

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

FORM APPROVED  
OMB No. 1004-0113  
Revised November 30, 2006  
OIL CONS. DIV.

APPLICATION FOR PERMIT TO DRILL OR REENTER

Lease No. NM-86080 DIST. 3  
If Indian, Allottee or Title Name

1a. Type of Well: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		7. If Unit or CA Agreement, Name and No.	
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. Latex #2S	
2. Name of Operator DUGAN PRODUCTION CORP. Contact: KURT FAGRELIUS E-Mail: kfagrellius@duganproduction.com		9. API Well No. 045 30-245-34022	
3a. Address 709 EAST MURRAY DRIVE FARMINGTON, NM 87401		10. Field and Pool, or Exploratory Basin Fruitland Coal	
3b. Phone No. (include area code) Ph: 505.325.1821 Fx: 505.327.4613		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 9, T25N, R10W NMPM	
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1275' FSL & 1550' FEL, Lat. 36.41178 N. At proposed prod. zone Same as Above Long. 107.89820 W.		12. County or Parish San Juan	
14. Distance in miles and direction from nearest town or post office* Approx. 30-miles SE of Bloomfield, NM		13. State NM	
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1275 Feet		17. Spacing Unit dedicated to this well S/2-320.0 Acres	
16. No. of Acres in Lease 640.0 Acres		18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 3,000 Feet	
19. Proposed Depth 1930 Feet		20. BLM/BIA Bond No. on file On File	
21. Elevations (Show whether DF, KB, RT, GL, etc.) GL-6638'		23. Estimated duration 7-Days	
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:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification
- Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature <i>Kurt Fagrellius</i>	Name (Printed/Typed) KURT FAGRELIUS	Date 10-18-2006
Title GEOLOGIST		
Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed) AFM	Date 1/29/07
Title AFM	Office RFO	

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 1770' - 1780'. The interval will be fracture stimulated.

NOTIFY AZTEC OCD IN TIME TO WITNESS 24 hrs. cement

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

NMOCD  
8/1/07

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  
PO Box 1980, Hobbs, NM 88241-1980

State of New Mexico  
Energy, Minerals & Natural Resources Department

Revised: February 21, 1994

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

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

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

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

DIST. 3

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

AMENDED REPORT

RECEIVED  
OIL CONSERVATION DIVISION

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-045-34022		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 17014	*Property Name LATEX		*Well Number 2S
*OGRID No 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6638'

<sup>10</sup> Surface Location

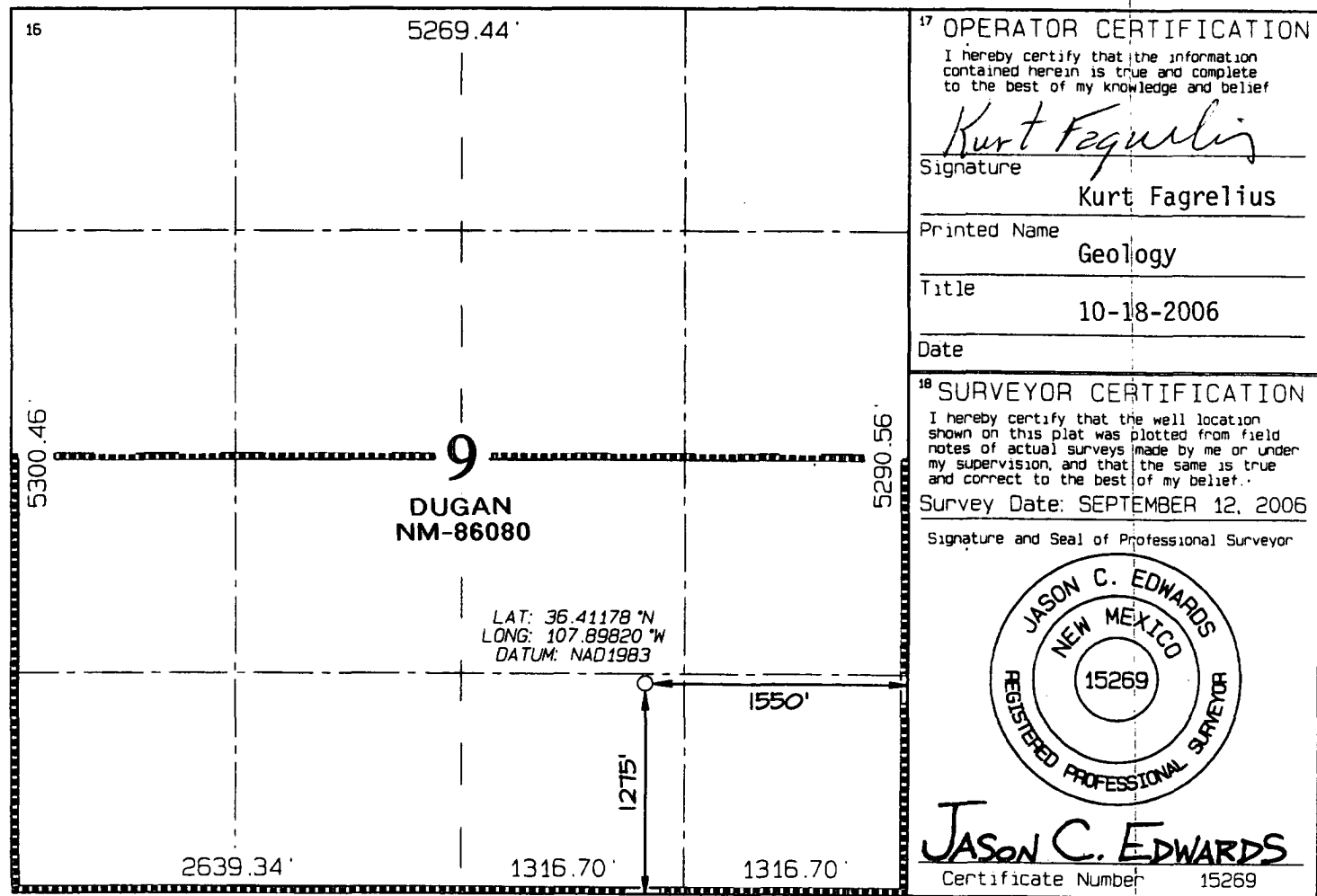
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	9	25N	10W		1275	SOUTH	1550	EAST	SAN JUAN

<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>17</sup> OPERATOR CERTIFICATION  
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  
*Kurt Fagrelius*  
Signature  
Kurt Fagrelius  
Printed Name  
Geology  
Title  
10-18-2006  
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 12, 2006  
Signature and Seal of Professional Surveyor

**JASON C. EDWARDS**  
NEW MEXICO  
REGISTERED PROFESSIONAL SURVEYOR  
15269  
Certificate Number 15269

Submittal Copy to: Approving District Office  
 District I  
 1625 N. French Dr., Hobbs, NM 88249  
 District II  
 1201 W. Grand Ave., Azusa, NM 88220  
 District III  
 1090 Rio Brazos Rd., Aztec, NM 87119  
 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. 30-045-34022

5. Indicate Type of Lease Federal XX  
 STATE  FEDERAL

6. State Oil & Gas Lease No.  
 Federal NM-86080

7. Lease Name or Unit Agreement Name  
 Latex

8. Well Number #2-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 0 : 1275 feet from the south line and 1550 feet from the east line  
 Section 9 Township 25N Range 10W NMPM County San Juan

11. Elevation (Show whether DR, RKB, RT, GR, etc.)  
 GL-6638'

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

<b>NOTICE OF INTENTION TO:</b> PERFORM REMEDIAL WORK <input type="checkbox"/> PLUG AND ABANDON <input type="checkbox"/> TEMPORARILY ABANDON <input type="checkbox"/> CHANGE PLANS <input type="checkbox"/> PULL OR ALTER CASING <input type="checkbox"/> MULTIPLE COMPL <input type="checkbox"/>		<b>SUBSEQUENT REPORT OF:</b> REMEDIAL WORK <input type="checkbox"/> ALTERING CASING <input type="checkbox"/> COMMENCE DRILLING OPNS. <input type="checkbox"/> P AND A <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 1770' - 1780'. 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 Fagrelius TITLE Geology DATE 10-18-2006  
 Kurt Fagrelius kfagrelius@duganproduction.com 505-325-1821  
 Type or print name E-mail address: Telephone No.

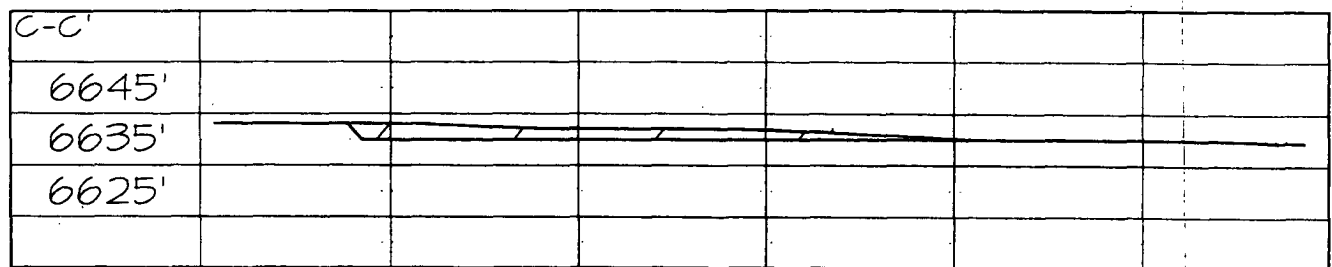
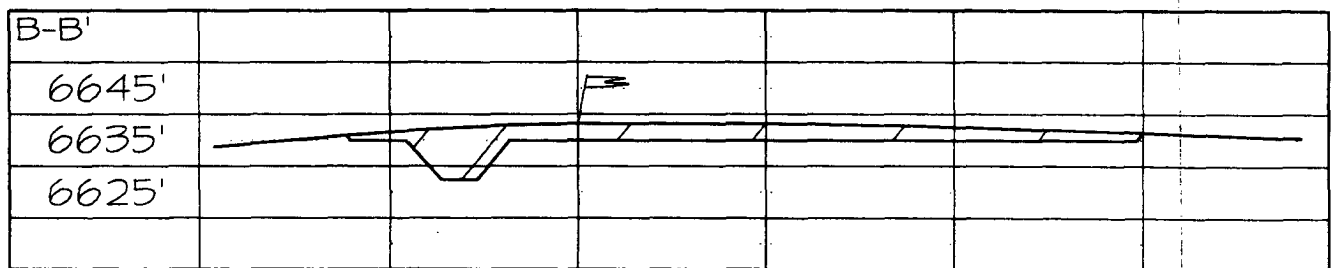
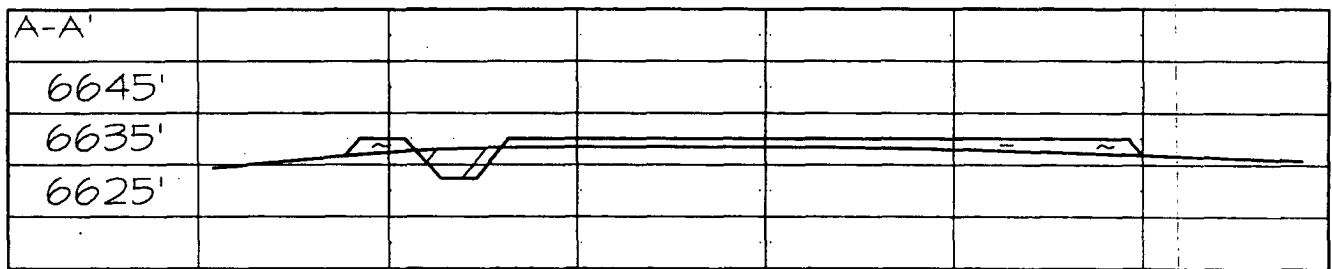
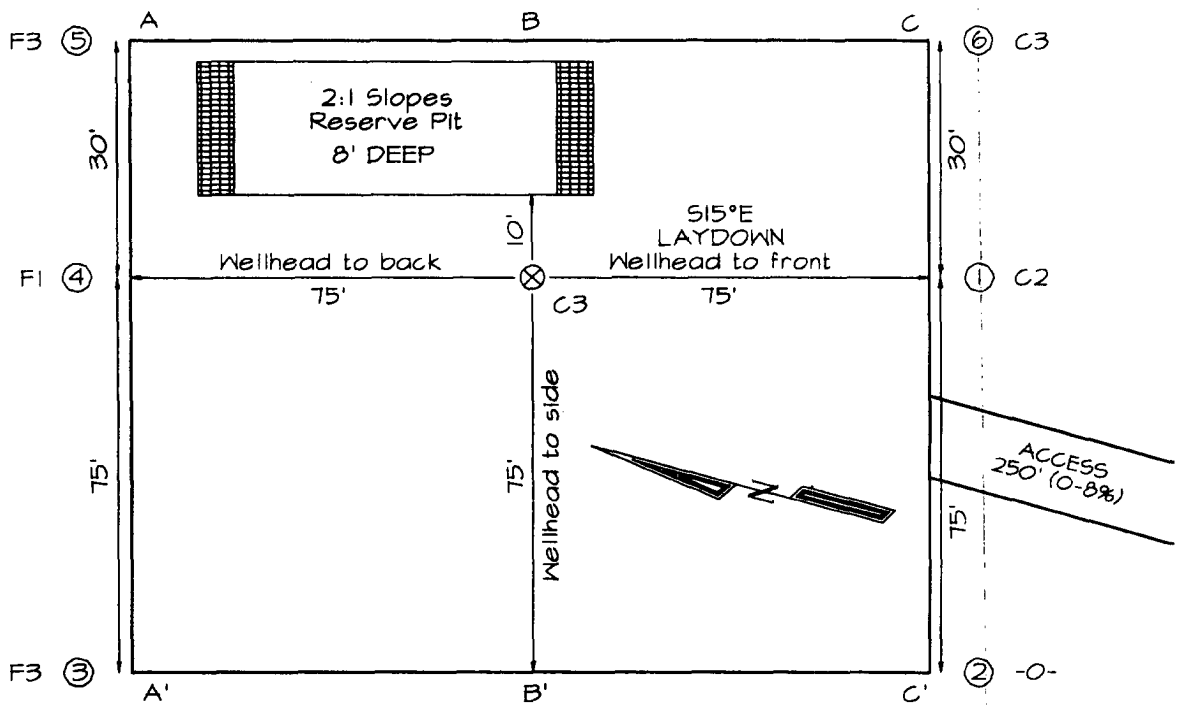
**For State Use Only**

APPROVED BY: [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. DATE FEB 01 2007  
 Conditions of Approval (if any):

**DUGAN PRODUCTION CORPORATION LATEX #2S**  
**1275' FSL & 1550' FEL, SECTION 9, T25N, R10W, NMPM**  
**SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6638'**

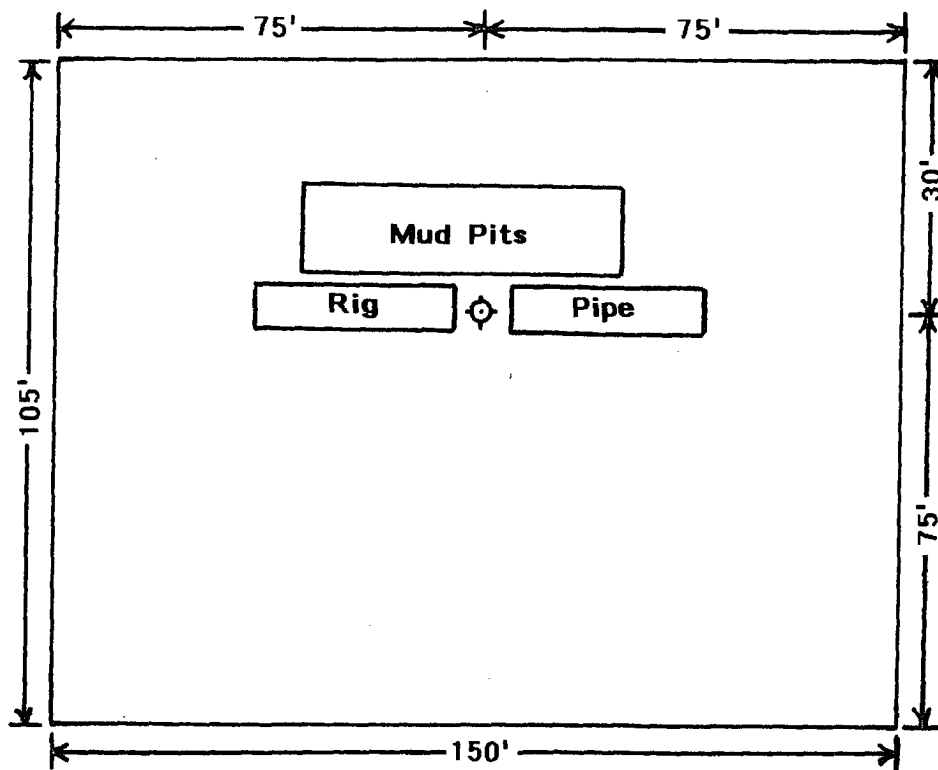
PLAT NOTE:  
 \*SURFACE OWNER:  
 Bureau of Land  
 Management

LATITUDE: 36.41178° N  
 LONGITUDE: 107.89820° W  
 DATUM: NAD1983



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

### Typical Location For a Fruitland Coal Well



**DUGAN PRODUCTION CORP.**  
**LATEX #2-S**

**EXHIBIT B**  
**OPERATIONS PLAN**  
Latex #2-S

**APPROXIMATE FORMATION TOPS:**

Ojo Alamo	875'
Kirtland	1000'
Fruitland	1415'
Pictured Cliffs	1780'
<b>Total Depth</b>	<b>1930'</b>

Catch samples every 10 feet from 1650 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#	1930'	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 195 cf 2% lodense with 1/4# celloflake/sx followed by 125 cf Class "B" with 1/4# celloflake/sx.  
Total cement slurry for production stage is 320 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)

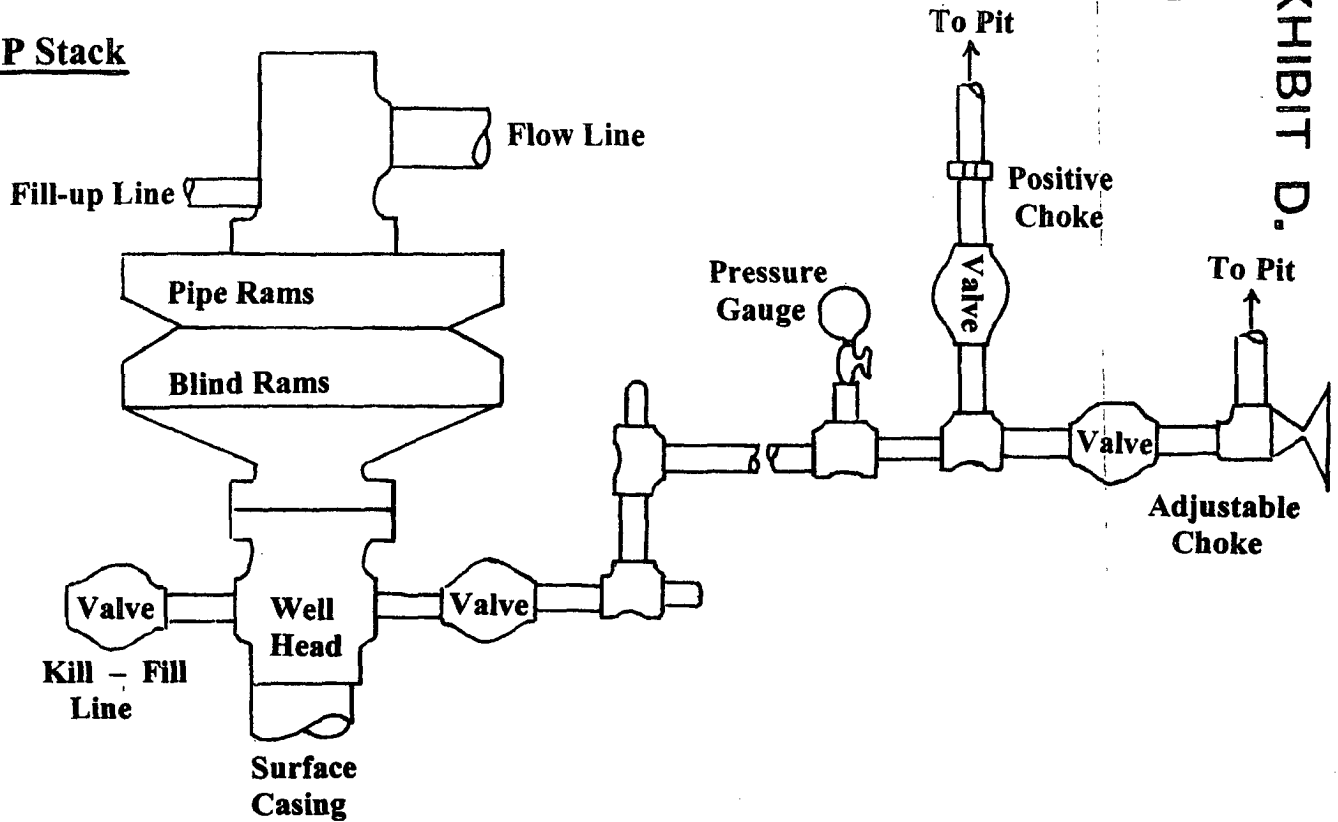
Kurt Fagrelus 325-4327 (H)  
320-8248 (M)

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

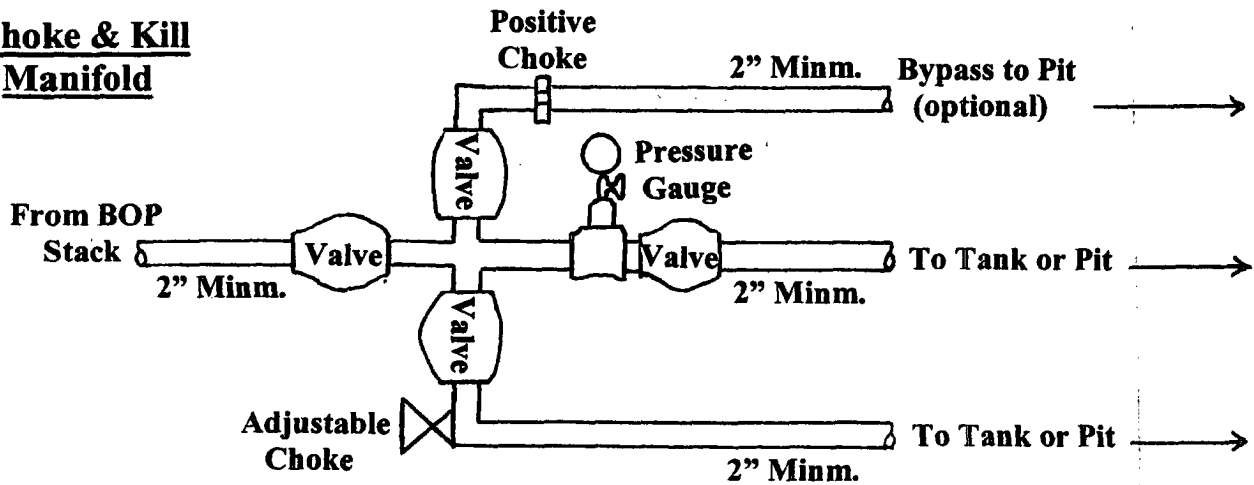
# Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

## BOP Stack



## Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.  
LATEX #2-S