

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RCVD AUG 25 '08
OIL CONS. DIV.

DIST. 3
FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

APPLICATION FOR PERMIT TO DRILL OR DEEPEEN

1a. Type of Work <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		070 FARMINGTON NM	
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	
2. Name of Operator Black Hills Gas Resources, Inc.		E-mail: lbenally@bhep.com Contact: Lynn Benally	
3a. Address P.O. Box 249 Bloomfield NM 87413		3b. Phone No. (include area code) 505-634-1111	
4. Location of Well (Report location clearly and in accordance with any State Requirements.) At surface 540' FSL 570' FWL SW 1/4 SW 1/4 Lat: 36.73361 Long: 107.05528		5. Lease Serial No. MDA 701-98-0013, Tract 4	
6. If Indian, Allottee or Tribe Name Jicarilla Apache Nation		7. If Unit or CA Agreement, Name and No.	
8. Lease Name and Well No Jicarilla 29-02-09 41		9. API Well No 30-039-30075	
10. Field and Pool, or Exploratory East Blanco / Pictured Cliffs		11. Sec., T., R., M., or Blk. and Survey or Area Sec. 9 T 29N R 2W	
12. County or parish Rio Arriba		13. State New Mexico	
14. Distance in miles and direction from nearest town or post office. * Well is located approximately 60 miles east of Bloomfield, New Mexico.		15. Distance from proposed location to nearest property of lease line, ft. (Also nearest Drig, unit line, if any) Unit= n/a Lease= ±4,778'	
16. No. of acres in lease 9600.00		17. Spacing Unit dedicated to this well 160	
18. Distance from proposed location to nearest well, drilling, completed or applied for, on this lease, ft. ± 1,200' Jicarilla 29-02-16 4		19. Proposed depth 4,000' TVD	
20. BLM/BIA Bond No. on file NMB000230		21. Elevations (Show whether DF, KDB, RT, GL, etc.) 7,261' GR	
22. Approximate date work will start * October 30, 2006		23. Estimated duration 45-60 days drlg + completion	

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>Kathy L. Schneebeck</i>	Name (Printed/Typed) Kathy L. Schneebeck, 303-820-4480	Date September 27, 2006
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Title
Permit Agent for Black Hills Gas Resources, Inc.

Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed)	Date 8/21/08
Title <i>[Signature]</i>	Office	

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.

- A COMPLETE C-144 MUST BE SUBMITTED TO AND APPROVED BY THE NMOCD FOR: A PIT, CLOSED LOOP SYSTEM, BELOW GRADE TANK, OR PROPOSED ALTERNATIVE METHOD, PURSUANT TO NMOCD PART 19.15.17, PRIOR TO THE USE OR CONSTRUCTION OF THE ABOVE APPLICATIONS

SEP 09 2008



H₂S POTENTIAL EXIST

NMOCD

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

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

"GENERAL REQUIREMENTS"

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

1220 South St. Francis Dr.
Santa Fe, NM 87505

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

RCVD SEP 4 '08
☐ AMENDED REPORT

oil cons. div.

¹ API Number 30-039-30075		² Pool Code 72400	³ Pool Name EAST BLANCO PICTURED CLIFFS	DIST. 3
⁴ Property Code 211247 24247	⁵ Property Name JICARILLA 29-02-09			⁶ Well Number 41
⁷ GRID No. 013925	⁸ Operator Name BLACK HILLS GAS RESOURCES			⁹ Elevation 7261'

UL or lot no. M	Section 9	Township 29-N	Range 2-W	Lot Idn	Feet from the 540	North/South line SOUTH	Feet from the 570	East/West line WEST	County RIO ARRIBA
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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			¹³ Joint or Infill		¹⁴ Consolidation Code		¹⁵ Order No.		
SW/4 - 160									

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

<p>SEC. CORNER FD. PIN & CAP LS. 8894</p>				<p>17 OPERATOR CERTIFICATION</p> <p>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</p> <p><i>[Signature]</i> 9-4-08 Signature Date Lynn H. Benally Printed Name</p>
<p>N 01°06'04" W 5271.22' (M)</p>				
<p>570'</p> <p>540'</p> <p>SEC. CORNER FD. PIN & CAP LS. 8894</p>	<p>9</p> <p>SURFACE: LAT: 36.73361° N. (NAD 83) LONG: 107.05528° W. (NAD 83)</p>		<p>SEC. CORNER FD. MKD. STONE W/ PIN & CAP LS 8894</p>	<p>18 SURVEYOR CERTIFICATION</p> <p>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 knowledge & belief</p> <p>SEPTEMBER 4 2005 Date of Survey</p> <p><i>[Signature]</i> Signature and Seal Professional Surveyor</p> <p>NEW MEXICO 8894 29-09 PROFESSIONAL LAND SURVEYOR</p> <p>Certificate Number</p>

Black Hills Gas Resources, Inc.
Jicarilla 29-02-09 41
540' FSL 570' FWL (SW/4 SW/4)
Sec. 9 T29N R2W
Rio Arriba County, New Mexico
Lease: MDA 701-98-0013, Tract 4

DRILLING PROGRAM

This Application for Permit to Drill (APD) was initiated under the Notice of Staking (NOS) process as stated in Onshore Order No. 1 and supporting Bureau of Land Management (BLM) documents. This NOS process included an onsite meeting, which was held on September 19, 2006, as determined by Bureau of Indian Affairs (BIA) and Jicarilla Oil and Gas Administration (JOGA), and at which time the specific concerns of Black Hills Gas Resources, Inc. (Black Hills), BIA and JOGA were discussed.

SURFACE FORMATION – San Jose

GROUND ELEVATION – 7,261'

ESTIMATED FORMATION TOPS - (Water, oil, gas and/or other mineral-bearing formations)

San Jose	Surface	Sandstone, shales & siltstones
Nacimiento	2,119'	Sandstone, shales & siltstones
Ojo Alamo	3,139'	Sandstone, shales & siltstones
Kirkland	3,377'	Sandstone, shales & siltstones
Fruitland Coal	3,462'	Sandstone, shales & siltstones
Pictured Cliffs	3,536'	Sandstone, shales & siltstones
Lewis	3,638'	Sandstone, shales & siltstones

TOTAL DEPTH 4,000'

Estimated depths of anticipated fresh water, oil, or gas:

Tertiary

San Jose	surface	Gas
Nacimiento	2,119'	Gas
Ojo Alamo	3,139'	Gas
Fruitland Coal	3,462'	Gas
Pictured Cliffs	3,536'	Gas

CASING PROGRAM

Depth	Hole Diameter	Casing Diameter	Casing Weight and Grade	Cement
0' – 250' TVD	12-1/4"	8-5/8"	J-55 24# ST&C New	To surface (±175 sxs Standard Cement containing 2% CaCl ₂ and 0.25 lb/sx LCM) **
0' – 4,000' TVD	7-7/8"	5-1/2"	J-55 15.5# LT&C New	TD to surface (Lead: ±300 sxs Lite Standard Cement. Tail: ±400 sxs 50:50 POZ containing 0.25 lb/sx LCM)* **

* Actual cement volume to be determined by caliper log.

** Cement will be circulated to surface.

Yields:

Surface: Standard Cement yield: = 1.2 ft³/sx (mixed at 15.6 lb/gal)

Production: Lite Standard Cement yield: = 1.59 ft³/sx (mixed at 13.4 lb/gal)
50:50 POZ yield = 1.27 ft³/sx (mixed at 14.15 lb/gal)

All fresh water and prospectively valuable minerals encountered during drilling will be recorded by depth and protected.

PRESSURE CONTROL

BOPs and choke manifold will be installed and pressure tested before drilling out under surface casing (subsequent pressure test will be performed whenever pressure seals are broken), and then will be checked daily as to mechanical operating condition. BOP's will be pressure tested at least once every 30 days. Ram type preventors and related pressure control equipment will be pressure tested to 1,000 psi. Annular type preventor will be pressure tested to 50% of the rated working pressure, not to exceed 1,000 psi. All casing strings will be pressure tested to 0.22 psi/ft. or 1,000 psi, whichever is greater, not to exceed 70% of internal yield.

BOP to be either double gate rams or an annular preventor as per Onshore Order No. 2.

Statement on Accumulator System and Location of Hydraulic Controls

The drilling rig has not yet been selected for this well. Selection will take place after approval of this application. Manual and/or hydraulic controls will be in compliance with Onshore Order No. 2 for 2M systems.

A remote accumulator will be used. Pressures, capacities, location of remote hydraulic and manual controls will be identified at the time of the BLM supervised BOP test.

MUD PROGRAM

0' - 250' Fresh water – M.W. 8.5 ppg, Vis 30-33
250' - TD' Clean Faze - Low solids non-dispersed
M.W.: 8.5 – 9.2 ppg
Vis.: 28 – 50 sec
W.L.: 15cc or less

Sufficient mud materials to maintain mud properties, control lost circulation and to contain "kick" will be available at wellsite.

AUXILIARY EQUIPMENT

- A) A Kelly cock will be kept in the drill string at all times
- B) Inside BOP or stab-in valve (available on rig floor)
- C) Mud monitoring will be visually observed

LOGGING, CORING, TESTING PROGRAM

- A) Logging: DIL- CNL-FDC-GR - TD - BSC (GR to surface)
Sonic (BSC to TD)
- B) Coring: None
- C) Testing: Possible DST – None anticipated. Drill stem tests may be run on shows of interest

ABNORMAL CONDITIONS

- A) Pressures: No abnormal conditions are anticipated
Bottom hole pressure gradient – 0.31 psi/ft
- B) Temperatures: No abnormal conditions are anticipated
- C) H₂S: See attached H₂S plan in the event H₂S is encountered.
- D) Estimated bottomhole pressure: 1,240 psi

ANTICIPATED START DATE

October 30, 2006

COMPLETION

The location pad will be of sufficient size to accommodate all completion activities and equipment. A string of 2-7/8" PH-6 tubing will be run for a flowing string. A Sundry Notice will be submitted with a revised completion program if warranted.

Hydrogen Sulfide Drilling Operations Plan

I. Hydrogen Sulfide Training

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

1. The hazards and characteristics of hydrogen sulfide (H_2S).
2. The proper use and maintenance of personal protective equipment and life support systems.
3. The proper use of H_2S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
4. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

1. The effects of H_2S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
3. The contents and requirements of the H_2S Drilling Operations Plan and the Public Protection Plan.

There will be an initial training session just prior to encountering a known or probable H_2S zone (within 3 days or 500 feet) and weekly H_2S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H_2S Drilling Operations Plan and the Public Protection Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H_2S Safety Equipment and Systems

Note: All H_2S safety equipment and systems, if necessary, will be installed, tested, and operational when drilling reaches a depth of 500 feet above or three days prior to penetrating the first zone containing or reasonably expected to contain H_2S .

A. Well control equipment:

1. Choke manifold with a minimum of one remote choke.
2. Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.

Black Hills Gas Resources, Inc.

- B. Protective equipment for essential personnel:
 - 1. Mark II Surviveair 30-minute units located in the doghouse and at briefing areas, as indicated on well site diagram.
- C. H₂S detection and monitoring equipment:
 - 1. Two portable H₂S monitors positioned on location for best coverage and response. These units have warning lights and audible sirens when H₂S levels of 10 ppm are reached.
- D. Visual warning systems:
 - 1. Wind direction indicators as shown on well site diagram.
 - 2. Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used when appropriate. See example attached.
- E. Mud program:
 - 1. The mud program has been designed to minimize the volume of H₂S circulated to the surface. Proper mud weight, safe drilling practices, and the use of H₂S scavengers will minimize hazards when penetrating H₂S bearing zones.
- F. Metallurgy:
 - 1. All drill strings, casings, tubing, wellhead, blowout preventors, drilling spools, kill lines, choke manifold and lines, and valves shall be suitable for H₂S service.
 - 2. All elastomers used for packing and seals shall be H₂S trim.
- G. Communication:
 - 1. Cellular telephone communications in company vehicles.
- H. Well testing:
 - 1. Drill stem testing will be performed with a minimum number of personnel in the immediate vicinity which are necessary to safely and adequately conduct the test. The drill stem testing will be conducted during daylight hours and formation fluids will not be flowed to the surface. All drill stem testing operations conducted in an H₂S environment will use the closed chamber method of testing.

2-M SYSTEM

Black Hills Gas Resources, Inc.

ANNULAR PREVENTOR MAY BE SUBSTITUTED FOR DOUBLE GATE PREVENTORS
BOP PRESSURE TEST TO 1,000 PSI

