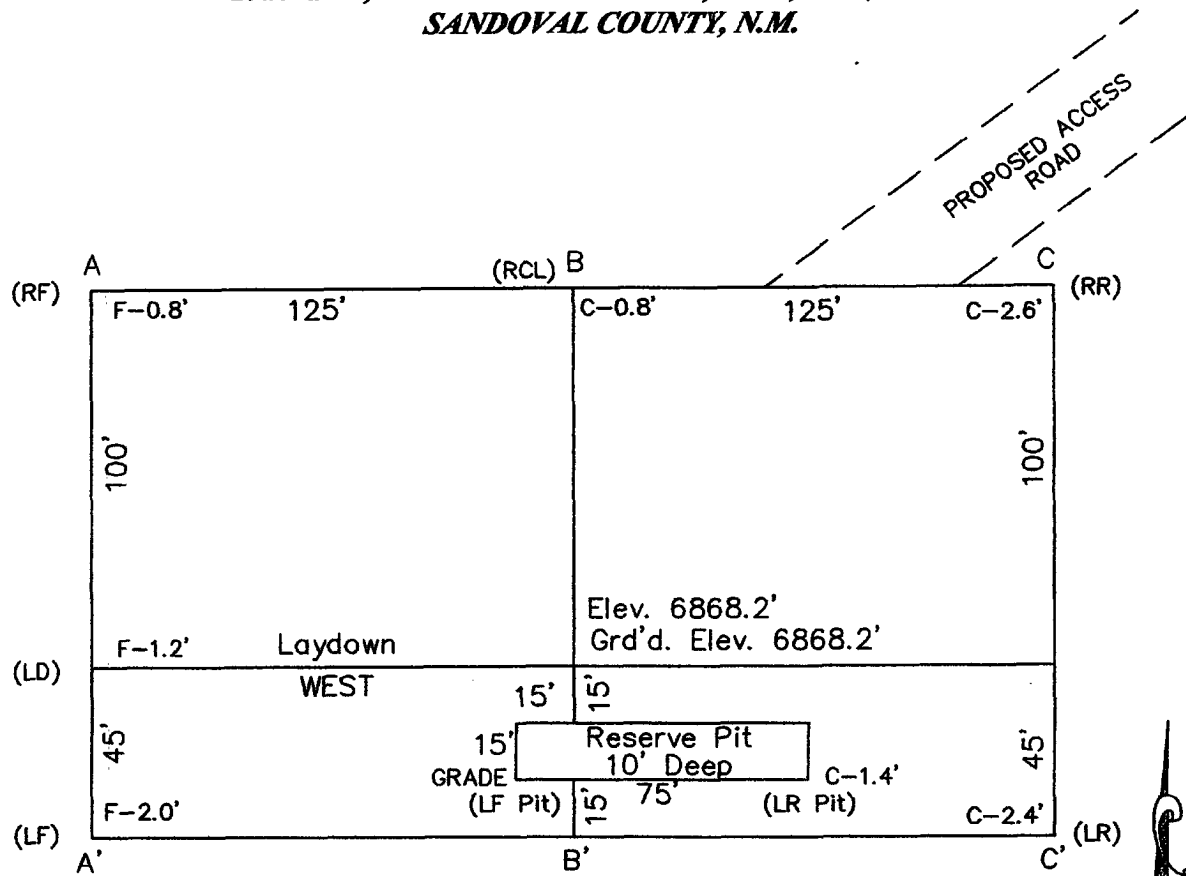
APPROVED BY: [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. III DATE MAR 07 2006

Conditions of Approval (if any):

SG INTERESTS I, LTD.

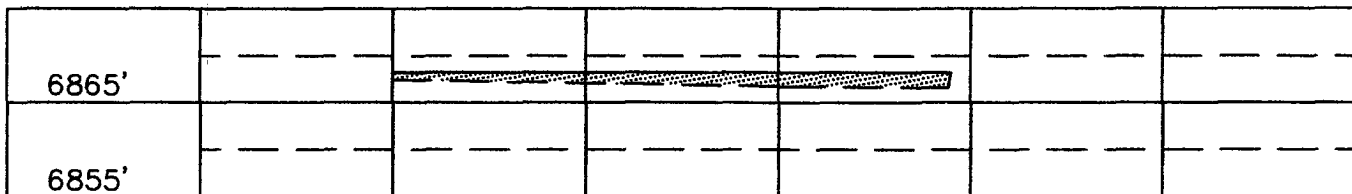
FEDERAL 21-6-28 #3

1310' FSL, 1310' FWL SECTION 28, T21N, R6W, NMPM
SANDOVAL COUNTY, N.M.

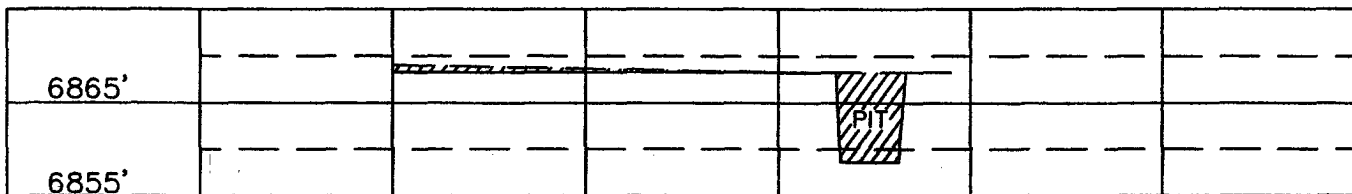


Scale: 1"=50'

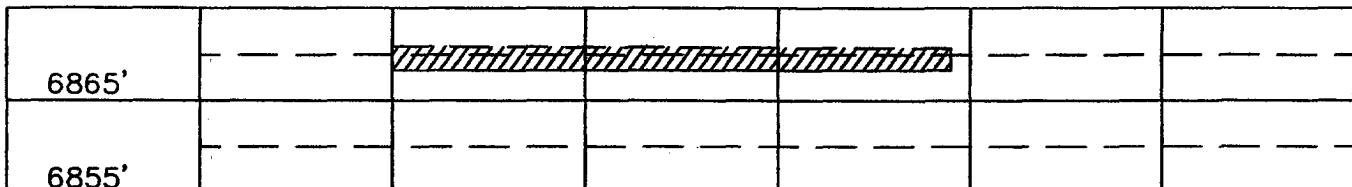
A-A' Vert.: 1"=20' Horiz.: 1"=50' C/L



B-B'



C-C'



SG Interests I, Ltd.
(Agent: Nika Energy Operating, LLC)
PO Box 2677
Durango, CO 81302
(970) 259-2701

Federal 21-6-28 #3
SWSW Sec 28-21N-R6W
1310' FSL & 1310' FWL
Sandoval County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	285'
Kirtland	435'
Fruitland	610'
Pictured Cliffs	835'
Total Depth	985'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	610'
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3. Minimum Specifications for Pressure Control Equipment:

BOP equipment and accessories will meet or exceed BLM requirements outlined in 43 CFR Part 3160.

A 2000 psig double ram hydraulic BOP will be used (see attached diagram). Accessories to the BOP will meet BLM requirements for a 2000 psig system. The accumulator system capacity will be sufficient to close all BOPE with a 50% safety factor. Fill line, kill line and line to choke manifold will be 2". BOP's will be function tested every 24 hours and will be recorded on IADC log.

Surface casing will be tested to 1500 psig for 30 minutes.

Eight Point Drilling Program - Federal 21-6-28 #3

Page 2

Accessories to BOPE will include upper and lower Kelly cocks with handles, stabbing valve to fit drill pipe on floor at all times, string float at bit, 2000 psig choke manifold with 2" adjustable and 2" positive chokes, and pressure gauge.

4. Casing and Cementing Program:

<u>Hole Size</u>	<u>Interval</u>	<u>Csg Size</u>	<u>Wt. Grd, Jt</u>
12-1/4"	0-150'	7"	20#, J-55, STC
6-1/4"	0-985'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 140 sx (165 cu ft) class B w/2% CaCl and 1/4#/sx of celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volumes include excess to circulate cement to surface. A guide shoe, insert float and three (3) centralizers will be used. WOC time is 8 hours. The casing will be pressure tested to 1500 psig.

Production Casing will be cemented with 120 sx (142 cu ft) class B w/2% CaCl and 1/4#/sx celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volume includes excess to circulate cement to surface. In the event cement is not circulated a temperature survey will be run to determine the actual cement top. Cementing equipment will include a guide shoe, float collar and 7 centralizers. Class G or H cement may be used depending on availability of Class B.

5. Mud Program:

A native water based mud system (FW) will be used initially followed by a low-solids, non-dispersed gel system (LSND) as needed to condition the hole for logs. Adequate amounts of lost circulation and weighting material will be on location if needed as well as sorbitive agents to handle potential spills of fuel or lubricants.

<u>Depth</u>	<u>Type</u>	<u>Wt (ppg)</u>	<u>Vis (sec)</u>	<u>Wtr loss</u>
0-150'	FW	± 8.5	30-33	NC
150'-TD	FW & LSND	± 8.7-9.1	30-50	8-10 cc

6. Testing, Coring and Logging Program:

No DST's or cores are planned. Openhole logs will include GR, Induction, Density and Caliper Logs. The GR-Density logs will be run from TD to the top of the Fruitland formation. GR-Induction-Caliper logs will be run from TD to the bottom of the surface casing.

7. Anticipated Abnormal Pressures and Temperatures:

No abnormal pressures or temperatures are expected in this well. Maximum anticipated Fruitland reservoir pressure is 300 psig with a normal temperature gradient.

8. Operations:

Anticipated spud date is January 2006 or as soon as permits are received and work can be scheduled. Estimated drilling time is 4 - 5 days. The Fruitland will be completed as a cased hole completion, perforated and hydraulically fracture stimulated. Completion operations are expected to take 5 - 7 days and will commence as soon after completion of drilling operations and scheduling allow.

Blow Out Preventer (BOP) Exhibit #1

2-M SYSTEM

