

APPLICATION FOR PERMIT TO DRILL OIL WELL

RECEIVED  
OIL AND GAS DIV.  
OCT 10 2006

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OCT 10 2006

NM-97838

2006 OCT 10 07 09 57

1. Type of Well:  OIL WELL  GAS WELL  OTHER

15. Type of Well:  Oil Well  Gas Well  Other  Single Zone  Multiple Zones

2. Name of Operator: DUGAN PRODUCTION CORP. Contact: KURT FAGRELIUS E-Mail: kfagrelus@duganproduction.com

3a. Address: 709 EAST MURRAY DRIVE FARMINGTON, NM 87401  
3b. Phone No. (include area code): Ph: 505.325.1821 Fx: 505.327.4613

4. Location of Well (Report location clearly and in accordance with any State requirements.):  
At surface 1880' FSL & 1200' FEL, Lat. 36.39893 N  
At proposed prod. zone Same as Above Long. 107.91494 W

14. Distance in miles and direction from nearest town or post office\*: Approx. 30-miles SE of Bloomfield New Mexico

15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any): 1200 Feet

16. No. of Acres in Lease: 160.0 Acres

18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft.: NA

19. Proposed Depth: 1700 Feet

21. Elevations (Show whether DF, KB, RT, GL, etc.): GL-6513'

22. Approximate date work will start: ASAP

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 <i>Kurt Fagrelus</i>	Name (Printed/Typed) KURT FAGRELIUS	Date 10/9/2006
Title GEOLOGIST		
Approved by (Signature) <i>Wayne Townsend</i>	Name (Printed/Typed) Wayne Townsend	Date 11/15/06
Title <i>Acting AFM</i>	Office FFO	

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 will be completed from approximately 1450' - 1550'. 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

NMOCD  
*h*

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

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

State of New Mexico  
Energy, Minerals & Natural Resources Department

Form C-102  
Revised February 21, 1994

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

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

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

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

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

10 AM 9 57  
AMENDED REPORT

RECEIVED  
079 FARMINGTON, NM

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number <b>30-045-33994</b>		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code <b>36154</b>	*Property Name NEOPRENE COM		*Well Number 90
*GRID No 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6513'

<sup>10</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
I	17	25N	10W		1880	SOUTH	1200	EAST	SAN JUAN

<sup>11</sup> 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

<sup>12</sup> Dedicated Acres 320.0 Acres - (S/2)	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
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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

<sup>16</sup>	<sup>17</sup> OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief <i>Kurt Fagrelius</i> Signature Kurt Fagrelius Printed Name Geology Title 10/9/2006 Date
	<sup>18</sup> 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: SEPTEMBER 13, 2006 Signature and Seal of Professional Surveyor  <b>JASON C. EDWARDS</b> Certificate Number 15269

*Handwritten mark*

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. <b>30-045-33994</b>	
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-97838
7. Lease Name or Unit Agreement Name	Neoprene Com
8. Well Number	90
9. OGRID Number	006515
10. Pool name or Wildcat	Basin Fruitland Coal
11. Elevation (Show whether DR, RKB, RT, GR, etc.) GL-6513'	
Pit or Below-grade Tank Application <input type="checkbox"/> or Closure <input type="checkbox"/>	
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 I : 1880 feet from the south line and 1200 feet from the east line  
 Section 17 Township 25N Range 10W NMPM County San Juan

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"/>	P AND A <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>	MULTIPLE COMPL <input type="checkbox"/>	CASING/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 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 1450' - 1550'. 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 Fagrelus TITLE Geology DATE 10/9/2006

Type or print name Kurt Fagrelus E-mail address: kfagrelus@duganproduction.com Telephone No. 325-1821

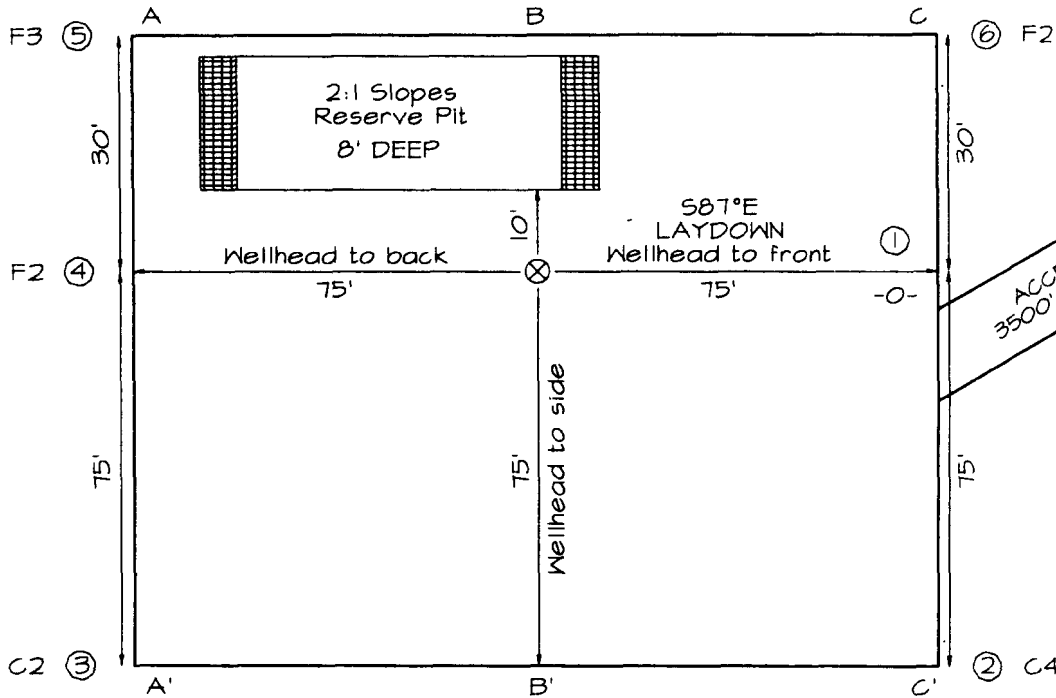
APPROVED BY: [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. #1 DATE NOV 29 2006

Conditions of Approval (if any):



DUGAN PRODUCTION CORPORATION NEOPRENE #90  
1880' FSL & 1200' FEL, SECTION 17, T25N, R10W, NMPM  
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6513'

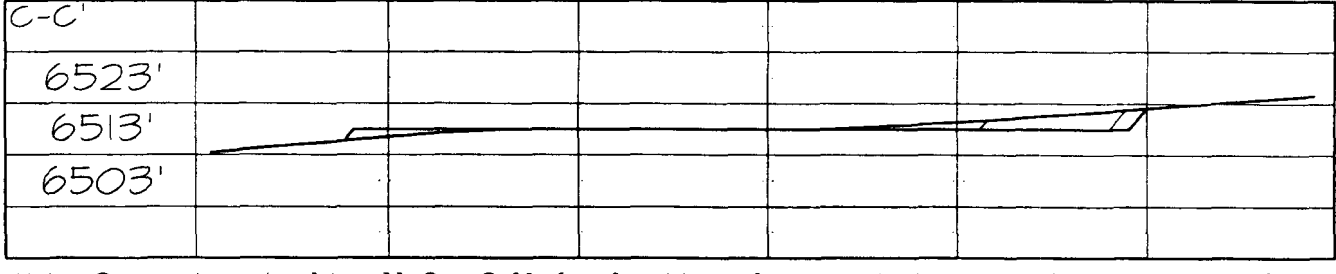
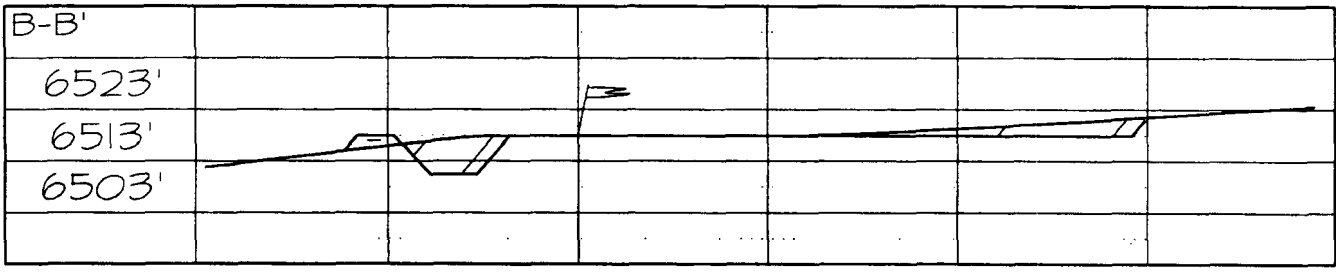
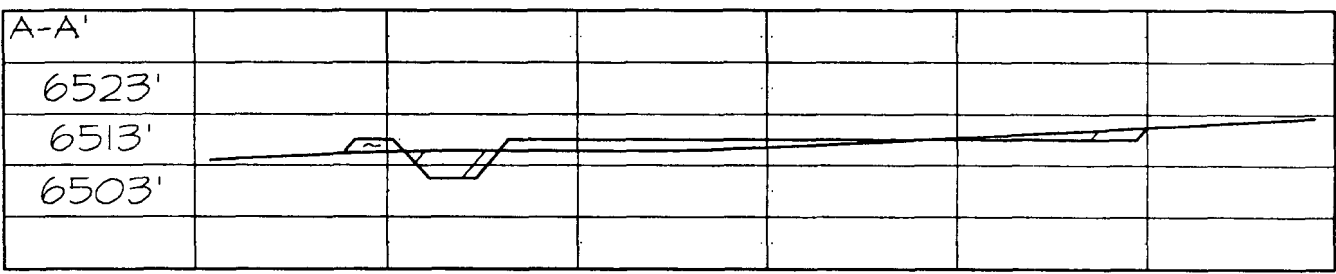
LATITUDE: 36.39893° N  
LONGITUDE: 107.91494° W  
DATUM: NAD1983



3500' TOTAL LENGTH OF ACCESS  
2270' Bureau of Land Management  
1230' State of New Mexico Land

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**  
Neoprene Com #90

**APPROXIMATE FORMATION TOPS:**

Ojo Alamo	725'
Kirtland	865'
Fruitland	1200'
Pictured Cliffs	1555'
<b>Total Depth</b>	<b>1700'</b>

Catch samples every 10 feet from 1400 feet to total depth.

**LOGGING PROGRAM:**

Run cased hole 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>
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1700'	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% CaCl<sub>2</sub>.  
Circulate to surface.

Production Stage: Cement with 130 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 200 cf  
Circulate cement to surface.

*Production Csg.  
will run 70%  
excess  
Per John Alexander  
11/15/06*

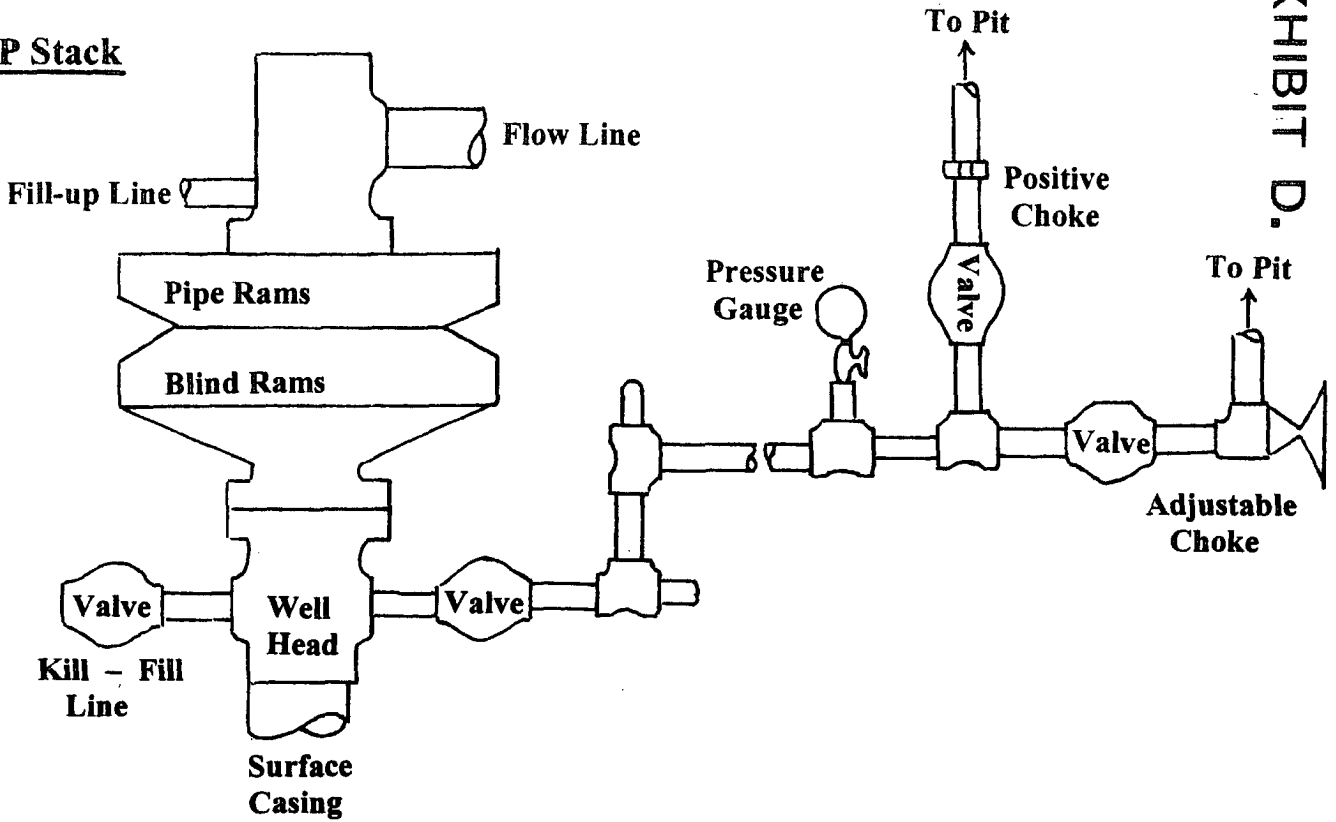
An adequate spacer will be pumped ahead of the cement slurry to help prevent mud contamination of the cement. An adequate number of casing centralizers will be run through usable water zones to ensure that casing is centralized through these zones. The adequate number of centralizers will be determined based on



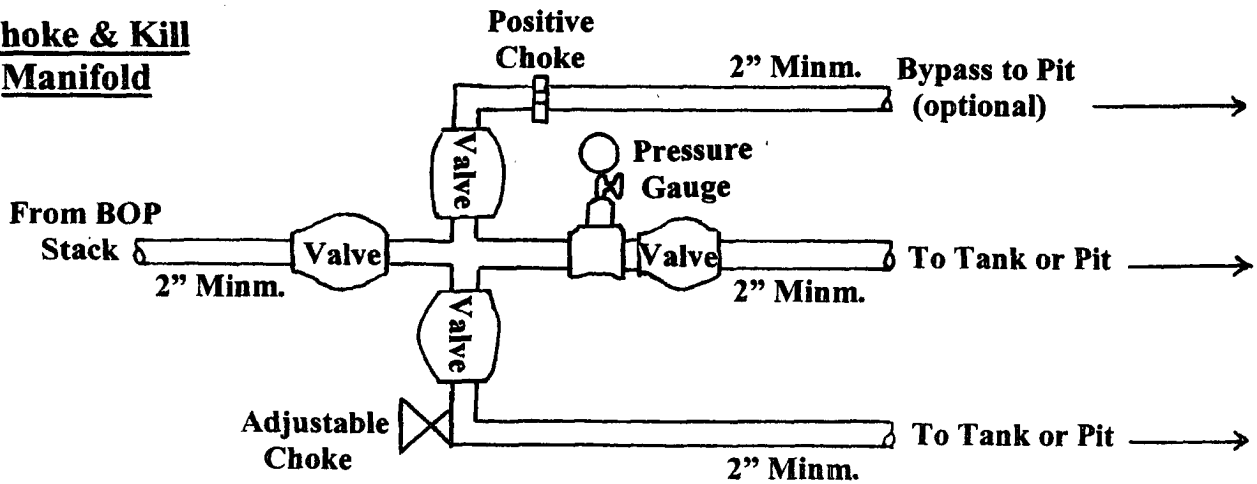
# Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

## BOP Stack



## Choke & Kill Manifold



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

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