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Form 3160-3
(April 2004)

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Bureau of Land Management
Farmington Field Office

Case Serial No.
NM-90468

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER			6. If Indian, Allottee or Tribe Name		
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			7. If Unit or CA Agreement, Name and No.		
2. Name of Operator Dugan Production Corp.			8. Lease Name and Well No. Satchmo Com #2		
3a. Address 709 East Murray Drive Farmington, NM 87401			9. API Well No. 30-045-34425		
3b. Phone No. (include area code) 505-325-1821			10. Field and Pool, or Exploratory Basin Fruitland Coal		
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1550' FSL & 1350' FEL, Lat. 36.16575 N. At proposed prod. zone Same as above. Long. 107.68253 W.			11. Sec., T. R. M. or Blk. and Survey or Area J Sec. 4, T22N, R8W NMPM		
14. Distance in miles and direction from nearest town or post office Approx. 8-miles SE of Nageezi, New Mexico			12. County or Parish San Juan		13. State NM
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1350 Feet	16. No. of acres in lease 1,041.34 acres	17. Spacing Unit dedicated to this well E/2, 322.50 acres			
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 2,700'	19. Proposed Depth 1220 Feet	20. BLM/BIA Bond No. On File NM0140			
21. Elevations (Show whether DF, KDB, RT, GL, etc.) GL-6825'	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.

RCVD OCT 15 '07
OIL CONS. DIV.
DIST. 3

25. Signature <i>Kurt Fagrelus</i>	Name (Printed/Typed) Kurt Fagrelus	Date Sept. 11, 2007
Title Geologist		
Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed)	Date 10/11/07
Title APM	Office FFO	

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 1050' - 1062'. The interval will be fracture stimulated.

NOTIFY AZTEC OGD 24 HRS.
PRIOR TO CASING & CEMENT

NMOCD OCT 18 2007

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

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

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- 34425
1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other		5. Indicate Type of Lease Federal <input checked="" type="checkbox"/> STATE <input type="checkbox"/> FEE <input type="checkbox"/>
2. Name of Operator Dugan Production Corp.		6. State Oil & Gas Lease No. Federal NM-90468
3. Address of Operator 709 East Murray Drive, Farmington, NM 87401		7. Lease Name or Unit Agreement Name Satchmo Com
4. Well Location Unit Letter <u>M</u> : <u>1550</u> feet from the <u>south</u> line and <u>1350</u> feet from the <u>east</u> line Section <u>4</u> Township <u>22N</u> Range <u>8W</u> NMPM County <u>San Juan</u>		8. Well Number <u>2</u>
11. Elevation (Show whether DR, RKB, RT, GR, etc.) GL-6825'		9. OGRID Number 006515
Pit or Below-grade Tank Application <input checked="" type="checkbox"/> or Closure <input type="checkbox"/>		
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 _____ bbls; 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.

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 9/11/2007
Kurt Fagrelus kfagrelus@duganproduction.com 505-325-1821

Type or print name
For State Use Only Deputy Oil & Gas Inspector,
District #3

APPROVED BY: [Signature] TITLE _____ DATE OCT 18 2007
Conditions of Approval (if any): _____

EXHIBIT B
OPERATIONS PLAN
Satchmo Com #2

APPROXIMATE FORMATION TOPS:

Ojo Alamo	400'
Kirtland	500'
Fruitland	770'
Pictured Cliffs	1070'
Total Depth	1220'

Catch samples every 10 feet from 950 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#	1220'	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 80 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 190 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)

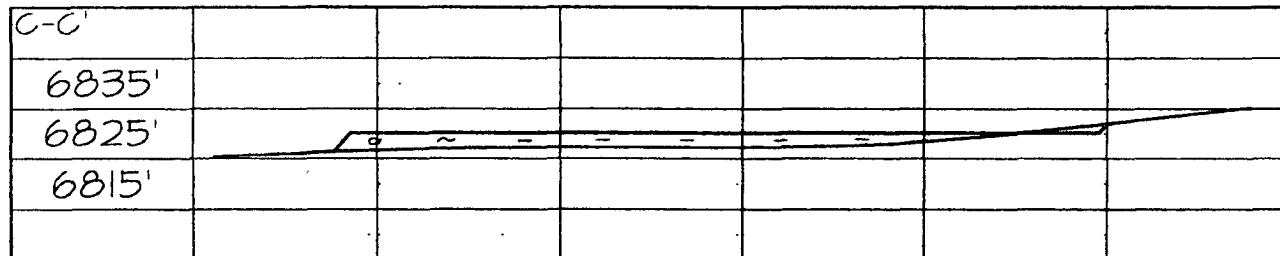
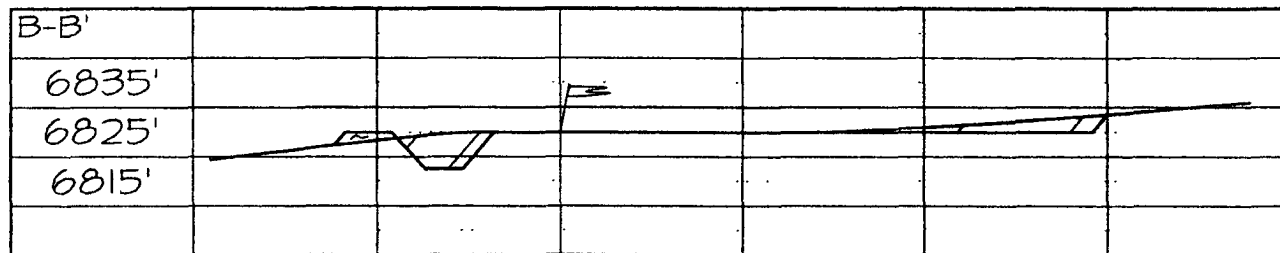
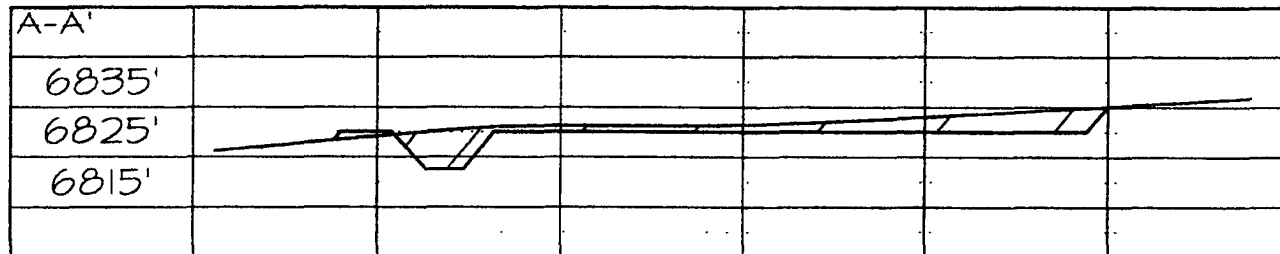
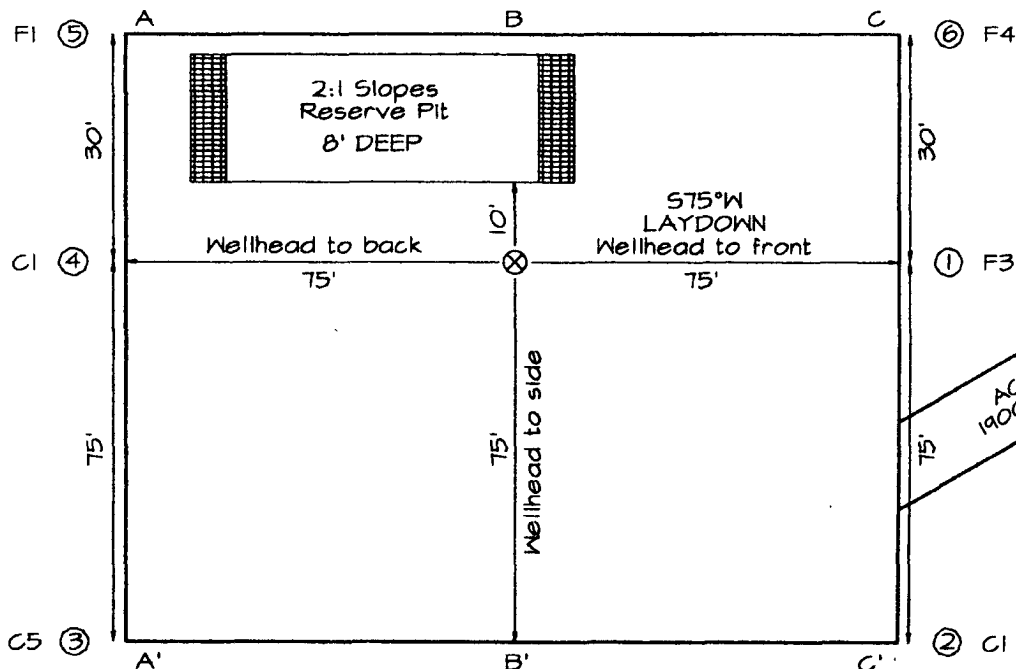
John Alexander	325-6927 (H)
	320-1935 (M)

DUGAN PRODUCTION CORPORATION SATCHMO COM #2
1550' FSL & 1350' FEL, SECTION 4, T22N, R8W, NMPM
SAN JUAN COUNTY, NEW MEXICO ELEVATION: 6825'

LATITUDE: 36.16575° N
LONGITUDE: 107.68253° W
 DATUM: NAD1983

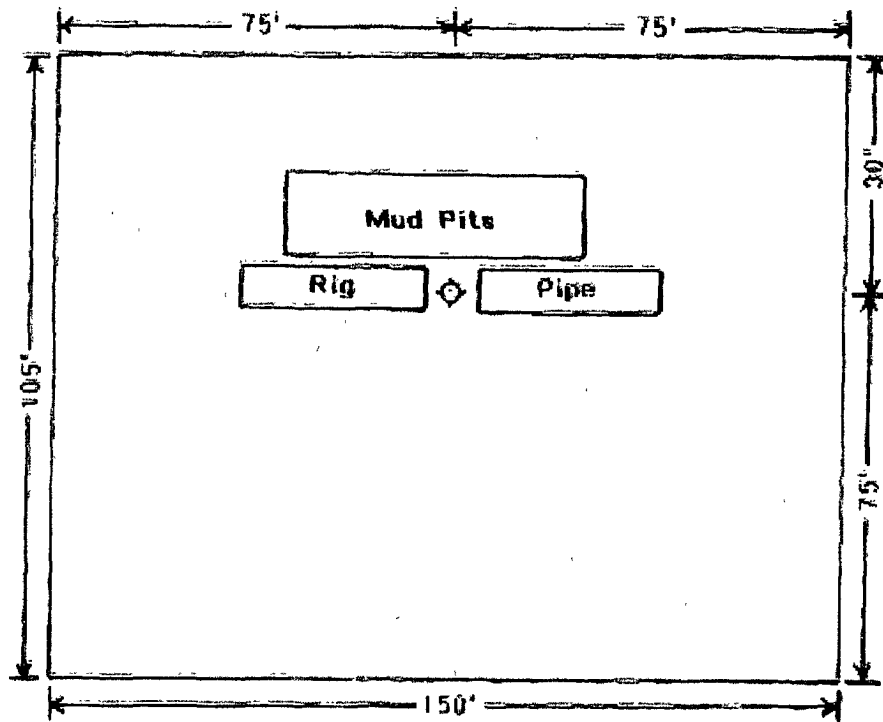
PLAT NOTE:

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

**Typical Location
For a Fruitland Coal Well**

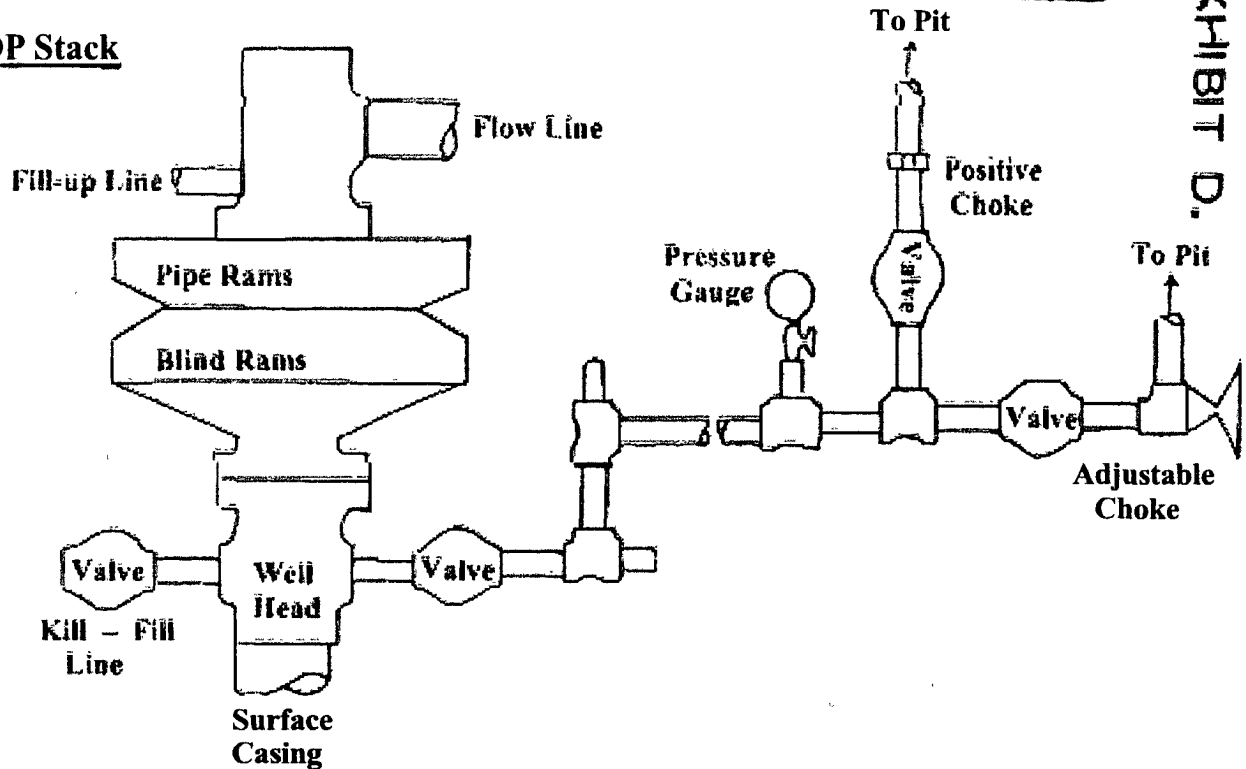


DUGAN PRODUCTION CORP.
Satchmo Com #2

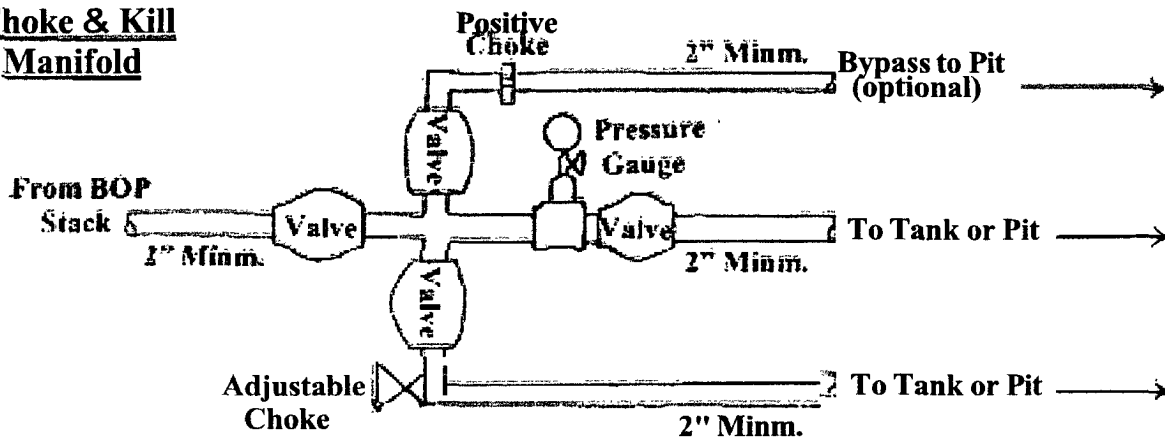
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
Satchmo Com #2