

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

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NM-94067
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.
Contact: KURT FAGRELIUS E-Mail: kfagrelus@duganproduction.com		8. Lease Name and Well No. Billie Com #90
3a. Address 709 EAST MURRAY DRIVE FARMINGTON, NM 87401	3b. Phone No. (include area code) Ph: 505.325.1821 Fx: 505.327.4613	9. API Well No. 30-045- 33872
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 790' FNL & 900' FWL, Lat. 36.10104 N. At proposed prod. zone Same as above Long. 107.65801 W.		10. Field and Pool, or Exploratory Basin Fruitland Coal
14. Distance in miles and direction from nearest town or post office* Approx. 70-miles SE of Farmington, New Mexico 87401		11. Sec., T., R., M., or Blk. and Survey or Area D Sec. 35, T22N, R8W NMPM
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 790 Feet	16. No. of Acres in Lease 960.0 Acres	12. County or Parish San Juan
18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 3,000 Feet	19. Proposed Depth 860 Feet	13. State NM
21. Elevations (Show whether DF, KB, RT, GL, etc.) GL-6672	22. Approximate date work will start ASAP	17. Spacing Unit dedicated to this well W/2-320.0 Acres
		20. BLM/BIA Bond No. on file On File
		23. Estimated duration 5-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 FAGRELIUS	Date 8/1/2006
Title GEOLOGIST		
Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed)	Date 9/27/06
Title AFM	Office PFO	

Application approval does not warrant or certify the applicant holds legal or equitable title to those rights in the subject lease which would enable 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 will be completed from approximately 695' - 710'. The interval will be fracture stimulated.

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

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

NMOC

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

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

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

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

'API Number 30-045-33872	'Pool Code 71629	'Pool Name BASIN FRUITLAND COAL
'Property Code 36049	'Property Name BILLIE COM	'Well Number 90
'OGAID No. 006515	'Operator Name DUGAN PRODUCTION CORPORATION	'Elevation 6672'

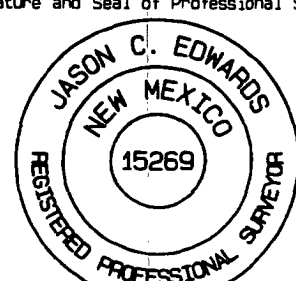
¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	35	22N	8W		790	NORTH	900	WEST	SAN JUAN

¹¹Bottom 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 - (W/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

<div data-bbox="115 982 617 1369"><p>16</p><p>5213.34'</p><p>790'</p><p>900'</p><p>LAT: 36.10104°N LONG: 107.65801°W DATUM: NAD83</p></div>	<div data-bbox="1104 982 1560 1369"><p>17 OPERATOR CERTIFICATION</p><p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p><p><i>Kurt Fagrelus</i></p><p>Signature</p><p>Kurt Fagrelus</p><p>Printed Name</p><p>Geology</p><p>Title</p><p>August 1, 2006</p><p>Date</p></div>
<div data-bbox="115 1369 617 1953"><p>5318.28'</p><p>DUGAN NM-94067</p><p>35</p><p>DUGAN NM-8902</p><p>5254.26'</p></div>	<div data-bbox="1104 1369 1560 1953"><p>18 SURVEYOR CERTIFICATION</p><p>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</p><p>Date of Survey: JULY 29, 2006</p><p>Signature and Seal of Professional Surveyor</p><div data-bbox="1179 1566 1474 1845"></div><p><i>JASON C. EDWARDS</i></p><p>Certificate Number 15269</p></div>

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.	30-045-33872
5. Indicate Type of Lease	Federal <input checked="" type="checkbox"/> STATE <input type="checkbox"/> FEE <input type="checkbox"/> XX
6. State Oil & Gas Lease No.	Federal NM-94067
7. Lease Name or Unit Agreement Name	Billie Com
8. Well Number	#90
9. OGRID Number	006515
10. Pool name or Wildcat	Basin Fruitland Coal

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

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 D : 790 feet from the north line and 900 feet from the west line
Section 35 Township 22N Range 8W NMPM County San Juan

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
GL-6672

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 ☐

SUBSEQUENT REPORT OF:
REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: Reserve pit for drilling (lined) ☒

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 695' - 710'. The interval will be fracture stimulated.

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 8/1/2006
Kurt Fagrellius kfagrellius@duganproduction.com 505-325-1821
Type or print name E-mail address: Telephone No.

For State Use Only

APPROVED BY: [Signature] DEPUTY OIL & GAS INSPECTOR, DIST. [Signature] DATE SEP 28 2006
Conditions of Approval (if any):

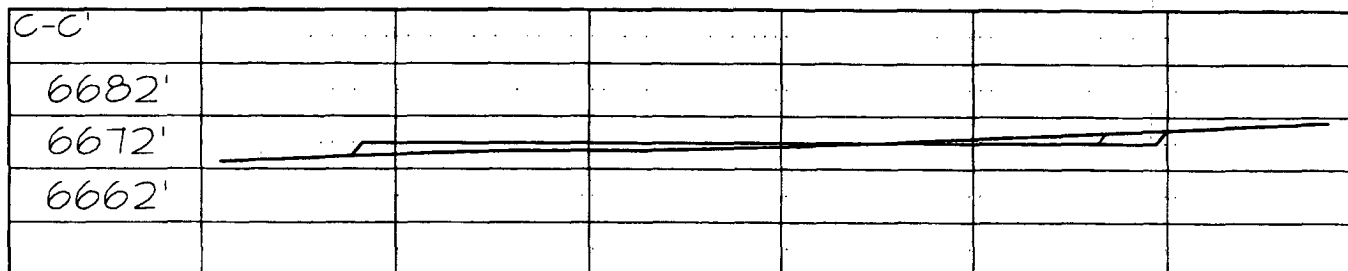
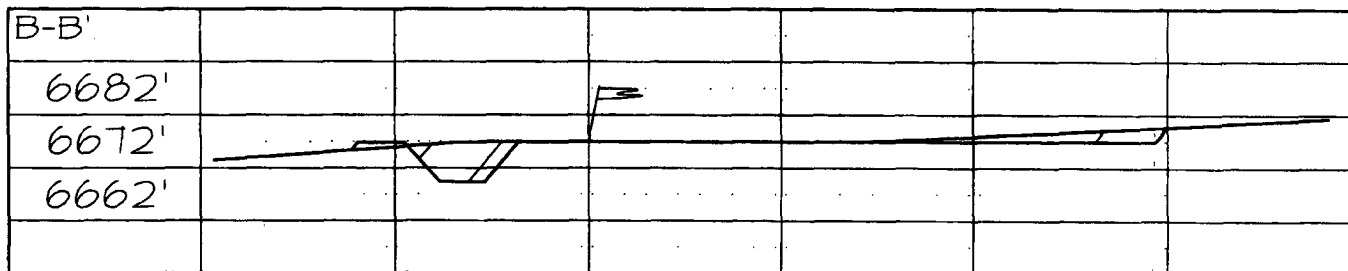
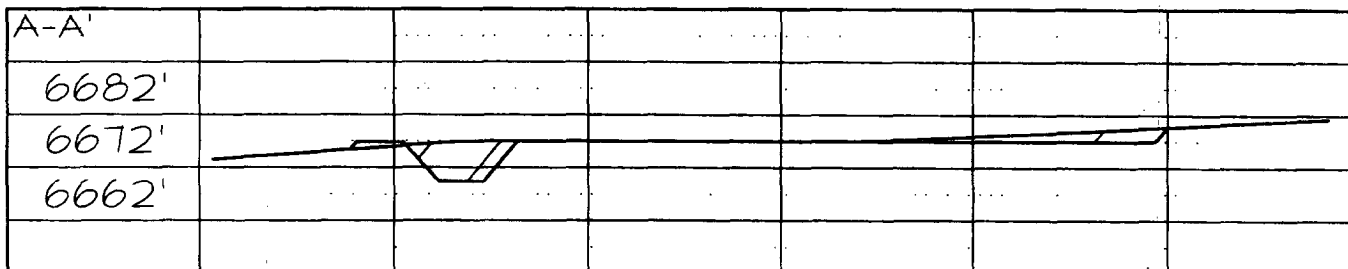
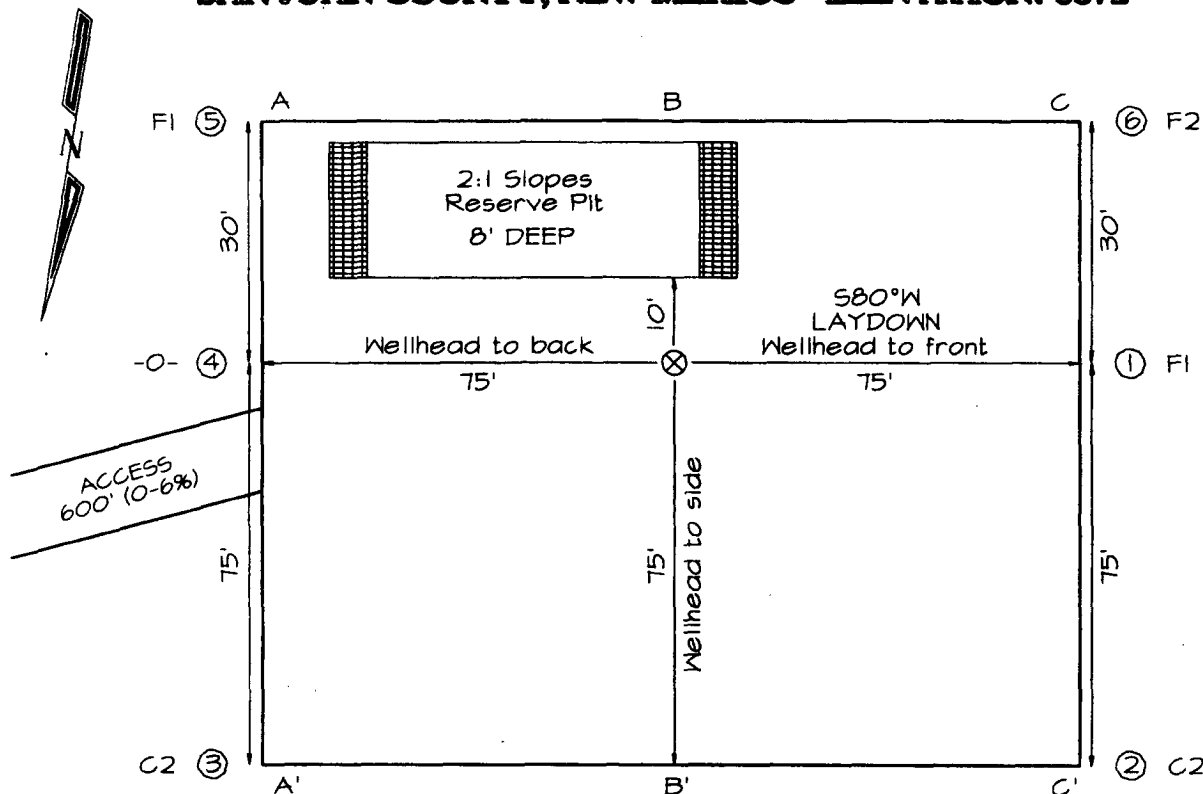
DUGAN PRODUCTION CORPORATION BILLIE COM #90
790' FNL & 900' FWL, SECTION 35, T22N, R8W, NMPM
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6672'

PLAT 3.

LATITUDE: 36.10104° N
LONGITUDE: 107.65801° W
 DATUM: NAD1983

PLAT NOTE:

SURFACE OWNER
 Bureau of Land
 Management



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
Billie Com #90

APPROXIMATE FORMATION TOPS:

Ojo Alamo	Surface'	Pictured Cliffs	710'
Kirtland	60'		
Fruitland	410'	Total Depth	860'

Catch samples every 10 feet from 650 feet to total depth.

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#	860'	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 90 cf 2%Lodense with
1/4# celloflake/sx followed by 45 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 135 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)

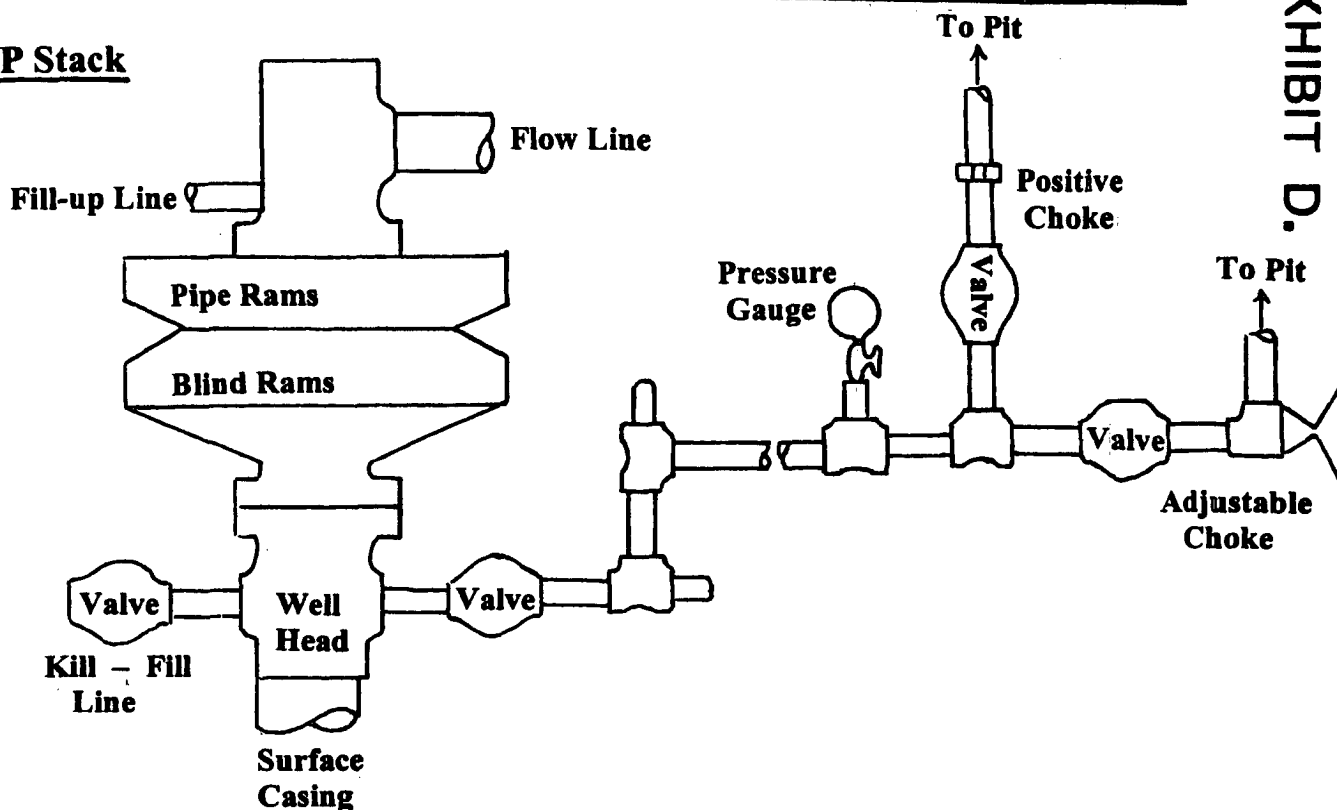
Kurt Fagrelus	325-4327 (H)
	320-8248 (M)

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

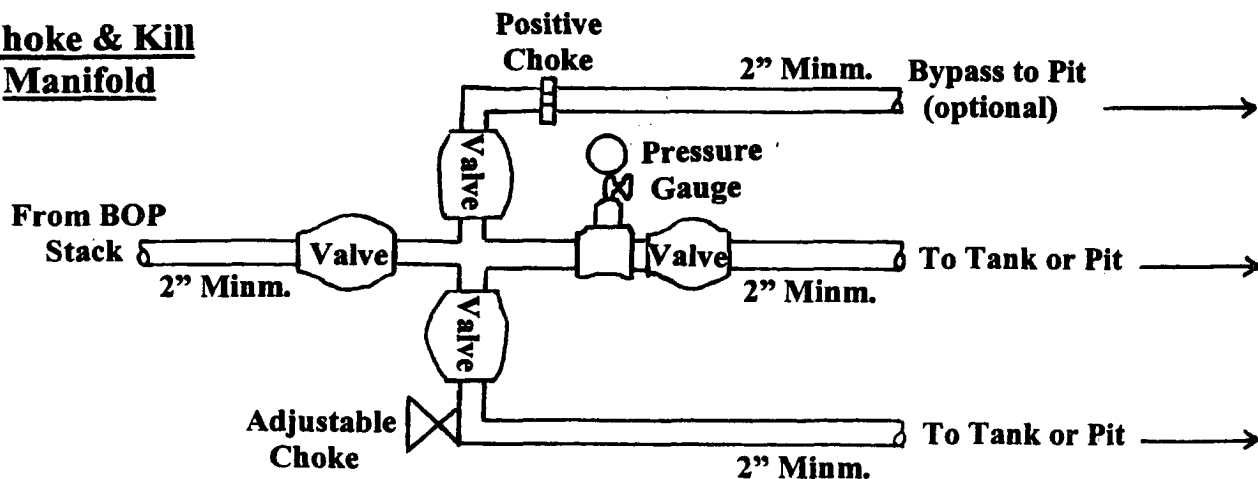
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
BILLIE COM #90