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Form 3160-3  
(April 2004)

AUG 20 2009

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

5. Lease Serial No.  
NM-33021

6. If Indian, Allottee or Tribe Name

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work:  DRILL  REENTER

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

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

8. Lease Name and Well No.  
Coaly #3

2. Name of Operator  
Dugan Production Corp.

9. API Well No.  
30-045-35012

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

3b. Phone No. (include area code)  
505-325-1821

10. Field and Pool, or Exploratory  
WC27N12W28; Farmington Sand

4. Location of Well (Report location clearly and in accordance with any State requirements.)  
At surface 660' FSL & 1050' FEL, Lat. 36.54076 N  
At proposed prod. zone Same as above Long. 108.11156 W

11. Sec., T. R. M. or Blk. and Survey or Area  
P 28-27N-12W

14. Distance in miles and direction from nearest town or post office\*  
Approx. 25-miles SE of Farmington, New Mexico 87401

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) 660-Feet

16. No. of acres in lease  
640-Acres

17. Spacing Unit dedicated to this well  
160.0 Acres - SE/4

18. Distance from proposed location\* to nearest well, drilling, completed, applied for, on this lease, ft. 50-Feet

19. Proposed Depth  
1260-Feet

20. BLM/BIA Bond No.  
On File

21. Elevations (Show whether DF, KDB, RT, GL, etc.)  
GL-5797'

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 Fagrelus* Name (Printed/Typed) Kurt Fagrelus Date 1-26-2009

Title Geologist

Approved by *[Signature]* Name (Printed/Typed) Date 7/2/20

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. ACTION DOES NOT RELIEVE THE LESSEE AND OPERATOR FROM OBTAINING ANY OTHER NECESSARY PERMITS OR REQUIREMENTS FOR OPERATIONS ON FEDERAL AND INDIAN LANDS

\*(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 Farmington Sand will be completed from approximately 700 - 900 feet. The interval will be fracture stimulated.

JUL 14 2010

NMOC

NOTIFY AZTEC 24 HRS. PRIOR TO CASING & CEMENT

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

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

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AUG 20 2009

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

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

**RECEIVED**

OIL CONSERVATION DIVISION  
1220 South St. Francis Ave. 20 2009  
Santa Fe, NM 87505

Bureau of Land Management  AMENDED REPORT  
Farmington Field Office

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30,045-35012		*Pool Code 97733	*Pool Name WC27N12W28; Farmington Sand
*Property Code 34492	*Property Name COALY		*Well Number 3
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 5797'


<sup>10</sup> 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	28	27N	12W		660	SOUTH	1050	EAST	SAN JUAN

<sup>11</sup> 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
					<sup>12</sup> Dedicated Acres 160.0 Acres - (SE/4)	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> 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><sup>16</sup></p> <p>5280.00'</p> <p>5280.00'</p> <p>5280.00'</p> <p>5280.00'</p> <p>28</p> <p>Dugan NM-33021</p> <p>LAT: 36.54076°N LONG: 108.11156°W DATUM: NAD1983</p> <p>660'</p> <p>1050'</p>	<p><sup>17</sup> 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>Kurt Fagrelus</i> 1-26-2009 Signature Date Kurt Fagrelus Printed Name</p>
	<p><sup>18</sup> 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>Survey Date: SEPTEMBER 11, 2008</p> <p>Signature and Seal of Professional Surveyor</p>  <p><b>JASON C. EDWARDS</b> Certificate Number 15269</p>

**EXHIBIT B**  
**OPERATIONS PLAN**

Coaly #3

**APPROXIMATE FORMATION TOPS:**

Ojo Alamo	Surface
Kirtland	20'
Fruitland	772'
Pictured Cliffs	1168'
<b>Total Depth</b>	<b>1360'</b>

Catch samples every 10 feet from 500 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>Setting Wt./ft.</u>	<u>Depth</u>	<u>Grade and Condition</u>
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1360'	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 Farmington Sand. 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<sub>2</sub>.  
Circulate cement to surface.

Production Stage-Cement with 85 cf 2% lodense with  
1/4# celloflake/sx followed by 125 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  
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.*

SEP 16 2009

5. Lease Serial No  
NMNM33021

6. If Indian, Allottee or Tribe Name

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

**SUBMIT IN TRIPLICATE - Other instructions on reverse side.**

1. Type of Well <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other	8. Well Name and No COALY 3
2. Name of Operator DUGAN PRODUCTION CORPORATION Contact: JOHN C ALEXANDER Email: johncalexander@duganproduction.com	9. API Well No 30-045-35012-00-X1
3a. Address FARMINGTON, NM 87499	3b. Phone No. (include area code) Ph: 505-325-1821
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) Sec 28 T27N R12W SESE 660FSL 1050FEL 36.54076 N Lat, 108.11156 W Lon	10. Field and Pool, or Exploratory GALLEGOS GALLUP
	11. County or Parish, and State SAN JUAN COUNTY, NM

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 APD
	<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 recomplete 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 recompletion 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 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 test 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 JUL 12 '10  
OIL CONS. DIV.  
DIST. 3

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

**Electronic Submission #74371 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 (09TLS0050SE)**

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

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.

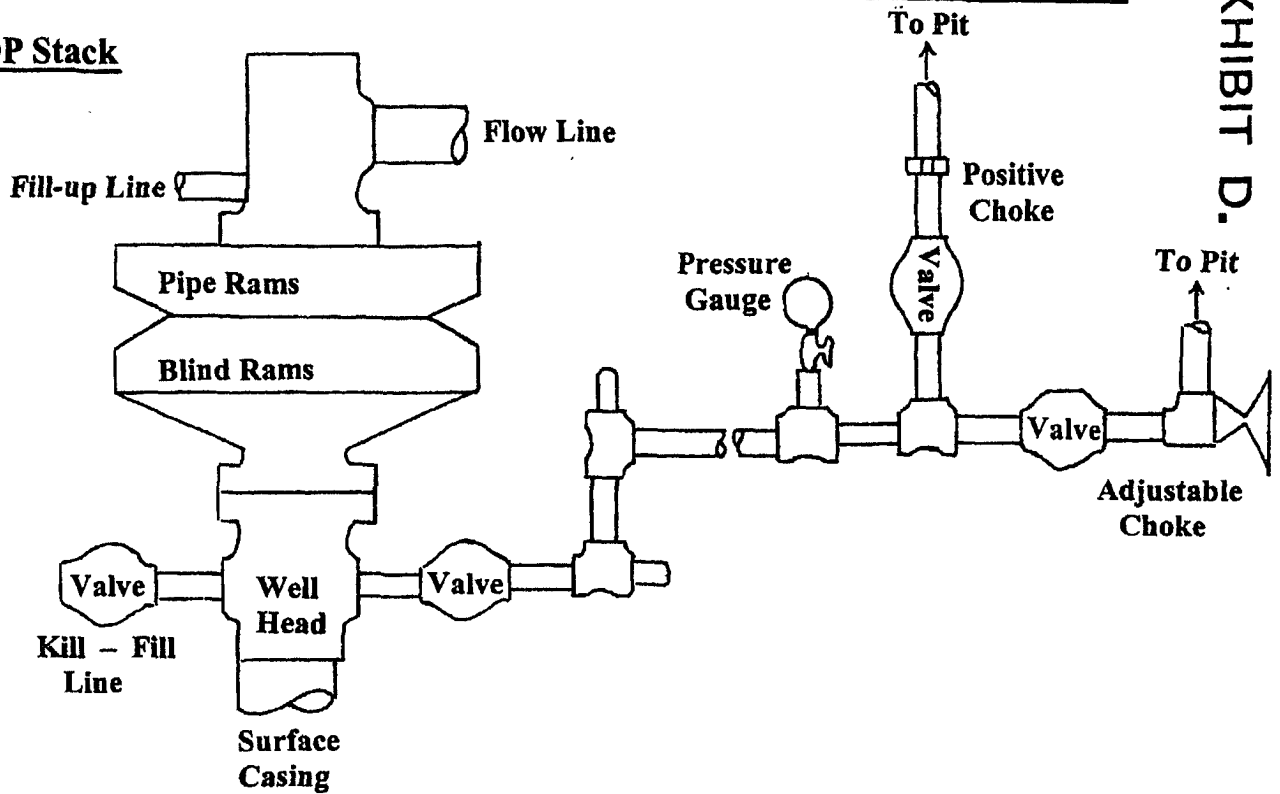
**\*\* BLM REVISED \*\* BLM REVISED \*\* BLM REVISED \*\* BLM REVISED \*\* BLM REVISED \*\***

NMOCD

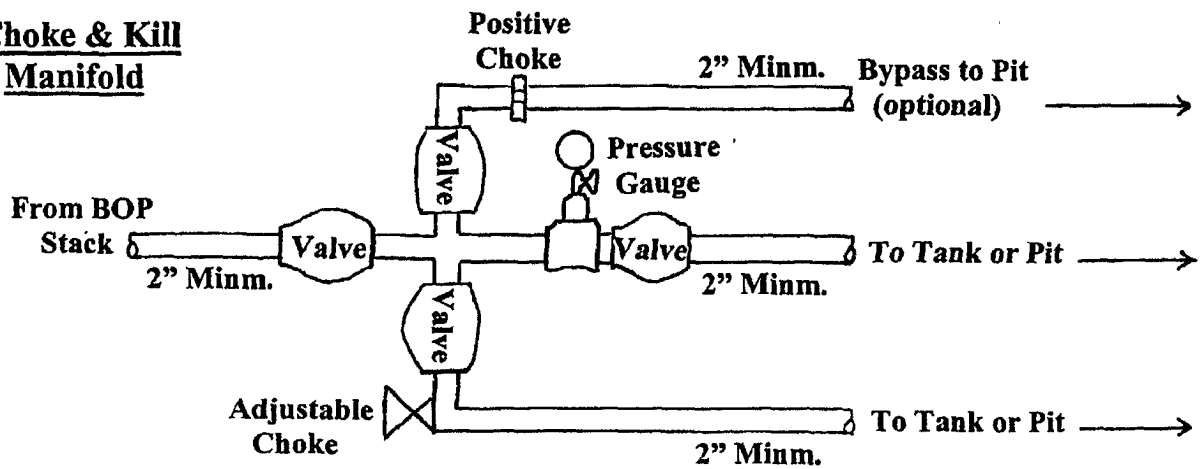
# Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

## BOP Stack



## Choke & Kill Manifold



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

**DUGAN PRODUCTION CORP.**  
 Coaly #3