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MAR 10 2009

Bureau of Land Management
Farmington Field Office

RCVD MAY 21 '09
OIL CONS. DIV.
DIST. 3

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

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No.
NOOG-0902-1754

6. If Indian, Allotee or Tribe Name
Navajo Allotted

1a. Type of work: [X] DRILL [ ] REENTER

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

1b. Type of Well: [ ] Oil Well [X] Gas Well [ ] Other [X] Single Zone [ ] Multiple Zone

8. Lease Name and Well No.
Martinez Begay Com #2

2. Name of Operator
Dugan Production Corp.

9. API Well No.
30-045- 34923

3a. Address
709 East Murray Drive
Farmington, NM 87401

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 895' FSL & 1330' FWL Lat. 36.26540 N
At proposed prod. zone Same as above Long. 107.88804 W

11. Sec., T. R. M. or Blk. and Survey or Area
N Sec. 34, T24N, R10W
NMPM

14. Distance in miles and direction from nearest town or post office*
Approx. 35-miles SE of Bloomfield, 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)
895-Feet

16. No. of acres in lease
160.0 Acres

17. Spacing Unit dedicated to this well
320.0 Acres - (S/2)

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

19. Proposed Depth
1225-Feet

20. BLM/BIA Bond No.
On File

21. Elevations (Show whether DF, KDB, RT, GL, etc.)
GL-6655'

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 2-18-2009

Title Geologist

Approved by *(Signature)* — Name *(Printed/Typed)* — Date 5/20/09

Title Acting AFM Minerals — 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 USC Section 1001 and Title 43 USC. 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 21,000 psi BOP will be used to drill production hole. The Fruitland Coal will be completed from approximately 1050' - 1075'. The interval will be fracture stimulated.

BLM'S APPROVAL OR ACCEPTANCE OF THIS ACTION DOES NOT RELIEVE THE LESSEE AND OPERATOR FROM OBTAINING ANY OTHER AUTHORIZATION REQUIRED FOR OPERATIONS ON FEDERAL AND INDIAN LANDS

NOTIFY AZTEC OCD 24 HRS. PRIOR TO CASING & CEMENT

NMOCD

MAY 21 2009

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

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

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Bureau of Land Management
Farmington Field Office

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

1 API Number	2 Pool Code	3 Pool Name
30-045-34923	71629	BASIN FRUITLAND COAL

4 Property Code	5 Property Name	6 Well Number
37100	MARTINEZ BEGAY com	2

7 OGRID No	8 Operator Name	9 Elevation
006515	DUGAN PRODUCTION CORPORATION	6655'

10 Surface Location

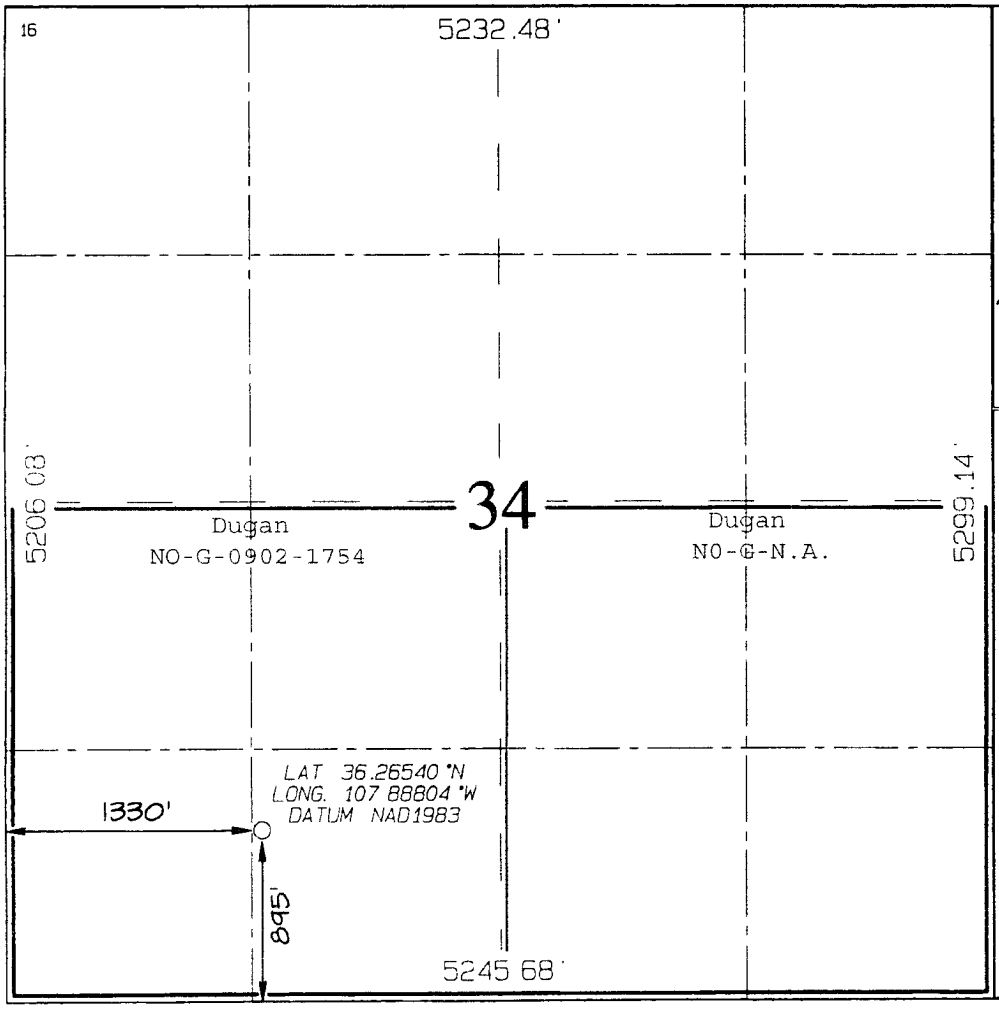
UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	34	24N	10W		895	SOUTH	1330	WEST	SAN JUAN

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	13 Joint or Infill	14 Consolidation Code	15 Order No.
320.0 Acres - (S/2)			

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



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 Fagrelius — 2-18-2009
Signature — Date

Kurt Fagrelius
Printed Name

18 SURVEYOR CERTIFICATION

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

Date of Survey: JULY 18, 2008

Signature and Seal of Professional Surveyor

JASON C. EDWARDS
NEW MEXICO
15269
REGISTERED PROFESSIONAL SURVEYOR

JASON C. EDWARDS
Certificate Number 15269

EXHIBIT B

OPERATIONS PLAN

Martinez Begay Com #2

APPROXIMATE FORMATION TOPS:

Ojo Alamo	210'
Kirtland	305'
Fruitland	720'
Pictured Cliffs	1050'
Total Depth	**1225'**

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	Setting Wt./ft.	Depth	Grade and Condition
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1225'	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% $CaCl_2$.
Circulate cement to surface.

Production Stage-Cement with 115 cf 2% lodense with ¼# celloflake/sx followed by 75 cf Class "B" with ¼# 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 useable 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, 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 - 300 psi.

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

WELLHEAD EQUIPMENT:

Huber 8-5/8"x5-1/2" casing head, 1000# working pressure, factory tested to 2000#.
Huber 5-1/2"x2-7/8" tubing head, 1000# working pressure, factory tested to 2000#.

Blow-Out Preventor Equipment (BOPE): 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.

Working pressure for all BOPE will be 2,000 psi or greater.

Blow-Out Preventor Equipment (BOPE) tests will be performed without using a test plug because of the following reason:

A Gardner Denver 2000 drilling rig will be used to drill this shallow coal well. The largest BOP that will fit under this rig is a Schafer 6" 2000 series that has an internal diameter of 7.0625". This BOP is screwed on to a Hercules LM85 casing head that has an internal minimum bore of 7.920". The casing head is screwed onto 8-5/8" surface casing that has an internal diameter of 8.097".

Currently Dugan is unable to get a test plug for the casing head (7.920" ID) or surface casing 8.097" ID) that will pass through the BOP (7.0625" ID).

Will test BOPE and surface casing together. The test will include a low pressure test to 250 psig held for five minutes and a high pressure test to 800 psig held for thirty minutes (with no more than a 10 percent pressure drop during the duration of the tests). If a 10 percent or greater pressure drop occurs, a packer will be run to isolate the surface casing and BOPE to locate the source of the leak.

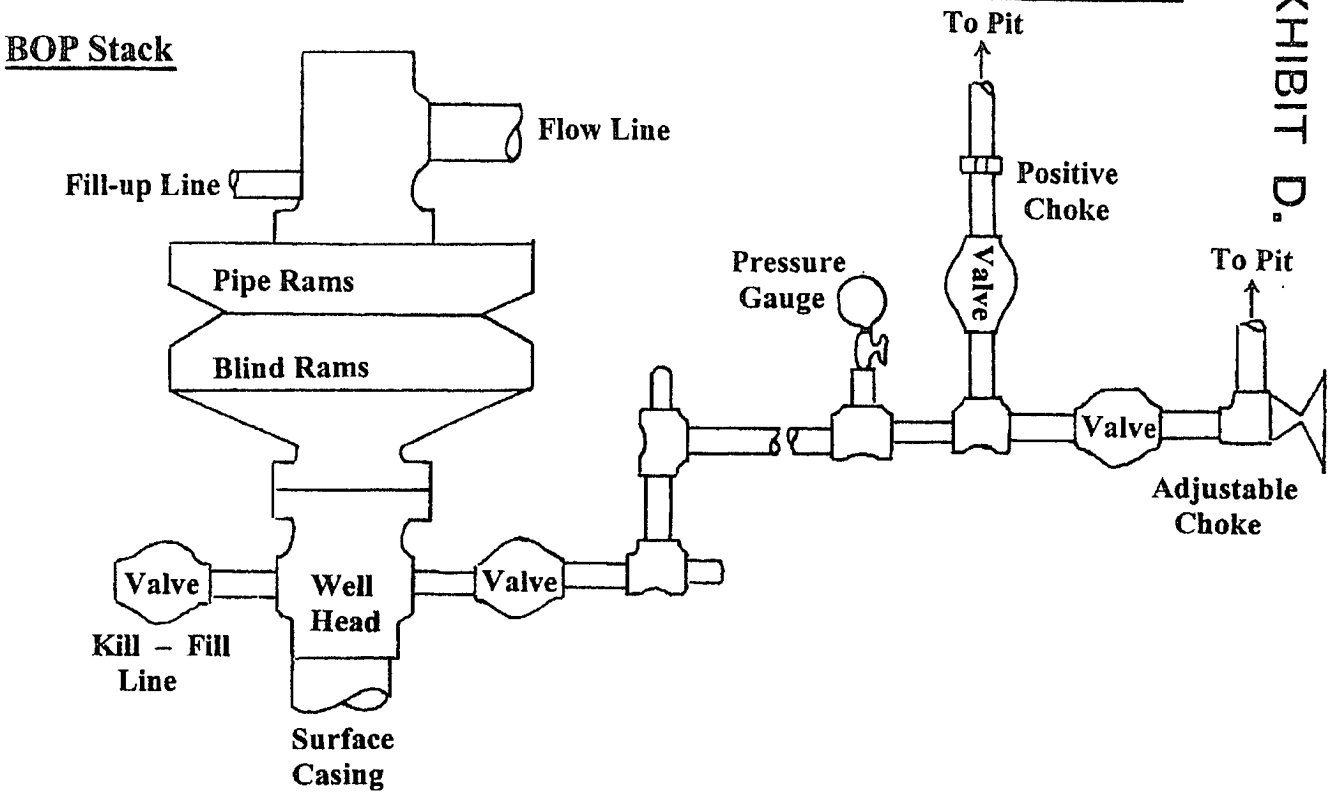
Contacts:

Dugan Production Corp. Office and Radio Dispatch: 325-1821
Mark Brown: 327-3632 (H), 320-8247 (M)
Kurt Fagrelius: 325-4327 (H), 320-8248 (M)
John Alexander: 325-6927 (H), 320-1935 (M)

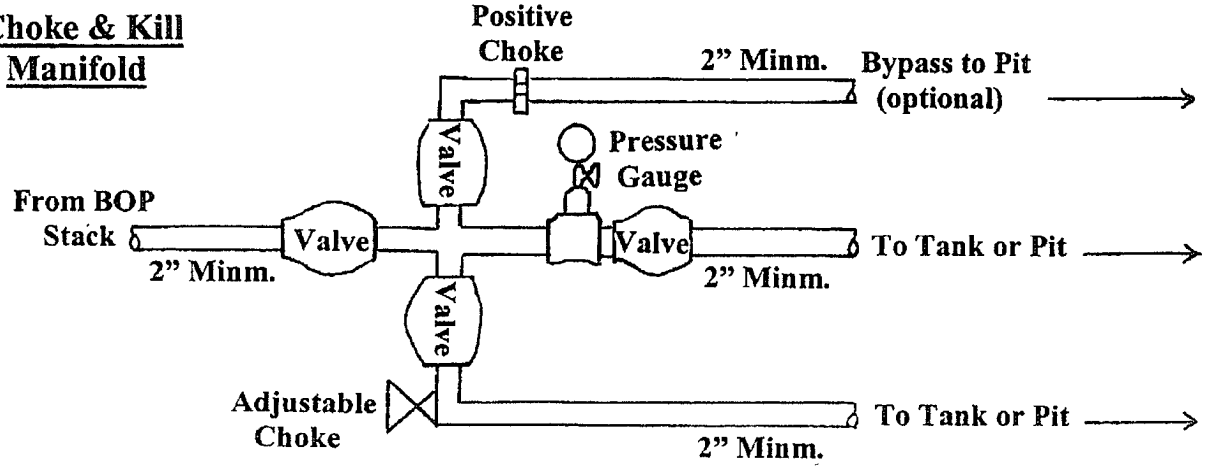
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
MARTINEZ BEGAY COM #2