

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

2007 JUN 5 11 05 AM
5. Lease Serial No. NM-42059
6. If Indian, Allottee, or Tribe Name
7. If Unit or CA Agreement, Name and No.
8. Lease Name and Well No.
Champ #90
9. API Well No. 30-045-34219
10. Field and Pool, or Exploratory
Basin Fruitland Coal
11. Sec., T. R. M. or Blk. and Survey or Area
B Sec. 5, T23N, R10W
NMPM
12. County or Parish
San Juan
13. State
NM
14. Distance in miles and direction from nearest town or post office*
Approx. 35-miles SE of Bloomfield, New Mexico
15. Distance from proposed*
location to nearest
property or lease line, ft.
990 Feet
(Also to nearest drig. unit line, if any)
16. No. of acres in lease
2118.04 Acres
17. Spacing Unit dedicated to this well
E/2 - 320.14 Acres
18. Distance from proposed location*
to nearest well, drilling, completed,
applied for, on this lease, ft.
Approx. 800'
19. Proposed Depth
1150 Feet
20. BLM/BIA Bond No.
On File
21. Elevations (Show whether DF, KDB, RT, GL, etc.)
GL-6590'
22. Approximate date work will start*
ASAP
23. Estimated duration
5-Days

1a. Type of work: ☒ DRILL ☐ REENTER
1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☒ Single Zone ☐ Multiple Zone
2. Name of Operator
Dugan Production Corp.
3a. Address 709 East Murray Drive
Farmington, NM 87401
3b. Phone No. (include area code)
505-325-1821
4. Location of Well (Report location clearly and in accordance with any State requirements.)
At surface 990' FNL & 1575' FEL, Lat. 36.26006 N
At proposed prod. zone Same as above Long. 107.91606 W *Lot 2*
14. Distance in miles and direction from nearest town or post office*
Approx. 35-miles SE of Bloomfield, New Mexico
15. Distance from proposed*
location to nearest
property or lease line, ft.
990 Feet
(Also to nearest drig. unit line, if any)
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GL-6590'
22. Approximate date work will start*
ASAP
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.
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 *Kurt Fagrelius* Name (Printed/Typed) Kurt Fagrelius Date March 12, 2007
Title Geologist
Approved by (Signature) *[Signature]* Name (Printed/Typed) Date 6/4/07
Title *AFM* Office *FED*

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 page 2)

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 970' - 998'. The interval will be fracture stimulated.

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

RCVD JUN 5 '07
OIL CONS. DIV.
DIST. 3

06-08-07
BT
NMOCD
[Signature]

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

District I
1625 N. French Dr., Hobbs, NM 88240

District II
1301 W. Grand Avenue, 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 & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102

Revised October 12, 2005

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

2007 MAR 12 AM 8:51

☐ AMENDED REPORT

RECEIVED

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-045-34219		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 3618	*Property Name CHAMP		*Well Number 90
*GRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6590'

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idh	Feet from the	North/South line	Feet from the	East/West line	County
B	5	23N	10W	(2)	990	NORTH	1575	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idh	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 320.14 Acres - (E/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ 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

16 1304.16'	LOT 4	LOT 3	LOT 2	LOT 1	1318.68'	1311.42'	1311.42'	2623.50'	5281.32'	5	DUGAN NM-42059	LAT: 36.26006°N LONG: 107.91606°W DATUM: NAD1983	Obs	1575'	5245.68'	2629.44'	1314.72'	15	¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom-hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Kurt Fagrelus 3/12/07 Signature Date Kurt Fagrelus Printed Name

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

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.)		WELL API NO. 30-045- <u>34219</u>
1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other		5. Indicate Type of Lease Federal XX STATE <input type="checkbox"/> FEE <input type="checkbox"/>
2. Name of Operator Dugan Production Corp.		6. State Oil & Gas Lease No. Federal NM-42059
3. Address of Operator 709 East Murray Drive, Farmington, NM 87401		7. Lease Name or Unit Agreement Name Champ
4. Well Location Unit Letter <u>B</u> : <u>990</u> feet from the <u>north</u> line and <u>1575</u> feet from the <u>east</u> line Section <u>5</u> Township <u>23N</u> Range <u>10W</u> NMPM County <u>San Juan</u>		8. Well Number <u>90</u>
11. Elevation (Show whether DR, RKB, RT, GR, etc.) GL-6590'		9. OGRID Number 006515
Pit or Below-grade Tank Application <input checked="" type="checkbox"/> or Closure <input type="checkbox"/>		10. Pool name or Wildcat Basin Fruitland Coal
Pit type <u>Drilling</u> Depth to Groundwater <u>+100'</u> Distance from nearest fresh water well <u>+1000'</u> Distance from nearest surface water <u>+200'</u>		
Pit Liner Thickness: <u>12</u> mil Below-Grade Tank: Volume <u>bbls</u> Construction Material <u>Synthetic</u>		

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 970' - 998'. The interval will be fracture
stimulated.

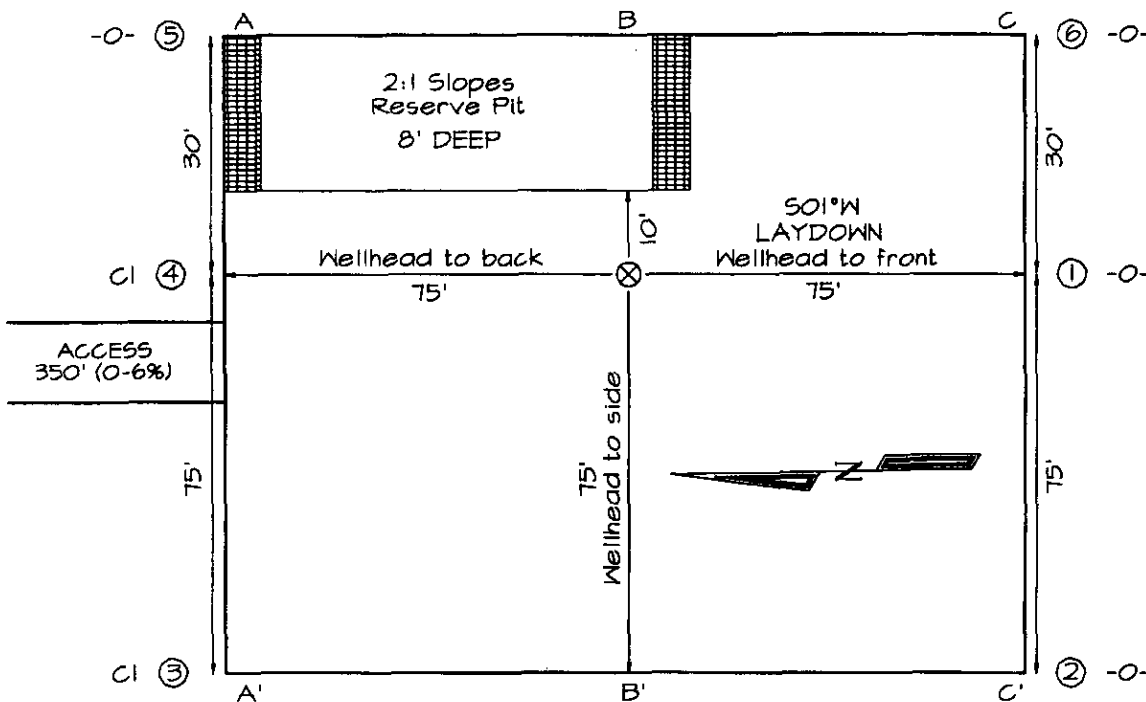
I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOC guidelines ☒, a general permit ☐ or an (attached) alternative OCD-approved plan ☐.

SIGNATURE Kurt Fagrelid TITLE Geologist DATE 3/12/2007
Type or print name Kurt Fagrelid E-mail address: kfagrelid@duganproduction.com Telephone No. 505-325-1821

For State Use Only

APPROVED BY: [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. 5 DATE JUN 08 2007
Conditions of Approval (if any):

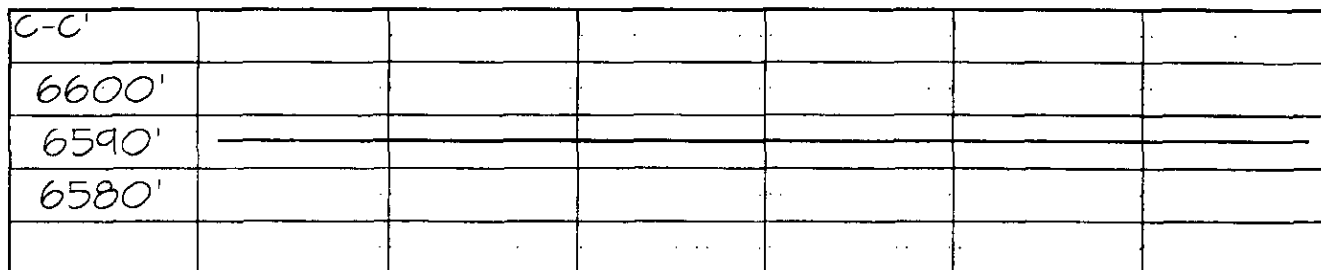
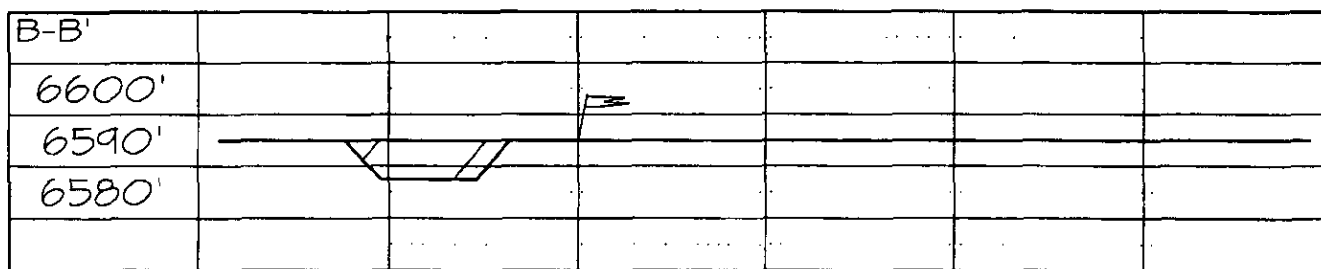
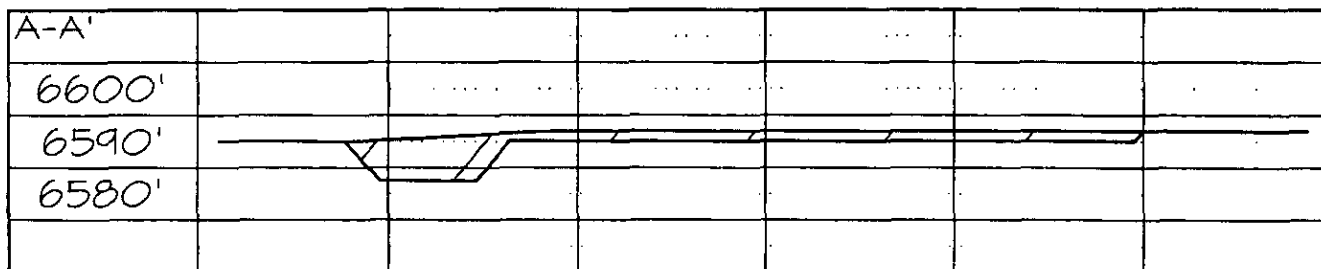
DUGAN PRODUCTION CORPORATION CHAMP #90
990' FNL & 1575' FEL, SECTION 5, T23N, R10W, NMPM
SAN JUAN COUNTY, NEW MEXICO GROUND ELEVATION: 6590'



LATITUDE: 36.26006°N
LONGITUDE: 107.91605°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
Champ #90

APPROXIMATE FORMATION TOPS:

Ojo Alamo	60'
Kirtland	130'
Fruitland	705'
Pictured Cliffs	1000'
Total Depth	1150'

Catch samples every 10 feet from 900 feet to total depth.

LOGGING PROGRAM:

Run cased hole GR-CCL-CNL from total depth to surface.

CASING PROGRAM:

Hole Size	Casing Size	Wt./ft.	Setting Depth	Grade and Condition
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1150'	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 110 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 180 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)

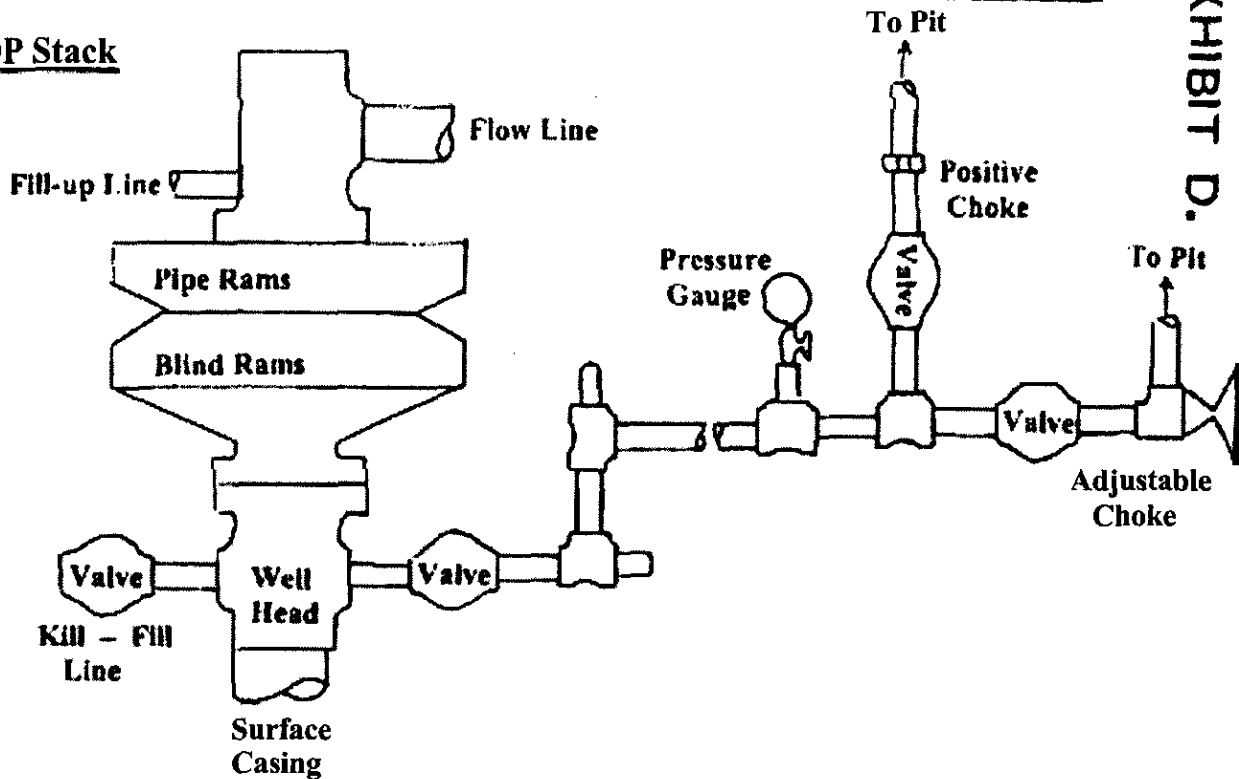
Kurt Fagrelus	325-4327 (H)
	320-8248 (M)

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

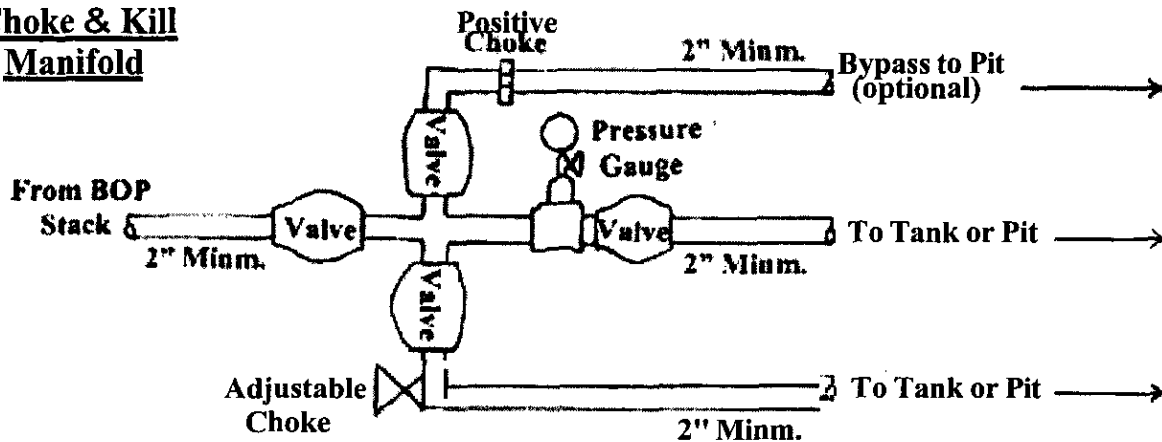
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.

CHAMP #90