

Form 3160-3
(April 2004)

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
DIST. 3

5. Lease Serial No
NM-90468

6. If Indian, Allottee or Tribe Name

7. If Unit or CA Agreement, Name and No.

8. Lease Name and Well No.
Satchmo Com #3

9. API Well No.
30-045-34402

10. Field and Pool, or Exploratory
Basin Fruitland Coal

11. Sec., T. R. M. or Blk. and Survey or Area
M Sec. 4, T22N, R8W
NMPM

12. County or Parish
San Juan

13. State
NM

1a. Type of work: DRILL REENTER
210 FARMINGTON NM

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 1000' FSL and 1250' FWL, Lat. 36.16425 N.
At proposed prod. zone Same as above. Long. 107.69157 W.

14. Distance in miles and direction from nearest town or post office*
Approx. 8-miles SE of Nageezi, New Mexico

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)
1000 Feet

16. No. of acres in lease
1,041.34 acres

17. Spacing Unit dedicated to this well
W/2 321.53 acres

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.
N.A.

19. Proposed Depth
1115 Feet

20. BLM/BIA Bond No.
On File NM 0140

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
G.L. 67841'

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:

- 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 *Kurt Fagrelius* Name (Printed/Typed) Kurt Fagrelius Date Aug. 17, 2007

Title Geologist

Approved by (Signature) *[Signature]* Name (Printed/Typed) Office FEO Date 10/5/07

Title AFM

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 650' - 965'. The interval will be fracture stimulated.

✓ NOTIFY AZTEC OGD 24 HRS. PRIOR TO CASING & CEMENT

OCT 18 2007

NMOCD

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-045-34402		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 36792	*Property Name SATCHMO COM		*Well Number 3
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6781'

¹⁰ Surface Location

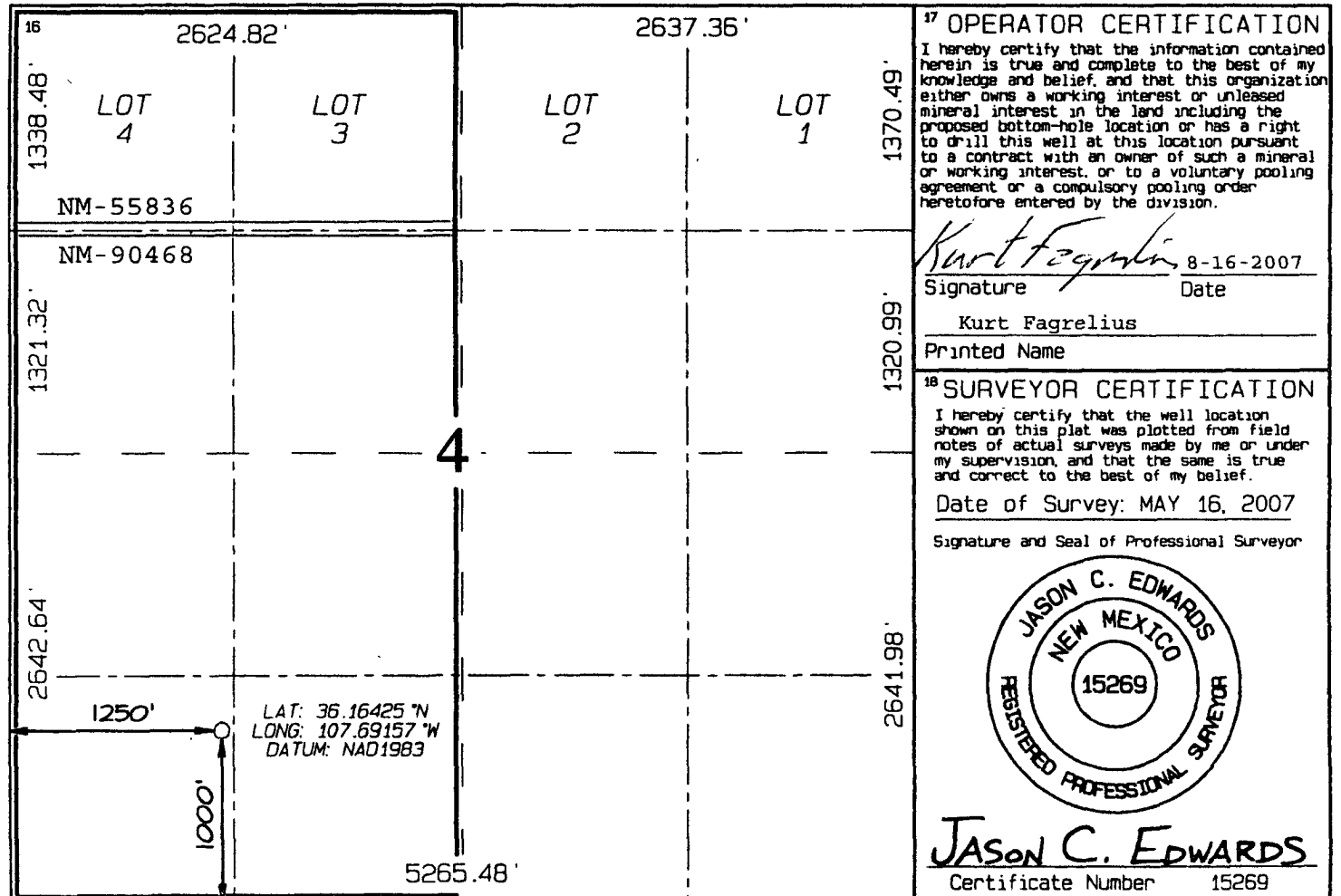
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	4	22N	8W		1000	SOUTH	1250	WEST	SAN JUAN

¹¹ 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

¹² Dedicated Acres 321.53 Acres - (W/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



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.	30-045-34402
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-90468
7. Lease Name or Unit Agreement Name	Satchmo Com
8. Well Number	3
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 87401

4. Well Location
 Unit Letter M : 1000 feet from the south line and 1250 feet from the west line
 Section 4 Township 22N Range 8W NMPM County San Juan

11. Elevation (Show whether DR, RKB, RT, GR, etc.)
 GL-6781'

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

NOTICE OF INTENTION TO: 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"/>		SUBSEQUENT REPORT OF: 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.

See APD cover page.

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 . Modified only as per Federal Conditions of Approval.

SIGNATURE Kurt Fagrelus TITLE Geologist DATE 8/16/2007
 E-mail address: kfagrelus@duganproduction.com Telephone No. 505-325-1821

Type or print name Kurt Fagrelus E-mail address: _____ Telephone No. _____

For State Use Only

APPROVED BY: [Signature] TITLE Deputy Oil & Gas Inspector, District #3 DATE OCT 18 2007

Conditions of Approval (if any):

EXHIBIT B
OPERATIONS PLAN
Satchmo Com #3

APPROXIMATE FORMATION TOPS:

Ojo Alamo	295'
Kirtland	395'
Fruitland	650'
Pictured Cliffs	962'
Total Depth	1115'

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:

<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#	1115'	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 115 cf 2% lodense with
1/4# celloflake/sx followed by 55 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 170 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.

Maximum Anticipated Bottom Hole Pressure - 400 psi.

Drilling Fluid - will be fresh water with bentonite (8.9#/gal).

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)

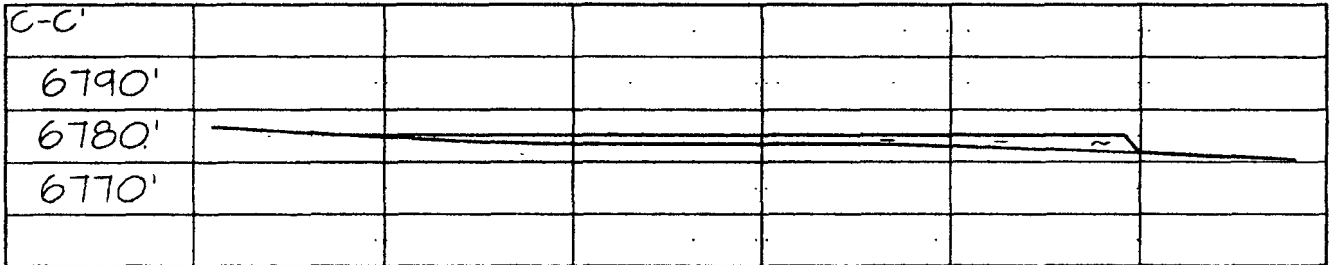
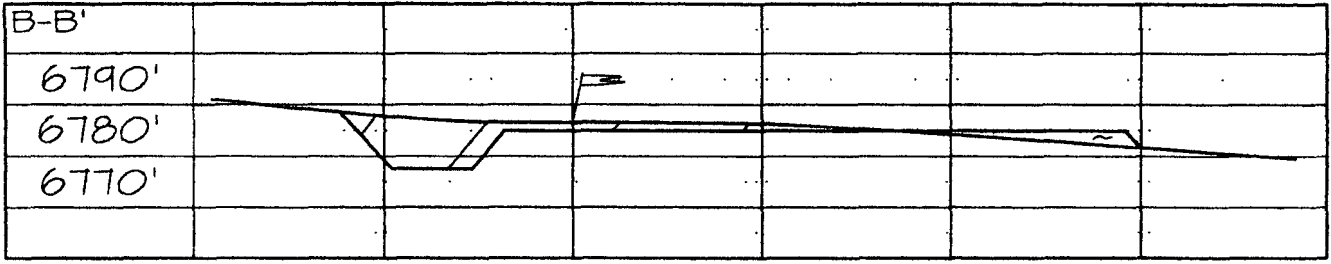
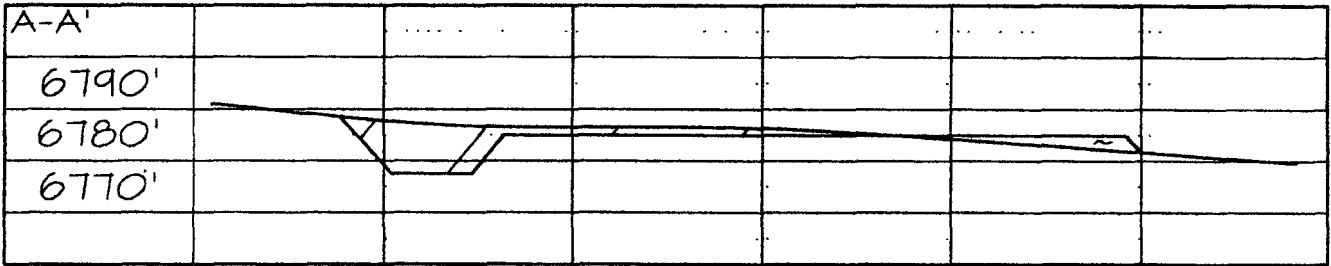
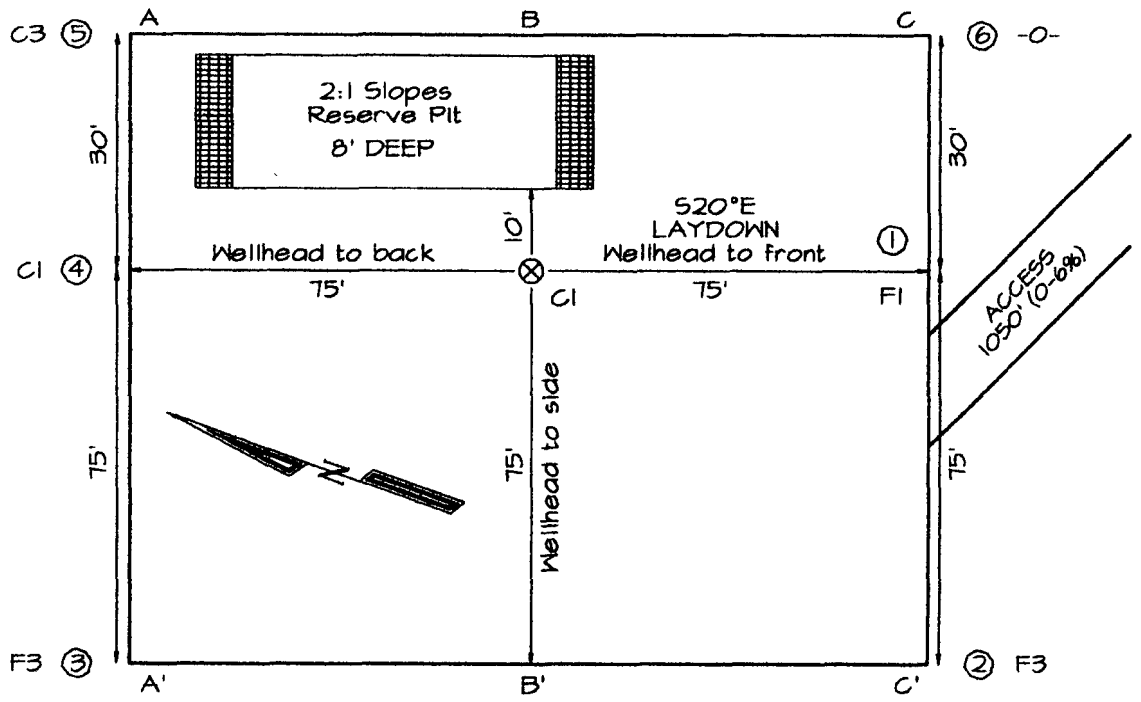
320-1935 (M)

DUGAN PRODUCTION CORPORATION SATCHMO COM #3
1000' FSL & 1250' FWL, SECTION 4, T22N, R8W, NMPM
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6781'

Plat 3.

PLAT NOTE:
 SURFACE OWNER
 Bureau of Land
 Management

LATITUDE: 36.16425° N
LONGITUDE: 107.69157° W
 DATUM: NAD1983

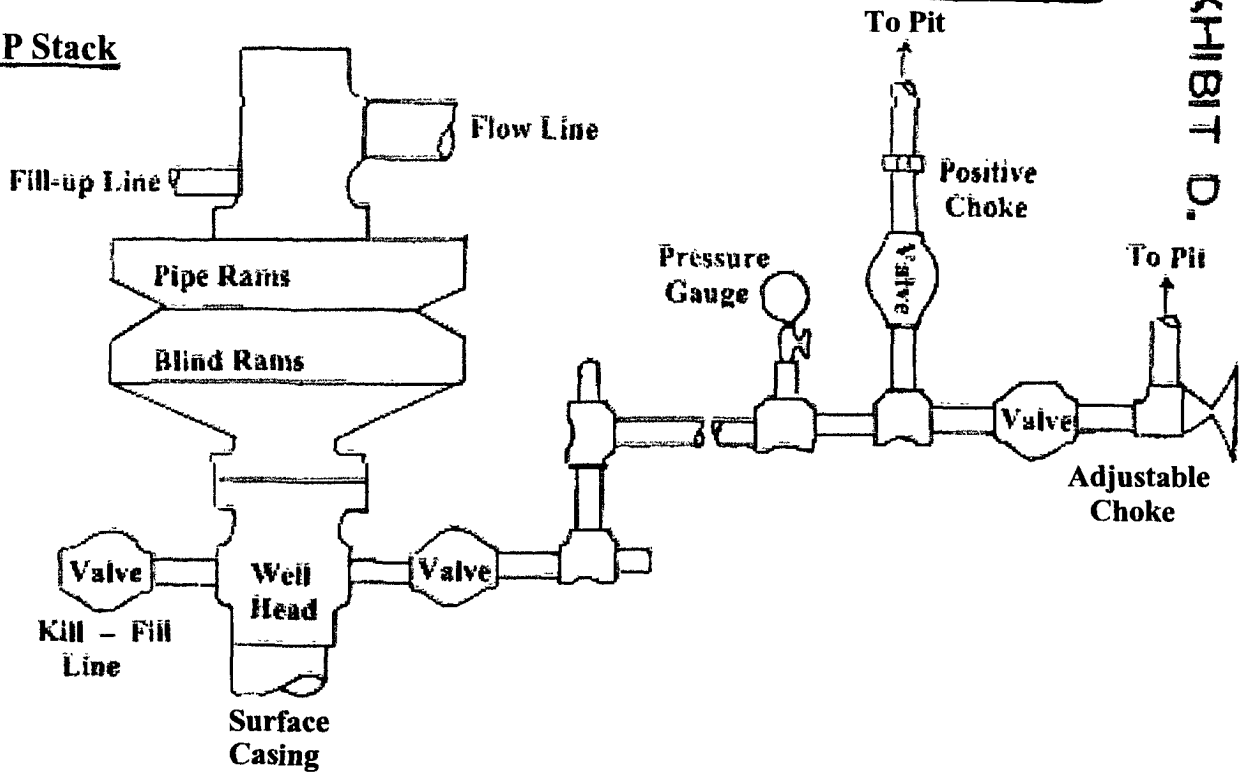


Note: Contractor should call One-Call for location of any marked or unmarked buried pipelines or cables on well pad and/or access road at least two (2) working days prior to construction

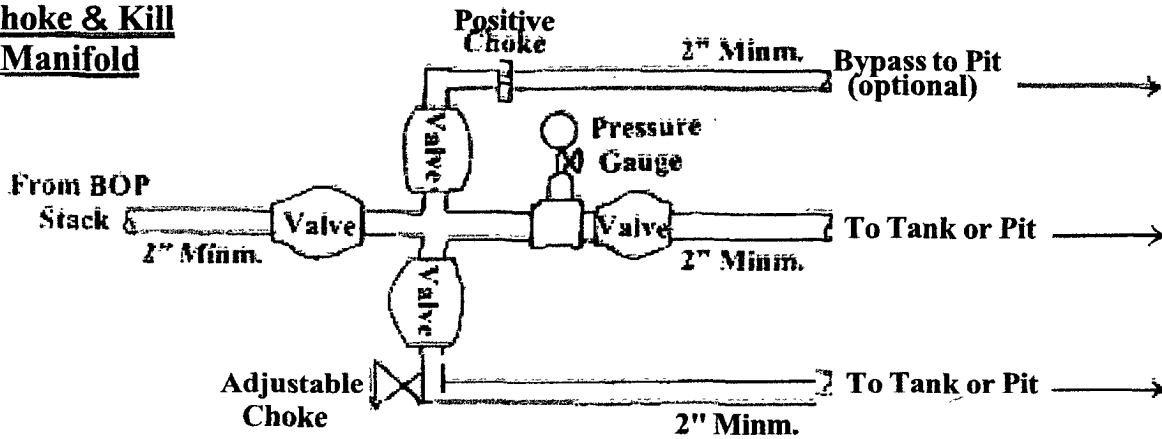
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
Satchmo Com #3