

RECEIVED

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
MAY 21 2009
APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NO-G-0905-1759
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 Navajo Allotted
2. Name of Operator Dugan Production Corp.		7. If Unit or CA Agreement, Name and No.
3a. Address 709 East Murray Drive Farmington, NM 87401	3b. Phone No. (Include area code) 505-325-1821	8. Lease Name and Well No. Martinez Begay Com #1
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1200' FSL & 1000' FEL Lat. 36.26631 N At proposed prod. zone Same as above Long. 107.887816 W		9. API Well No. 30-045-34983
14. Distance in miles and direction from nearest town or post office* Approx. 35-miles SE of Bloomfield, 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) 1000-Feet	16. No. of acres in lease 160.0 Acres	11. Sec., T. R. M. or Blk. and Survey or Area Sec. 34, T24N, R10W NMPM
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. N.A.	19. Proposed Depth 1310-Feet	12. County or Parish San Juan
21. Elevations (Show whether DF, KDB, RT, GL, etc.) GL-6721'	22. Approximate date work will start* ASAP	13. State NM
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 <i>Kurt Fagrelus</i>	Name (Printed/Typed) Kurt Fagrelus	Date 5-21-2009
Title Geologist		
Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed) AFM	Date 2/16/09
Title AFM	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 21,000 psi BOP will be used to drill production hole. The Fruitland Coal will be completed from approximately 1130' to 1160'. 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

NMOC

MAR 31 2010

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

RECEIVED

MAY 21 2009

Form C-102
Revised October 12, 2005
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

Bureau of Land Management
Farmington Field Office
AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-045-34983		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 37700	*Property Name MARTINEZ BEGAY		*Well Number 1
*OGRID No 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6721'

¹⁰ Surface Location

UL or lot no P	Section 34	Township 24N	Range 10W	Lot Idn	Feet from the 1200	North/South line SOUTH	Feet from the 1000	East/West line EAST	County SAN JUAN
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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 320.0 Acres - (S/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

16		5232.48'		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 Fagrelus 5/20/2009			
		Signature Date			
		Kurt Fagrelus			
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: APRIL 4, 2008			
Signature and Seal of Professional Surveyor		JASON C. EDWARDS NEW MEXICO 15269 REGISTERED PROFESSIONAL SURVEYOR			
JASON C. EDWARDS		Certificate Number 15269			

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

FORM APPROVED
OMB NO. 1004-0135
Expires: July 31, 2010**SUNDRY NOTICES AND REPORTS ON WELLS**
*Do not use this form for proposals to drill or to re-enter an abandoned well. Use form 3160-3 (APD) for such proposals.*AUG 03 2009
Bureau of Land Management

SUBMIT IN TRIPLICATE - Other instructions on reverse side.

5. Lease Serial No NOG09051759
6. If Indian, Allottee or Tribe Name
7. If Unit or CA/Agreement, Name and/or No
8. Well Name and No MARTINEZ BEGAY COM 1
9. API Well No.
10. Field and Pool, or Exploratory BASIN FRUITLAND COAL
11. County or Parish, and State SAN JUAN COUNTY, NM

1. Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other	
2. Name of Operator DUGAN PRODUCTION CORP	
Contact: JOHN C ALEXANDER E-Mail: johncalexander@duganproduction.com	
3a. Address P O BOX 420 FARMINGTON, NM 87499-0420	3b. Phone No. (include area code) Ph: 505-325-1821
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) Sec 34 T24N R10W SESE 1200FSL 1000FEL	

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	Change to Original PD
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Change used for production casing cement to the following: (volumes will be changed to circulate to surface)

Lead Cement:

Premium Lite FM + 3% bwoc Calcium

Chloride + 0.25 lbs/sack Cello Flake + 5 lbs/sack

LCM-1 + 0.4% bwoc FL-52 + 8% bwoc Bentonite +

0.4% bwoc Sodium Metasilicate + 112.3% Fresh

Water

Weight 12.10 lb/gal, yield 2.13 cu. ft./sk.

Tail Cement:


Type III Cement + 1 lbs/sack Calcium

14. I hereby certify that the foregoing is true and correct.

Electronic Submission #72500 verified by the BLM Well Information System
For DUGAN PRODUCTION CORP, sent to the Farmington

Name (Printed/Typed) JOHN C ALEXANDER	Title VICE-PRESIDENT
Signature (Electronic Submission)	Date 07/27/2009

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved By 	Title AFM	Date 8/16/09
Conditions of approval, if any, are attached. Approval of this notice 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.	Office FFO	

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.

** OPERATOR-SUBMITTED ** OPERATOR-SUBMITTED ** OPERATOR-SUBMITTED **

NMOCD

Additional data for EC transaction #72500 that would not fit on the form

32. Additional remarks, continued

Chloride + 0.25 lbs/sack Cello Flake + 0.2% bwoc
FL-52 + 59% Fresh Water
Weight 14.6 lb/gal, yield 1.38 cu. ft/sk

EXHIBIT B
OPERATIONS PLAN
Martinez Begay Com #1

APPROXIMATE FORMATION TOPS:

Ojo Alamo	295'
Kirtland	390'
Fruitland	805'
Pictured Cliffs	1160'
Total Depth	1310'

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>Setting</u> <u>Wt./ft.</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#	1310'	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 cement to surface.

Production Stage-Cement with 125 cf 2% lodense with
1/4# celloflake/sx followed by 85 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 210 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 Fagrelus: 325-4327 (H), 320-8248 (M)

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
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SEP 16 2009

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2. Name of Operator DUGAN PRODUCTION CORPORATION		9. API Well No. 30-045-34983-00-X1
3a. Address P. O. BOX 420 FARMINGTON, NM 874990420		10. Field and Pool, or Exploratory BASIN FRUITLAND COAL
3b. Phone No. (include area code) Ph: 505-325-1821		11. County or Parish, and State SAN JUAN COUNTY, NM
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) Sec 34 T24N R10W SESE 1200FSL 1000FEL 36.26631 N Lat, 107.88716 W Lon		

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<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	Change to Original
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	APD

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Change the currently permitted blow out preventer configuration to 9" 2,000 psi dual ram configuration. The previous configuration used a 7-1/16" 2,000 psi dual ram BOP. ✓

The new configuration will allow for a 6" plug to be set in the casing head such that testing of the BOP stack can be done in a conventional manner. ✓

Change the hole size for the production casing to 7-7/8" (the previously permitted hole size was 7"). The cement volume will be adjusted to compensate for the increased hole size to allow for circulation of cement to the surface. ✓

RCVD DEC 22 '09

OIL CONS. DIV.

DIST. 3

14. I hereby certify that the foregoing is true and correct. Electronic Submission #74387 verified by the BLM Well Information System For DUGAN PRODUCTION CORPORATION, sent to the Farmington Committed to AFMSS for processing by TROY SALYERS on 09/16/2009 (09TS0018SE)	
Name (Printed/Typed) JOHN C ALEXANDER	Title VICE-PRESIDENT
Signature (Electronic Submission)	Date 09/16/2009

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved By TROY SALYERS	Title PETROLEUM ENGINEER	Date 09/16/2009
Conditions of approval, if any, are attached. Approval of this notice 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.		Office Farmington

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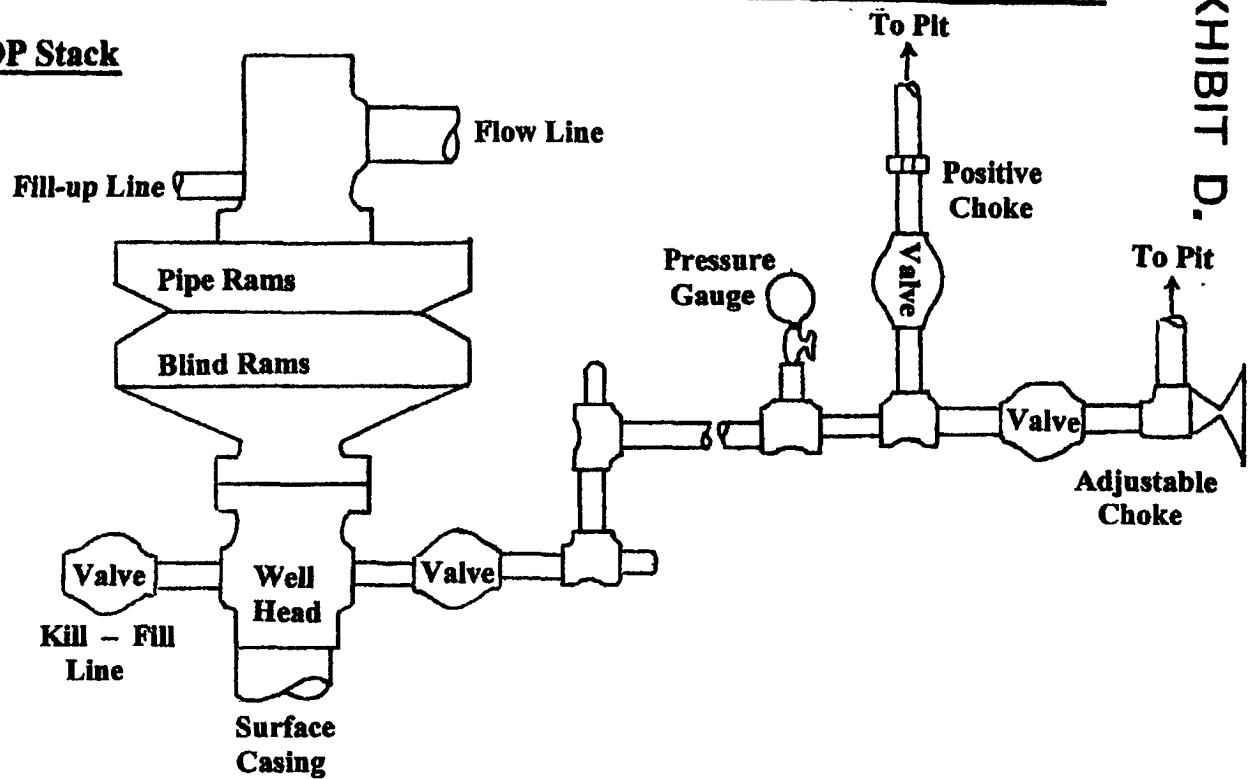
** BLM REVISED ** BLM REVISED ** BLM REVISED ** BLM REVISED ** BLM REVISED **

NMOCD

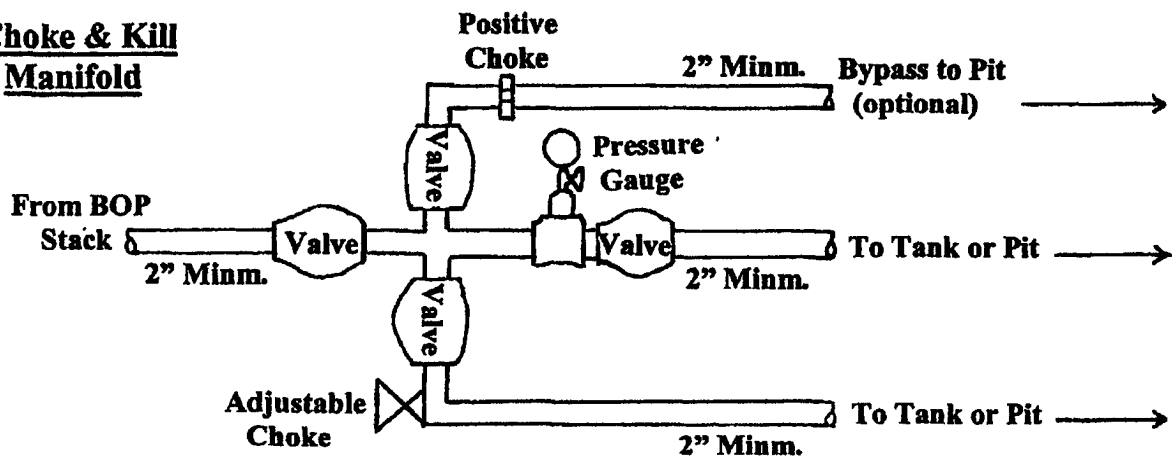
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
Martinez Begay Com #1