



607 10th Street, Suite 208
Golden, Colorado 80401
(303) 278-7505
FAX (303) 278-7520

August 1, 1995

P.O. Box 338
Ignacio, Colorado 81137
(970) 563-4000
FAX (970) 563-4116

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

State of New Mexico
Energy, Minerals & Natural
Resources Dept.
Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505

Attn: Mr. Michael Stogner

RE: Application for Non-Standard
Proration Units
Township 26 North, Range 13 West
Sections 18 and 19
San Juan County, New Mexico

Dear Mr. Stogner:

Per our letter of May 22, 1995, and our subsequent telephone conversation, enclosed again please find copies of the APD's for the four wells which are to be dedicated to the four subject units. Please approve these applications as soon as possible.

If you have any questions or need anything further, please do not hesitate to contact me at the Golden telephone number shown above.

Sincerely,

MARALEX RESOURCES, INC.


Jennifer A. Ritcher, CPL
Land Manager

Enclosures

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED
JUN 26 1995

FORM APPROVED
Budget Bureau No. 1004-0135
Expires: March 31, 1993

SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or to deepen or reentry to a different reservoir.
Use "APPLICATION FOR PERMIT—" for such proposals

5. Lease Designation and Serial No.
NM 013492

6. If Indian, Allottee or Tribe Name

7. If Unit or CA, Agreement Designation

8. Well Name and No.
W. BISTI 26-13-19 #2

9. API Well No.
30-045-29087

10. Field and Pool, or Exploratory Area
Basin Fruitland Coal

11. County or Parish, State
San Juan, New Mexico

SUBMIT IN TRIPLICATE

1. Type of Well
 Oil Well Gas Well Other

2. Name of Operator
SG INTERESTS I LTD

3. Address and Telephone No.
PO Box 338, Ignacio, CO 81137 (303) 563-4000

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
1190' FSL, 1190' FWL (SWSW) Sec 19-T26N-R13W

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

TYPE OF SUBMISSION	TYPE OF ACTION
<input type="checkbox"/> Notice of Intent	<input type="checkbox"/> Abandonment
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Recompletion
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Plugging Back
	<input type="checkbox"/> Casing Repair
	<input type="checkbox"/> Altering Casing
	<input checked="" type="checkbox"/> Other Request for Extension of APD approval
	<input type="checkbox"/> Change of Plans
	<input type="checkbox"/> New Construction
	<input type="checkbox"/> Non-Routine Fracturing
	<input type="checkbox"/> Water Shut-Off
	<input type="checkbox"/> Conversion to Injection
	<input type="checkbox"/> Dispose Water

(Note: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

13. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)*

An APD approved February 8, 1994 was extended to August 8, 1995. SG did not drill this well yet but plans to do so in the near future.

SG is requesting that APD approval be extended another six months to give us additional time to drill this well.

All drilling plans, proposed access roads, etc., remain the same as in the original APD. All stipulations and conditions will be followed as stated in the approved APD.

070 #10 KINGSTON, NM
 95 JUN 22 PM 12:43
 RECEIVED
 BLM

THIS APPROVAL EXPIRES JAN 30 1996

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

Signed Marcia McCracken Title Agent for SG Interests, I Ltd Date June 21, 1995
Marcia McCracken Title Production Technician

(This space for Federal or State office use)

Approved by _____ Title _____ Date JUN 27 1995
 Conditions of approval, if any: _____

APPROVED
 2 DISTRICT MANAGER

Title 18 U.S.C. Section 1001, makes 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.

DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT

FEB 11 1994

FARMINGTON

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK

DRILL

PLUG BACK

b. TYPE OF WELL

OIL WELL

GAS WELL

OTHER

SINGLE ZONE

MULTIPLE ZONE

2. NAME OF OPERATOR

SG INTERESTS I/MARALEX RESOURCES, INC. (505) 325-5599

3. ADDRESS OF OPERATOR

PO Box 421, Blanco, NM 87412-0421

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)

At surface 1190' FSL, 1190' FWL (SW SW) Sec 19-T26N-R13W
At proposed prod. zone Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*

Approx 20-1/2 miles southeast of Farmington, NM

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)

1190'

16. NO. OF ACRES IN LEASE

2320

17. NO. OF ACRES ASSIGNED TO THIS WELL

320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

680'

19. PROPOSED DEPTH

1797'

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DF, RT, GK, etc.)

GL 6522 This action is subject to technical and procedural review pursuant to 43 CFR 3165.4 and appeal pursuant to 43 CFR 3165.3

22. APPROX. DATE WORK WILL START*

Upon BLM Approval

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

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH
8-3/4"	7"	20# J-55	120'
6-1/4"	4-1/2"	10.5# J-55	TD

DRILLING OPERATIONS AUTHORIZED ARE SUBJECT TO COMPLIANCE WITH ATTACHED GENERAL REQUIREMENTS.
50 SX CLASS B
250 SX CLASS B

Maralex Resources, Inc. proposes to drill a vertical well to develop the Fruitland Coal Formation at the above described site in accordance with the attached drilling and surface use programs.

An archaeological survey will be conducted to determine any potential sites.

All of the access road for this well is located on this lease, no right-of-way application is required.

RECEIVED
BLM
070 FARMINGTON, NM
53 OCT 12 AM 7:48

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED D. R. Reimers TITLE Engineering Manager DATE October 8, 1993

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

APPROVED BY _____ TITLE _____ APPROVED AS AMENDED

CONDITIONS OF APPROVAL, IF ANY:

*See Instructions On Reverse Side

FEB 08 1994
G. B. Baker
DISTRICT MANAGER

Title 18 U.S.C. Section 1001, makes 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

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

State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-102
 Revised 1-1-89

OIL CONSERVATION DIVISION
 P.O. Box 2088
 Santa Fe, New Mexico 87504-2088

RECEIVED
 BLM

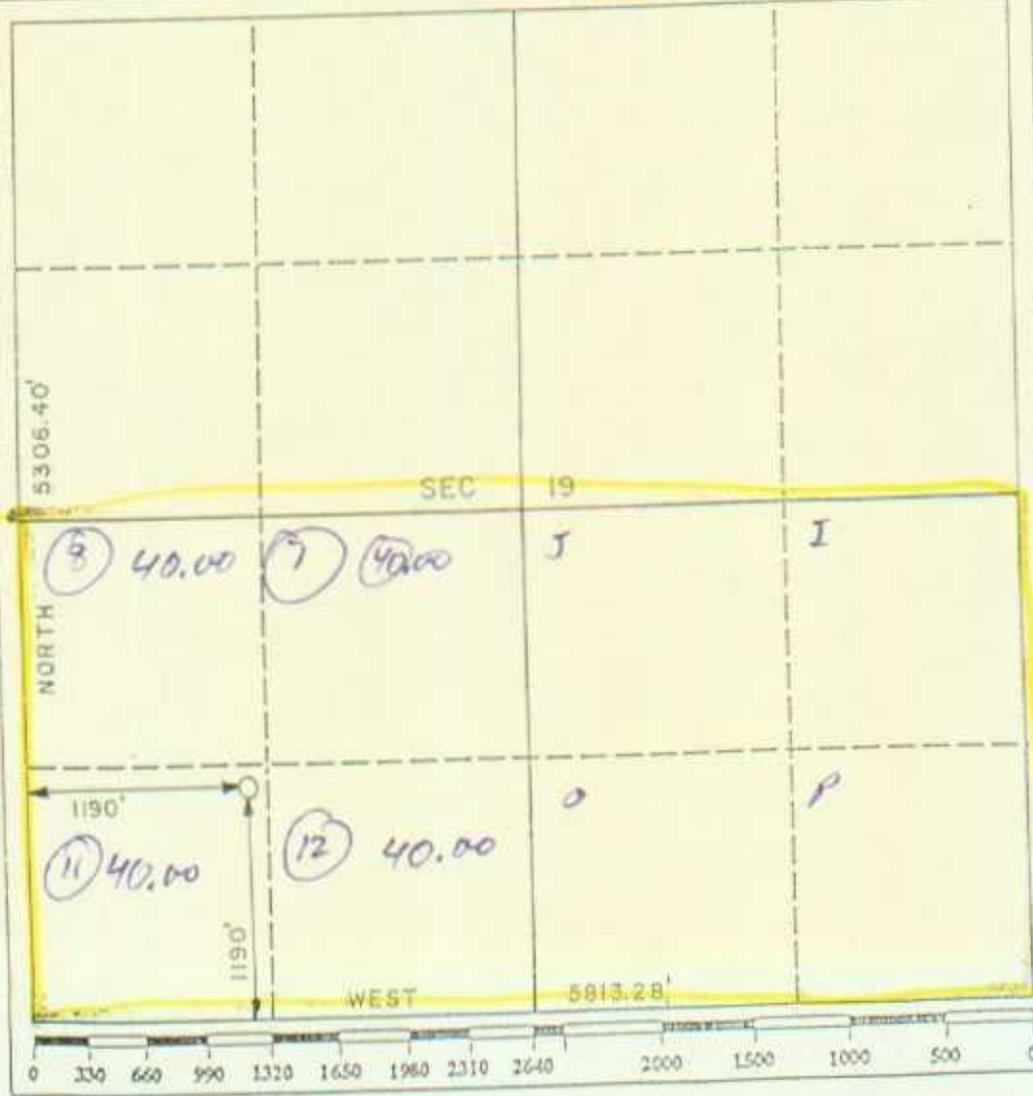
93 OCT 12 AM 7:48
 070 FARMINGTON, NM

DISTRICT I
 P.O. Box 1950, Hobbs, NM 88240
 DISTRICT II
 P.O. Drawer DD, Azusa, NM 88210
 DISTRICT III
 1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT
 All Distances must be from the outer boundaries of the section

Operator MARALEX RESOURCES, INC.		Lease W. BISTI 26-13-19		Well No. 2
Unit Letter M	Section 19	Township 26 NORTH	Range 13 WEST	County SAN JUAN
Actual Footage Location of Well: 1190 feet from the SOUTH line and 1190 feet from the WEST line		Dedicated Acreage: 320 Acres		
Ground level Elev. 6522	Producing Formation Fruitland	Pool Basin Fruitland Coal		

- Outline the acreage dedicated to the subject well by colored pencil or hatching marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
 - Yes No If answer is "yes" type of consolidation _____
 If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)
 No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, force-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



OPERATOR CERTIFICATION
 I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: *D. R. Reimers*
 Printed Name: **D. R. Reimers**
 Position: **Engineering Manager**
 Company: **MARALEX RESOURCES, INC.**
 Date: **October 8, 1993**

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 knowledge and belief.

Date Surveyed: **SEPTEMBER 30, 1993**
 Signature & Seal: *Roy A. Rush*
 Professional Surveyor
 ROY A. RUSH
 REGISTERED SURVEYOR
 STATE OF NEW MEXICO
 8894
 Certificate No. **8894**

SG INTERESTS I, LTD/MARALEX RESOURCES, INC.
W. BISTI 26-13-19 #2
1190 FSL x 1190' FWL,
Section 19, T26N, R13W
SAN JUAN COUNTY, NEW MEXICO
DRILLING PROGRAM

1. Estimated Tops of Important Geologic Markers:

Ojo Alamo	282'
Kirtland	402'
Fruitland	889'
Fruitland Coal	1477'
Pictured Cliffs	1622'

2. Estimated depths of anticipated water, oil, gas, or other mineral bearing formations which are expected to be encountered:

Water and Gas 1477 ; Water 1622

3. Minimum Blowout Control Specifications:

Double ram type 3000 psi working pressure BOP with a rotating head. See the attached exhibits (#1 through #3) for details on the BOP equipment. All ram type preventers and related equipment will be hydraulically tested at nipple-up and after any use under pressure to 1000 psi. The blind ram will be hydraulically activated and checked for operational readiness each time pipe is pulled out of the hole. All checks of the BOP stack and equipment will be noted on the daily drilling report. The BOP equipment will include a kelly cock, floor safety valve, and choke manifold all rated to 3000 psi.

4. Supplementary Information:

Cementing of both surface and production strings of casing will be accomplished in separate single stage operations. All cement volumes are calculated to circulate cement to surface.

<u>Casing</u>	<u>Cement Type and Volumes</u>	<u>Casing Tools</u>
7 ", 20#, J-55	50 Sx Class B w/2% CaCl ₂ (59 cu. ft.)	Insert float & 3 centralizers on first, third and fifth joints
4-1/2", 10.5#, J-55	150 Sx Class B w/7% Silicate plus 100 Sx Class B w/2% CaCl ₂ (408 cu. ft.)	Standard guide shoe and float collar w/ten centralizers spaced out to just above the Ojo Alamo sand on every other joint starting on the bottom joint.

5. Proposed Circulating Medium:

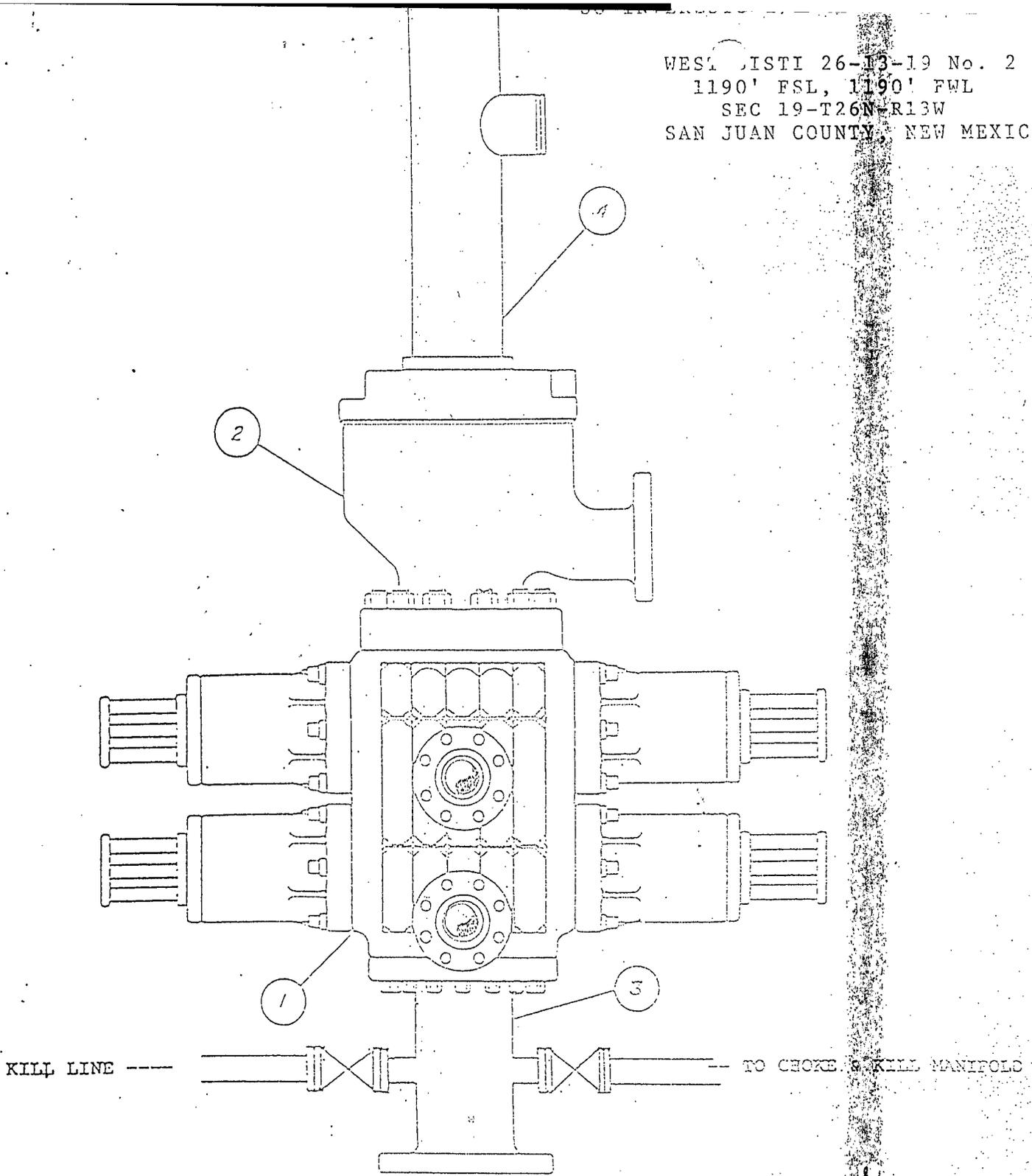
The surface hole will be drilled with a gel and lime based fresh water mud.

The production hole will be drilled with a low solids non-dispersed fresh water mud. The weighting material will be barite. The maximum mud weight expected is 9.0 ppg. The water loss will be reduced to less than 10 cc at the top of the Fruitland.

6. No cores or drill stem tests are planned for this well. A full suite of logs, including gamma ray, density porosity, and resistivity, will be run after T.D. is reached.
7. The maximum expected bottom hole pressure is 950 psi. This pressure will be contained as specified in No. 5 above. No other potential hazards are anticipated.
8. Optimum solids control equipment will be used to keep the mud in good shape.

Construction of the wellpad will begin as soon as the APD is approved.

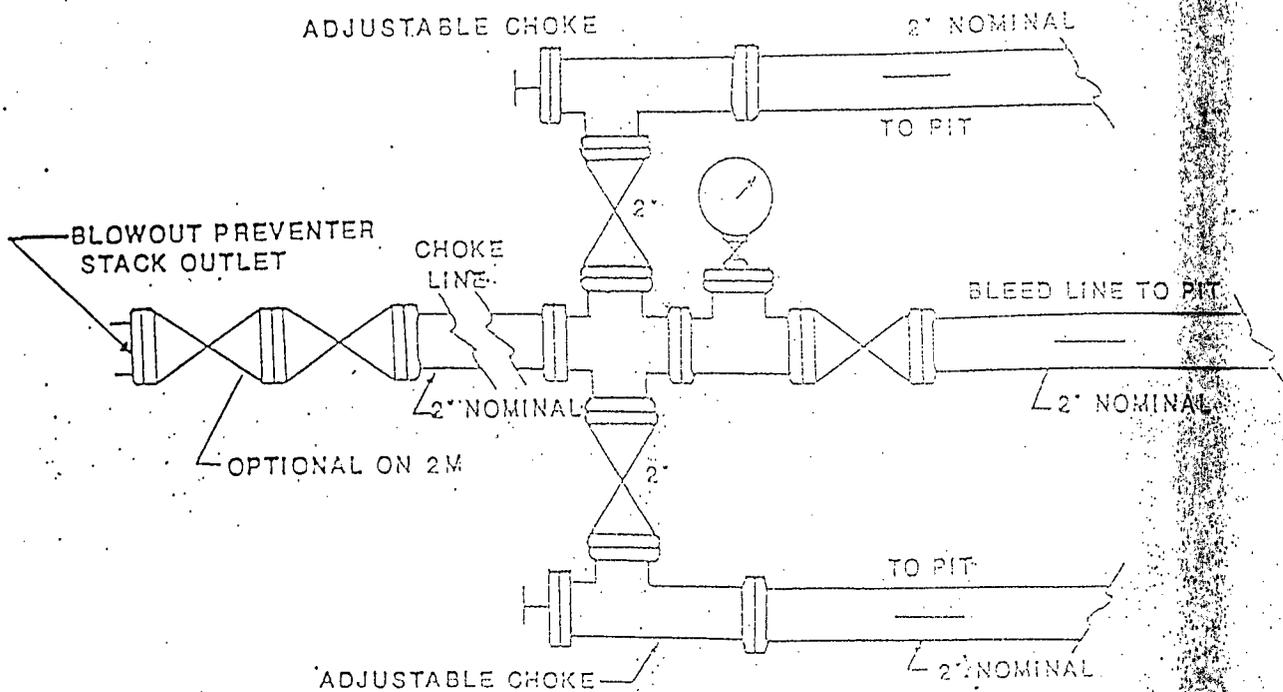
WEST LISTI 26-13-19 No. 2
1190' FSL, 1190' FWL
SEC 19-T26N-R13W
SAN JUAN COUNTY, NEW MEXICO



- ① DOUBLE RAM 3000 LB. MANUAL LOCK BLOWOUT PREVENTER
- ② ROTATING HEAD IF AIR OR GAS DRILLING
- ③ SPOOL W/2" MINIMUM KILL LINE VALVE & KILL LINE
- ④ DRILLING FLOW NIPPLE

SG INTERESTS I/ MARALEY RESOURCES, INC.

WEST BISTI 26-13-19 No. 2
1190' FSL, 1190' FWL
SEC 19-T26N'R13W
SAN JUAN COUNTY, NEW MEXICO



FOR 2,000 AND 3,000 PSI RATED
WORKING PRESSURE

UPPER KELLY COCK VALVE WITH HANDLE AVAILABLE

SAFETY VALVE AND SUBS TO FIT ALL DRILL STRINGS
IN USE WILL BE AVAILABLE

Blowout Prevention Equipment Specifications

1. All BOP equipment shall be fluid and/or mechanically operated.
2. BOP's and all fittings will be in good working condition.
3. Equipment through which the bit must pass shall be at least as large as the casing size being drilled.
4. The nipple above the BOP shall be at least the same size as the last casing set.
5. The upper kelly cock with handle and lower kelly cock shall be rated at the BOP working pressure.
6. A floor safety valve (full opening) or drill string BOP with appropriate pressure ratings shall be available on the rig floor with connections or subs to fit any tool joint in the string.
7. The minimum size choke line shall be 3 inches nominal diameter, with a minimum size for vent lines downstream of chokes of 2 inches nominal, and vent lines which by-pass shall be a minimum of 3 inches nominal and as straight as possible.
8. All valves, fittings and lines between the closing unit and the blowout preventer stack should be of steel construction with rated working pressure at least equal to working pressure rating of the stack. Lines shall be bundled and protected from damage.
9. Minimum size for kill line is 2 inches nominal.
10. Ram type preventers shall be equipped with extension hand wheels or hydraulic locks.

SG INTERESTS I, LTD/MARALEX RESOURCES, INC.
W. BISTI 26-13-19 NO. 2
1190' FSL x 1190' FWL,
Section 19, T26N, R13W
SAN JUAN COUNTY, NEW MEXICO
SURFACE USE PLAN

1. Existing roads and existing wells are shown on Attached Plat No. 1.
2. The new location will be immediately adjacent to an existing access road and no new road construction will be required to accommodate the location. The existing access roads will be maintained in at least the current condition to provide uninterrupted access to the proposed well.
3. See No. 1.
4. The location of the anticipated production facilities both on and off the well pad are shown on Attached Plat No. 2.
5. Water will be Fruitland Coal Seam produced water, trucked from nearby existing wells.
6. Materials for the construction of the location are expected to be limited to the materials onsite. Fill material will be taken from material taken out of cuts.
7. All waste materials will be buried on location. Drill cuttings will be allowed to dry and then spread evenly in the reserve pit and buried. Garbage and nonflammable waste produced during the drilling or testing will be handled in a trash bin. All fluids will be handled in the reserve pit. Fluids will be allowed to evaporate before the reserve pit is reclaimed. The reserve pit will be fenced on three sides while the drilling rig is on location with the fourth side being fenced immediately upon removal of the drilling rig.
8. No camp or airstrip will be constructed for the drilling of this well.
9. The well site layout is shown on Attached Plat No. 3.
10. The location will be cleaned up, the reserve pit will be filled and leveled after drying, the unused portion of the location will be reseeded with seed mixture No. 2, all permanent production equipment will be painted BLM tan, and the road and location will be maintained until such time as the well is abandoned.

11. The surface is owned by the United States of America, in trust for the Navajo Tribe.
12. The primary surface use is for farming and grazing. The location has been spotted so as to minimize damages to the surface. The nearest dwellings are several miles from this location. An archaeological survey is being conducted, and a report detailing the survey will be submitted directly from the archaeologist to the BLM. The dirt contractor will be furnished with an approved copy of the Surface Use Plan and any stipulations prior to beginning construction of the location.
13. Operator's Representative:

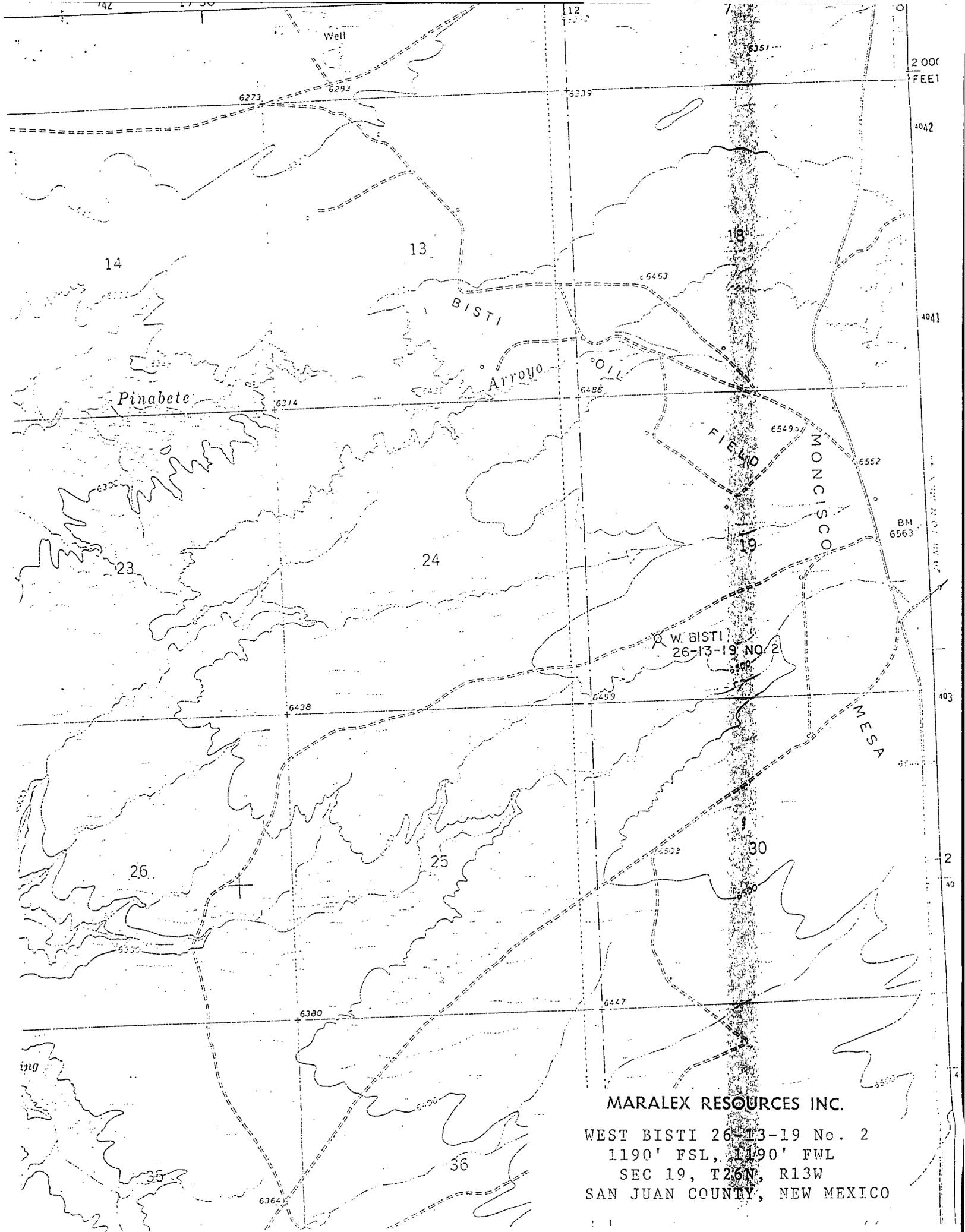
A. M. (Mickey) O'Hare
P.O. Box 421
Blanco, NM 87412-0421
(505) 325-5599

Certification:

I hereby certify that I, or persons under any direct supervision, have inspected the proposed well site and access route; that I am familiar with the conditions which currently exist; that the statements made in this plan are, to the best of my knowledge, true and correct; and that the work associated with operations proposed herein will be performed by SG Interests I, Ltd./Maralex Resources, Inc., and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved.

Name: D. R. Reimers
D. R. Reimers, Engineering Mgr.
Maralex Resources, Inc.
Agent for SG Interests I, Ltd.

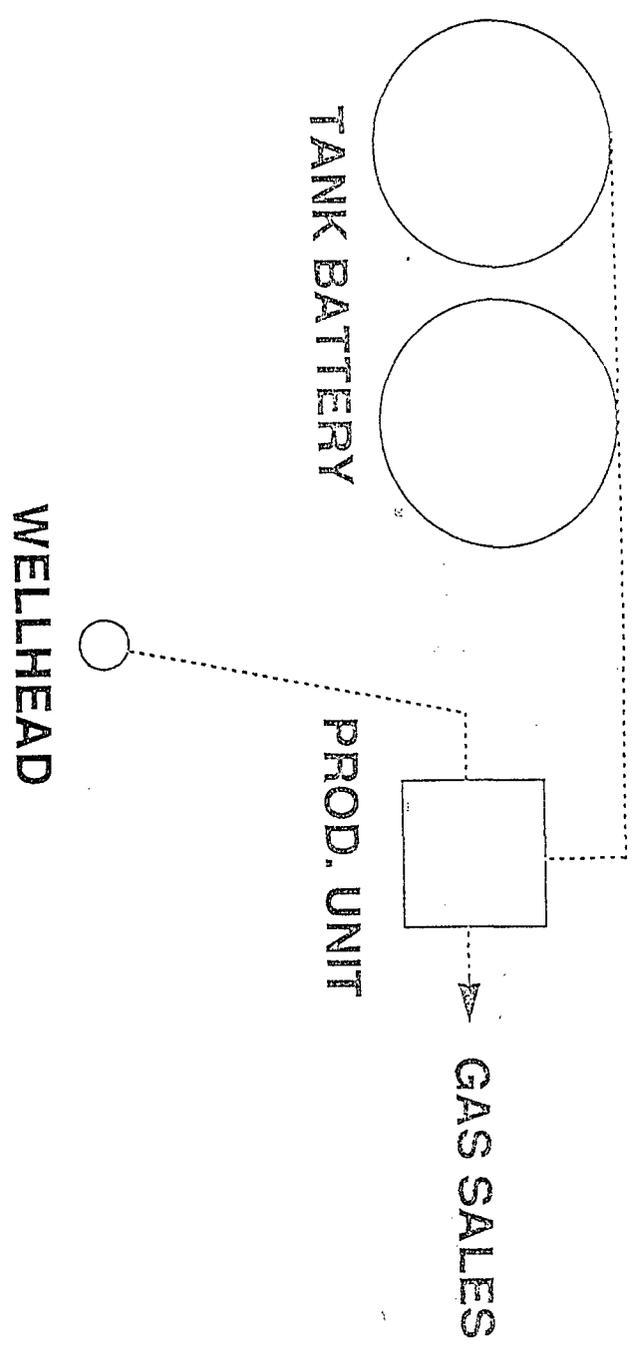
Date: Oct. 8, 1993



MARALEX RESOURCES INC.

WEST BISTI 26-13-19 No. 2
1190' FSL, 1190' FWL
SEC 19, T26N, R13W
SAN JUAN COUNTY, NEW MEXICO

PLAT NO. 2 PRODUCTION FACILITIES SCHEMATIC

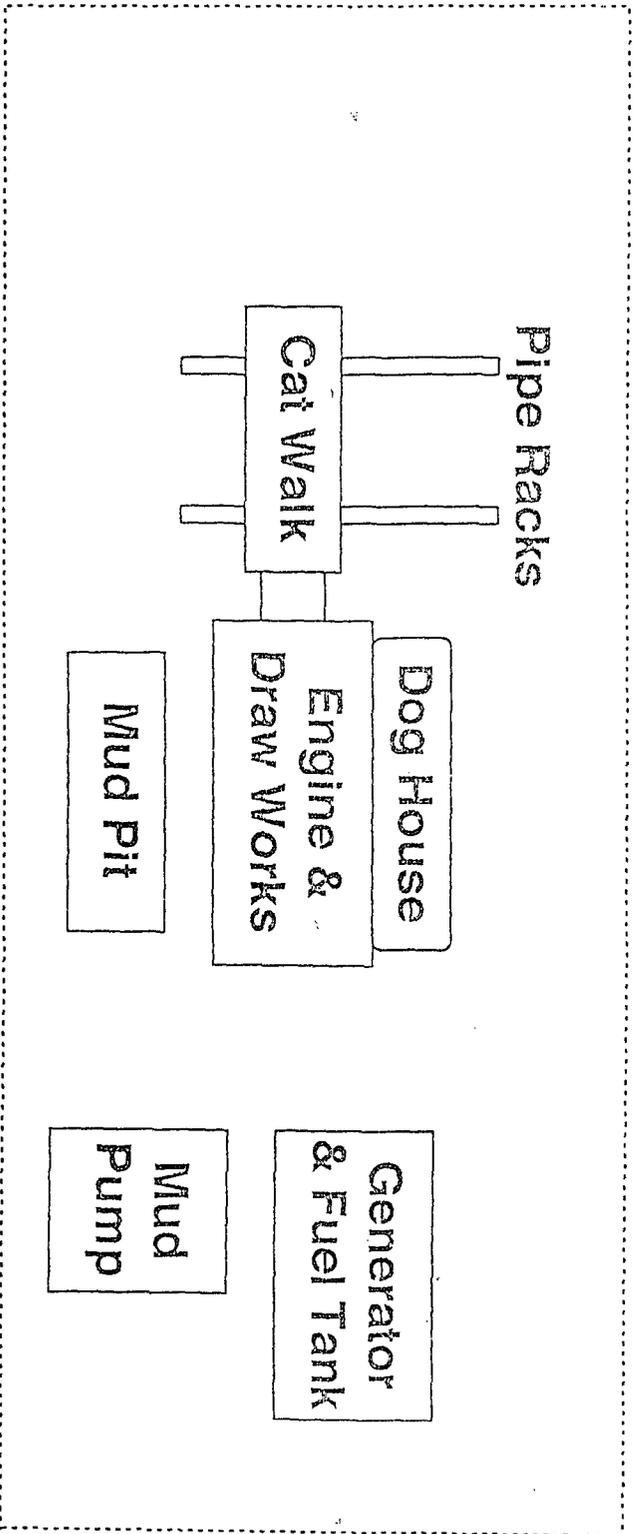


MARALEX RESOURCES INC.

WEST BISTI 26-13-19 No. 2
1190' FSL, 1190' FWL
SEC 19, T26N, R13W
SAN JUAN COUNTY, NEW MEXICO

PLAT NO. 3 RIG LAYOUT SCHEMATIC

275'



MARALEX RESOURCES INC.

WEST RISTI 26-13-19 No. 2
1190' FSL, 1190' FWL
SEC 19, T26N, R13W
SAN JUAN COUNTY, NEW MEXICO

OPERATOR

BLM CONDITIONS OF APPROVAL

Operator SG Interests I/Maralex Resources, Inc. Well Name 2 West Bisti 26-13-19

Legal Location 1190' FSL/1190' FWL T. 26 N. R. 13 W. Sec. 19

Lease Number NM-013492 Field Inspection Date 11/09/93

The following stipulations will apply to this well unless a particular Surface Managing Agency or private surface owner has supplied to BLM and the operator a contradictory environmental stipulation. The failure of the operator to comply with these requirements may result in the assessment of liquidated damages or penalties pursuant to 43 CFR 3163.3 or 3163.4. A copy of these stipulations shall be present on location during construction, drilling and reclamation activity.

An agreement between operator and fee landowner will take precedence over BLM surface stipulations unless 1) the BLM determines that the operator's actions will affect adjacent Federal or Indian surface (43 CFR Part 3160), or 2) the operator does not maintain the well area and lease premises in a workmanlike manner with due regard for safety, conservation and appearance (43 CFR Part 3162.7-4), or 3) no such agreement exists (43 CFR Part 3160), or 4) in the event of well abandonment, minimal Federal restoration requirements will be required (43 CFR Part 3162.7-2).

1. Pits will be lined with an impervious material at least 8 mils thick.

2. Diversion ditch will be constructed on the north side of location below ~~the~~ cut slope, draining to the east and west.

3. The proposed access road shall utilize the upgraded 2-track trail approximately 3,500 ft. as agreed upon during on-site inspection.

4. The final cut slope shall not exceed a 3:1 ratio. The final fill slope shall not exceed a 3:1 ratio. To obtain this ratio, pits and slopes shall be backsloped into the pad upon completion of drilling and prior to setting production equipment. Construction slopes can be much steeper during drilling, but will be contoured to the above final slopes upon reclamation.

5. Paint color tan seed mix 4.

Pure Live Seed (PLS) = Germination X Purity. Recommended Seed Mixture (PLS) for BLM administered lands is for the hand seeding rate. For drilled seed, the PLS rate may be cut in half.

Seed Mix No. 4--NIIP

Indian Ricegrass	1
Sand Dropseed	1
Galleta	2

I. LOCATION AND ACCESS ROAD

A. Well area and lease premises will be maintained in a workmanlike manner with due regard to safety, conservation and appearance. All liquid waste, completion fluids and drilling products

associated with oil and gas operations will be contained and then buried in place, or removed and deposited in an approved disposal site.

B. Surface disturbance and vehicular traffic will be limited to the approved location and approved access road.

C. Mud pits and blow pits will be constructed so as not to leak, break, or allow discharge of liquids or produced solids. At least half of the capacity of reserve pit must be in cut. The top of the outside wall of reserve pit should be smoothed-off with a minimum of one blade of width. The pit should have adequate capacity to maintain 2 feet of free board. Pits are not to be located in natural drainages. Pit walls are to be "walked down" by a crawler-type tractor following construction and prior to usage. Any plastic material used to line pits must be removed to below-ground level before pits are covered. The final grade of reserve pit (after reclamation) shall allow for drainage away from the pit area.

D. All unguarded pits (reserve/production/blow pits) containing liquids will be fenced with woven wire. Drilling pits will be fenced on three sides and once the rig leaves location, the fourth side will be fenced. All fencing must be a legal fence in accordance with New Mexico State Law. Liquids in pits will be allowed to evaporate, or be properly disposed of, before pits are filled and recontoured. (This office will be notified 24 hours prior to fluid hauling). Under no circumstances will pits be cut and drained. Aeration of pit fluids must be confined within the pit area. Upon completion of the well the reserve pit will be covered with screening or netting and remained covered until the pit is reclaimed. All production pits 16 feet in diameter or larger will be covered with screening or netting.

E. No gravel or other related minerals from new or existing pits on Federal land will be used in construction of roads, well sites, etc., without prior approval from the Surface Managing Agency.

F. Berms or firewalls will be constructed around all storage facilities sufficient in size to contain the storage capacity of the tanks, or the combined capacity of tanks if a rupture could drain more than one tank. Berm walls will be compacted with appropriate equipment to assure proper construction.

G. All roads on public land must be maintained in good passable condition.

H. A proposed use of pesticide, herbicide or other possible hazardous chemical on BLM land shall be cleared for use prior to application.

II. CULTURAL RESOURCES (ARCHAEOLOGY)

A. DISCOVERY OF CULTURAL RESOURCES IN THE ABSENCE OF MONITORING:
If, in its operations, operator discovers any previously unidentified historic or prehistoric cultural resources, then work in the vicinity of the discovery will be suspended and the discovery promptly reported to the BLM District Manager. BLM will then specify what action is to be taken. If there is an approved "discovery plan" in place for the project, then the plan will be executed. In the absence of an approved plan, the BLM will evaluate the significance of the discovery and consult with the State Historic Preservation Officer in accordance with 36 CFR Section 800.11. Minor recordation, stabilization, or data recovery may be performed by BLM or a permitted cultural resources consultant. If warranted, more extensive treatment by a permitted cultural resources consultant may

be required of the operator prior to allowing the project to proceed. Further damage to significant cultural resources will not be allowed until any required treatment is completed. Failure to notify the BLM about a discovery may result in civil or criminal penalties in accordance with the Archeological Resources Protection Act of 1979 (as amended).

B. **DISCOVERY OF CULTURAL RESOURCES DURING MONITORING:** If monitoring confirms the presence of previously unidentified cultural resources, then work in the vicinity of the discovery will be suspended and the monitor will promptly report the discovery to the BLM District Manager. BLM will then specify what action is to be taken. If there is an approved "discovery plan" in place for the project, then the plan will be executed. In the absence of an approved plan, the BLM will evaluate the significance of the discovery and consult with the State Historic Preservation Officer in accordance with 36 CFR Section 800.11. Minor recordation, stabilization, or data recovery may be performed by BLM or a permitted cultural resources consultant. If warranted, more extensive treatment by a permitted cultural resources consultant may be required of the operator prior to allowing the project to proceed. Further damage to significant cultural resources will not be allowed until any required treatment is completed.

C. **DAMAGE TO SITES:** If, in its operations, operator damages, or is found to have damaged any previously documented or undocumented historic or prehistoric cultural resources, excluding "discoveries" as noted above, the operator agrees at his/her expense to have a permitted cultural resources consultant prepare and have executed a BLM approved data recovery plan. Damage to cultural resources may result in civil or criminal penalties in accordance with the Archeological Resources Protection Act of 1979 (as amended).

III. RESEEDING AND ABANDONMENT

A. All surface areas disturbed during drilling activities and not in use for production activities, will be reseeded the first July-September period after reserve pit has been filled in and/or location abandoned. For producing locations, this should occur in the first 12 months after drilling is completed.

B. After top soil has been placed on location, compacted areas of well pad will be plowed or ripped to a depth of 12" before reseeded. The surface should be left rough to help retain rain fall. All seeding is recommended to be done between July 1 and September 15. Seeding will be done with a disc-type drill with two boxes for various seed sizes. The drill rows will be eight to ten inches apart. Seed will be planted between 1/2 inch deep and 3/4 inch deep. The seeder will be followed with a drag, packer or roller to insure uniform coverage of seed, and adequate compaction. Drilling of the seed will be done on the contour where possible. Where slopes are too steep for contour drilling a "cyclone" hand-seeder or similar broadcast seeder will be used, after preparation of an adequate seed-bed. Seed will then be covered to a depth described above by whatever means is practical. Mulching, excelsior netting and/or netting may be required on steep slopes.

C. After seeding, remaining rocks and vegetation (trees, brush, etc.) should be placed on the seeded areas using back hoes or rubber tired front-end loaders, so as not to detract from the natural appearance of the area.

D. If, in the opinion of surface management agency, seeding is unsuccessful, lessee/operator may be required to make subsequent seedings.

E. If, upon abandonment of wells, the retention of access road is not considered necessary for the management and multiple use of the natural resources, it will be ripped a minimum of 12" in depth. After ripping, water bars will be installed. All ripped surfaces are to be protected from vehicular travel by construction of a dead-end ditch and earthen barricade at the entrance to these ripped areas. (Reseeding of the affected areas may be required).



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington District Office
1235 La Plata Highway
Farmington, New Mexico 87401

TAKE
PRIDE IN
AMERICA

IN REPLY REFER TO:

3162.3-1 (070)

SG Interests I Ltd.
#2 W. Bisti 26-13-19
New Mexico 013492
SW $\frac{1}{4}$ SW $\frac{1}{4}$ sec. 19, T. 26 N., R. 13 W.
San Juan County, New Mexico

Above Data Required on Well Sign

GENERAL REQUIREMENTS FOR OIL AND GAS OPERATIONS ON FEDERAL AND INDIAN LEASES

In addition to those requirements set forth in the laws, regulations and Onshore Orders, these requirements apply generally to all oil and gas operations on Federal and Indian leases. They apply specifically to the above-described well. Special requirements that apply and are effective for this well, if any, are check-marked in Section VII of these General Requirements. The failure of the operator to comply with these requirements and the filing of required reports will result in strict enforcement of 43 CFR 3163.1 or 3163.2.

I. GENERAL

A. Full compliance with all applicable laws, regulations, and Onshore Orders, with the approved Permit to Drill, and with the approved Surface Use and Operations Plan is required. Lessees and/or operators are fully accountable for the actions of their contractors and subcontractors.

B. Each well shall have a well sign in legible condition from spud date to final abandonment. The sign should show the operator's name, lease serial number, or unit name, well number, location of the well, and whether lease is Tribal or allotted, (see 43 CFR 3162.6(b)).

C. A complete copy of the approved Application for Permit to Drill, along with any conditions of approval, shall be available to authorized personnel at the drill site whenever active drilling operations are under way.

D. For Wildcat wells only, a drilling operations progress report is to be submitted weekly from spud date until the well is completed and the Well Completion Report (Form 3160-4) is filed. The report should be on 8 1/2 x 11 inch paper, and each page should identify the well by; operator's name, well number, location and lease number.

E. As soon as practical, notice is required of all blowouts, fires and accidents involving life-threatening injuries or loss of life. (See NTL-3A).

III. DRILLER'S LOG

A. The following shall be entered in the daily driller's log:

1. Blowout preventer pressure tests, including test pressures and results.
2. Blowout preventer tests for proper functioning.
3. Blowout prevention drills conducted.
4. Casing run, including size, grade, weight, and depth set.
5. How pipe was cemented, including amount of cement, type, whether cement circulated to surface, location of cementing tools, etc..
6. Waiting on cement time for each casing string.
7. Casing pressure tests after cementing, including test pressure and results.
8. Estimated amounts of oil and gas recovered and/or produced during drillstem tests.

IV. GAS FLARING

A. Gas produced from this well may not be vented or flared beyond an initial, authorized test period of * days or 50 MMcf following its (completion) (recompletion), whichever first occurs, without the prior, written approval of the authorized officer. Should gas be vented or flared without approval beyond the test period authorized above, you may be directed to shut-in the well until the gas can be captured or approval to continue venting or flaring as uneconomic is granted, and you shall be required to compensate the lessor for that portion of the gas vented or flared without approval which is determined to have been avoidably lost.

* 30 days, unless a longer test period specifically is approved by the authorized officer. The 30-day period begins when the casing is first perforated for cased holes, and when Total Depth (TD) is reached for open hole completion.

V. SAFETY

- A. All rig heating stoves are to be of the explosion-proof type.
- B. Rig safety lines are to be installed.
- C. Hard hats must be utilized.

VI. CHANGE OF PLANS OR ABANDONMENT

A. Any change of plans required in order to mitigate unanticipated conditions encountered during drilling operations, will require approval as set forth in Section I.F..

B. If the well is dry it is to be plugged in accord with 43 CFR 3162.3-4, approval of the proposed plugging program is required as set forth in Section I.F.. The report should show the total depth reached,

COMPANY: SG Interests I/Mr. Ilex Resources, Inc. LEASE NO.: Federal NM-013492
WELL NAME: 2 West Bisti 2, 13-19 FOOTAGE: 1190 FSL/1190'FWL
SEC: 19, T26 N, R13 W COUNTY: San Juan, STATE: NM

Bureau of Indian Affairs
Surface Management Stipulations

FEB -7 PM 1:42

1. Lessee shall carry on all operations in a good and workmanlike manner in accordance with approved methods and practices.
2. Lessee shall abide by and conform to appropriate provisions of Titles 25, 36 and 43, Code of Federal Regulations, and any and all other applicable regulations and manuals of the Secretary now or hereafter in force relative to surface leasing, rights-of-way and oil and gas leases (including the National Environmental Protection Act, as amended, and National Area Environmental Protection guidelines; the National Historic Preservation Act of 1966, as amended, and Archaeological Resources Protection Act, hereinafter referred to as NEPA, NHPA, ARPA and other applicable laws, 36 CFR 800 and 43 CFR 7).
 - a. Prior to issuing any cultural clearance, the Bureau of Land Management shall consult with the Navajo Nation Historic Preservation Department, P. O. Box 2898, Window Rock, Arizona 86515, and provide copies of all historic preservation related documents associated with an undertaking. The Navajo Nation contracted under Public Law 93-638 the Navajo Area Archaeology Office.
 - b. Prior to entry upon the land or the disturbance of the surface thereof for drilling or other purposes, Lessee shall submit a development plan for surface use to the Area Manager, Farmington Resource Area, Bureau of Land Management, 1235 La Plata Highway, Farmington, New Mexico 87401. An Environmental Analysis will be made by the Bureau of Land Management in consultation with the BIA Navajo Area office for the purpose of ensuring proper protection of the surface, the natural resources, the environment and existing improvements, and for assuring timely reclamation of disturbed lands. Upon completion of said environmental analysis, the Oil and Gas District Manager shall notify Lessee of the conditions to which the proposed surface disturbing operations will be subject. (Note: Prior to start of operations, Lessee shall furnish a copy of its development plan and Bureau of Land Management conditions to the BIA. The BIA reserves the right to require site specific archeological surveys and environmental reviews on tracts selected for development prior to giving concurrence to proposed actions(s). The BIA will consult with the Navajo Nation prior to concurring in such actions.)
3. The Lessee shall not use or permit to be used any part of said leased land for any unlawful conduct or purpose whatsoever. Lessee will not use or permit to be used any part of said leased land for the manufacture, sale, gift, transportation, or storage of intoxicating liquors, beverages or drugs. In the event any representative of Lessee or its contractor or subcontractor, employed in connection with the operations on the lease premises shall be responsible for any of the unlawful acts described in this clause, the Bureau of Land Management shall give Lessee information as to such violation(s) with a copy of the notice to BIA and the Navajo Nation. Lessee shall immediately take steps to cure the violation, including the termination or transfer of such employee. [25 CFR 162.5(g) (3); 18 U.S.C. Sections 1151, 1154 and 1156, as amended]
4. Except as otherwise stated herein, copies of correspondence and notices shall be mailed to the Bureau of Indian Affairs in care of the Area Director, Navajo Area Office, Attention: Branch of Real Property Management, Bureau of Indian Affairs, P. O. Box 1060, Gallup, New Mexico 87305-1060.

COMPANY: SG Interests I/M/ Lex Resources, Inc. LEAS' O.: Federal NM-013492
WELL NAME: 2 West Bisti 2 13-19 FOOTAGE: 100' FSL/1190' FWL
SEC: 19, T26 N, R13 W COUNTY: San Juan, STATE: NM

NAVAJO NATION STIPULATIONS
Surface Management Stipulations

1. The surface ownership of lands contained in this lease may be all or partly managed by the Navajo Tribe. Site specific rights-of-way clearances and/or inventories may be required prior to entry upon the surface for operation of the lease holdings. Prior contact with the Navajo Nation will be required prior to operations beginning. All applicable laws of the Navajo Nation (including tax laws, water codes, requirements of Environmental Protection Administration, etc.) shall be complied with by the Lessee.
2. The Navajo Nation requires a copy of complete exploration and development data (drilling logs, seismic data, etc.) obtained by the Lessee on the subject lands will be provided to the Navajo Nation at no cost. All materials data will be held confidential as described in 43 CFR 3162.8.
3. Navajo grazing rights to the surface of the lands so leased shall be protected, and the Nation's rights respecting the use of water shall be unimpaired.
4. Lessee shall not obtain water for use in drilling from Indian-owned wells, tanks, springs, or stockwater reservoirs without prior written permission from the Navajo Nation. Lessee shall not drill any water wells for its use without prior written consent of the Navajo Nation and the Area Director.
5. Lessee shall compensate the Navajo Nation and its grazing permittees (if any), for all surface use(s) as well as damages to crops, buildings, and other improvements of surface landowner, including loss of grazing lands, occasioned by the lessee's operations except that the lessee shall not be held responsible for casualties occasioned by causes beyond the lessee's control. Compensation for surface use shall be negotiated by Lessee and the Navajo Nation and will be based upon the duration of activity on the land.
6. Lessee shall not drill any well within 500 feet of any house, structure, or reservoir of water without the Navajo Nation's written consent.
7. Lessee shall bury all pipelines crossing tillable lands below plow depth unless other arrangements are made with the Navajo Nation.
8. Upon the request of the Navajo Nation or if so required by the Area Director or his authorized representative, and under the direction of the District Manager, Bureau of Land Management, Lessee shall condition any well drilled which does not produce oil or gas in paying quantities, but which is capable of producing water satisfactorily for domestic, agricultural, or livestock use by the Navajo Nation. Otherwise, after the expiration or termination of the lease, Lessee shall remove all pumping equipment installed by Lessee at any well.