

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

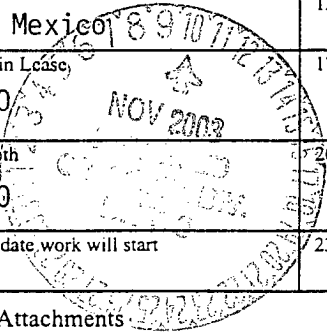
RECEIVED

FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

APPLICATION FOR PERMIT TO DRILL OR REENTER

703 127 -7 PM 4:25

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. Nm-10875
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		6. If Indian, Allottee or Tribe Name
2. Name of Operator DUGAN PRODUCTION CORP. Contact: KURT FAGRELIUS E-Mail: kfagrelus@duganproduction.com		7. If Unit or CA Agreement, Name and No. 33034
3a. Address 709 EAST MURRAY DRIVE FARMINGTON, NM 87401	3b. Phone No. (include area code) Ph: 505.325.1821 Fx: 505.327.4613	8. Lease Name and Well No. Sly Slav Com #90#S
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface SESE 866' FSL 237' FSL, 36.4833 N Lat, 108.2135 W Lon At proposed prod. zone Same As Above		9. API Well No. 3004531958
14. Distance in miles and direction from nearest town or post office* Approx. 7-Miles North of Kirtland, New Mexico		10. Field and Pool, or Exploratory Basin Fruitland Coal
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 237'	16. No. of Acres in Lease 1,840	11. Sec., T., R., M., or Blk. and Survey or Area Sec. 13, T30N, R15W NMP
18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 800'	19. Proposed Depth 1,080	12. County or Parish SAN JUAN
21. Elevations (Show whether DF, KB, RT, GL, etc.) 5529' GL	22. Approximate date work will start ASAP	13. State NM
17. Spacing Unit dedicated to this well 320- E/2		
20. BLM/BIA Bond No. on title		
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 <i>Kurt Fagrelus</i>	Name (Printed/Typed) KURT FAGRELIUS	Date 10/06/03
Title GEOLOGIST		
Approved by (Signature)	Name (Printed/Typed) <i>David J. Mantkiewicz</i>	Date NOV -7 2003
Title Office		

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 casing hole. The Fruitland Coal will be completed from approximately 800' - 940'. The interval will be fractured.

ALL 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

HOLD C104 FOR NSL

NMOCD

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 June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30045-31958	² Pool Code 71629	³ Pool Name BASIN FRUITLAND COAL
⁴ Property Code 33034	⁵ Property Name SLY SLAV COM	
⁶ OGRID No. 006515	⁷ Operator Name DUGAN PRODUCTION CORP.	⁸ Well Number 90-S ⁹ Elevation 5527

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
P	13	30 N	15 W		866	SOUTH	237	EAST	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 320 E/2	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
---	-------------------------------	----------------------------------	-------------------------

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

<p>16</p> <p>2629.85</p> <p>2684.17</p> <p>2629.93</p> <p>2634.50</p>	<p>2631.99</p> <p>DUGAN FEE-10034</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.</p> <p>Signature <i>Kurt Fagrelis</i></p> <p>Printed Name Kurt Fagrelis</p> <p>Title and E-mail Address Geologist</p> <p>Date Oct. 3, 2003</p>
	<p>2631.17</p> <p>DUGAN NM-16765</p>	
	<p>2639.02</p> <p>DUGAN NM-10875</p>	
	<p>2630.91</p> <p>DUGAN FEE-10057</p> <p>SLY SLAV * 90-S</p> <p>866'</p> <p>237'</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 belief.</p> <p>Date of Survey <i>18 SEP 03</i></p> <p>Signature and Seal of Professional Surveyor </p> <p>Certificate Number <i>15512</i></p>

EXHIBIT B
OPERATIONS PLAN
Sly Slav Com #90-S

APPROXIMATE FORMATION TOPS:

Kirtland	Surface'	Pictured Cliffs	950'
Fruitland	635'	Total Depth	1080'

Catch samples every 10 feet from 750 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>
9-7/8"	7"	20#	250'	J-55
6-1/4"	4-1/2"	10.5#	1080'	J-55

Plan to drill a 9-7/8" hole and set 250' of 7" OD, 20#, J-55 surface casing. Then plan to drill a 6-1/4" hole to total depth with gel-water mud program to test the Fruitland Coal. 4-1/2", 10.5#, 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 100 cf Class B + 2% CaCl₂.
Circulate to surface.

Production Stage: Cement with 120 cf 2% Lodense with
1/4# celloflake/sx followed by 60 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

