



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401

IN REPLY REFER TO:
3162.3-1 (211)

30-043-21001

March 6, 2006

SG Interests I, LTD
c/o NIKA Energy Operating
Attn: Williams Schwab III
PO Box 2677
Durango, CO 81302

Dear Mr. Schwab:

Enclosed is your Application for Permit to Drill (APD) for the following well:

Federal 21-6-30 #3, located 660' FSL and 660' FWL, Section 30, T21N, R6W, Sandoval County, New Mexico on federal lease No. NMNM 99732

The subject deficient and unapproved APD is hereby returned pursuant to 43 CFR 3160, Section III Part B2 of Onshore Order No. 1, which states "If the deficiencies are not corrected and/or the additional required information is not submitted within 45 days of the date of any oral or written notice, the application shall be returned to the proponent".

This APD is deficient in the following areas:

- Minimum specifications for pressure control equipment to be used and a schematic diagram showing sizes, pressure ratings, and the testing procedures and testing frequency
- Type and characteristics of the proposed circulating media to be employed in drilling, the quantities and types of mud and weighting material to be maintained, and the monitoring equipment to be used on the mud system
- The anticipated type and amount of testing, logging and coring
- The expected bottomhole pressure and any anticipated abnormal pressures or temperatures or potential hazards, such as hydrogen sulfide, expected to be encountered, along with contingency plans for mitigating such identified hazards
- Any other facets of the proposed operation

Enclosed for your reference, is an APD that is complete and contains all the required components of an APD. If you have questions regarding this issue, please contact me at (505) 599-6358.

If you wish to drill this well at some later date, please re-file your complete application.



Sincerely,

/s/ Adrienne Brumley

Adrienne Brumley
Petroleum Engineer,
Petroleum Management Team

Enclosures

cc: NMOCD