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Form 3160-3
(April 2004)

APR 08 2011

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

UNITED STATES
DEPARTMENT OF THE INTERIOR Farmington Field Office
BUREAU OF LAND MANAGEMENT Bureau of Land Management

APPLICATION FOR PERMIT TO DRILL OR REENTER

| | |
|---|---|
| 5. Lease Serial No. NM-23744 | |
| 6. If Indian, Allottee or Tribe Name | |
| 7. If Unit or CA Agreement, Name and No. | |
| 8. Lease Name and Well No. Olympic #91 | |
| 9. API Well No. 30-045-35280 | |
| 10. Field and Pool, or Exploratory Basin Fruitland Coal | 11. Sec., T. R. M. or Blk. and Survey or Area Sec. 3, T23N, R10W NMPM |
| 12. County or Parish San Juan | 13. State NM |
| 14. Distance in miles and direction from nearest town or post office* Approx. 35-miles SE of Farmington, New Mexico | 15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1300-Feet |
| 16. No. of acres in lease 639.56-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. Approx. 1650' | 19. Proposed Depth 1230-Feet |
| 20. BLM/BIA Bond No. On File | 21. Elevations (Show whether DF, KDB, RT, GL, etc.) G.L., 6708-Feet |
| 22. Approximate date work will start* ASAP | 23. Estimated duration 5-Days |

RCVD DEC 4 '12
OIL CONS. DIV.

DIST. 3

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No.1, shall be attached to this form:

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

- 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 Fagrelis</i> | Name (Printed/Typed) Kurt Fagrelis | Date 4-8-2011 |
| Title Geologist | | |

| | | |
|---|-----------------------------|------------------|
| Approved by (Signature) <i>[Signature]</i> | Name (Printed/Typed) AFN | Date 11/30/12 |
| Title AFN | 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 2,000 psi BOP will be used to drill production hole. The Fruitland coal will be perforated from approximately 1032 - 1056 feet. The interval will be fracture stimulated.

A COMPLETE C-144 MUST BE SUBMITTED TO AND APPROVED BY THE NMOCD FOR: A PIT, CLOSED LOOP SYSTEM, BELOW GRADE TANK, OR PROPOSED ALTERNATIVE METHOD, PURSUANT TO NMOCD PART 19.15.17, PRIOR TO THE USE OR CONSTRUCTION OF THE ABOVE APPLICATIONS.

NMOCD
A

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

DEC 06 2012 ca

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 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

| | | | | | |
|-----------------------------|--|--|--|------------------------------------|---------------------|
| 'API Number 30-045-35280 | | 'Pool Code 71629 | | 'Pool Name BASIN FRUITLAND COAL | |
| 'Property Code 3799 | | 'Property Name OLYMPIC | | | 'Well Number 91 |
| 'OGRID No. 006515 | | 'Operator Name DUGAN PRODUCTION CORPORATION | | | 'Elevation 6708' |

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 |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| 0 | 3 | 23N | 10W | | 1300 | SOUTH | 1550 | 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 320.0 Acres - (5/2) | 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>1323.96'</p> <p>LOT 4</p> <p>1314.06'</p> <p>2628.78'</p> | <p>5245.68'</p> <p>LOT 3</p> <p>DUGAN NM-23744</p> <p>3</p> <p>LAT: 36.25217°N LONG: 107.88002°W DATUM: NAD1983</p> <p>1300'</p> | <p>LOT 2</p> <p>5282.64'</p> | <p>LOT 1</p> <p>1297.56'</p> <p>1313.40'</p> <p>2626.80'</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, 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 Fagrelius</i> 1/5/2010 Signature Date</p> <p>Kurt Fagrelius Printed Name</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: JULY 31, 2009</p> <p>Signature and Seal of Professional Surveyor</p> <div style="text-align: center;">  </div> <p><i>JASON C. EDWARDS</i> Certificate Number 15269</p> |

EXHIBIT B
OPERATIONS PLAN
Olympic #91

APPROXIMATE FORMATION TOPS:

| | |
|--------------------|--------------|
| Ojo Alamo | 225' |
| Kirtland | 325' |
| Fruitland | 775' |
| Pictured Cliffs | 1080' |
| Total Depth | 1230' |

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:

| Hole Size | Casing Size | Wt./ft. | Setting Depth | Grade and Condition |
|-----------|-------------|---------|---------------|---------------------|
| 12-1/4" | 8-5/8" | 24# | 120' | J-55 |
| 7-7/8" | 5-1/2" | 15.5# | 1230' | 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 7-7/8" hole to total depth with gel-water mud program to test the Fruitland Coal. 5-1/2", 15.5#, 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 75-cf Class B + 2% CaCl₂.
Circulate to surface.

Production Stage- Cement w/160-sx Premium Lite FM 3% BWOC Calcium Chloride + 0.25 lbs/sx Celloflake + 5 lbs/sk LCM-1 + 0.4% BWOC FL-52 + 8% BWOC Bentonite + 0.4% BWOC Sodium Metasilicate + 112.3% fresh water (12.1 lb/gal, 2.13 cu ft/sx - 210-cu ft slurry). Tail w/163-sx Type III cement + 1 lb/sk Calcium Chloride + 0.25 lb/sx Celloflake + 0.2% BWOC FL-52 + 59% fresh water (14.6 lb/gal, 1.38 cu ft/sx-140-cu ft slurry).

Total cement slurry for production stage is 350-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# WP, tested to 2000#.
Huber 5-1/2"x2-7/8" tubing head, 1000# WP, tested to 2000#.

Blow-Out Preventer 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 adjustable 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.

Will test BOPE (blind rams, pipe rams, choke manifold and surface casing) separately. Each 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.

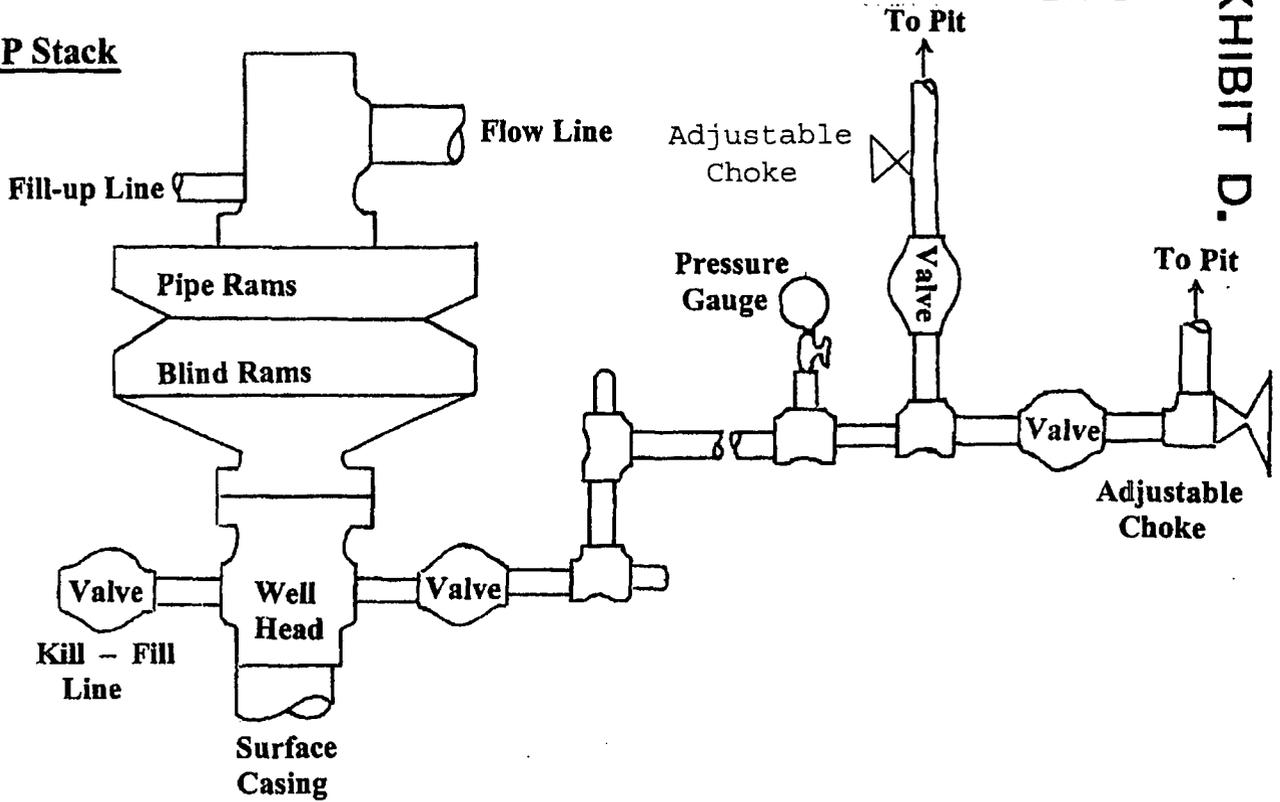
Contacts: Dugan Prod.Corp. Office & Radio Dispatch: 325-1821

| | | |
|-------------------|----------------------|-----------------------|
| <u>Mark Brown</u> | <u>Kurt Fagrelus</u> | <u>John Alexander</u> |
| 327-3632 (H) | 325-4327 (H) | 325-6927 (H) |
| 320-8247 (M) | 320-8248 (M) | 320-1935 (M) |

Well Control Equipment Schematic for 2,000 psi BOP

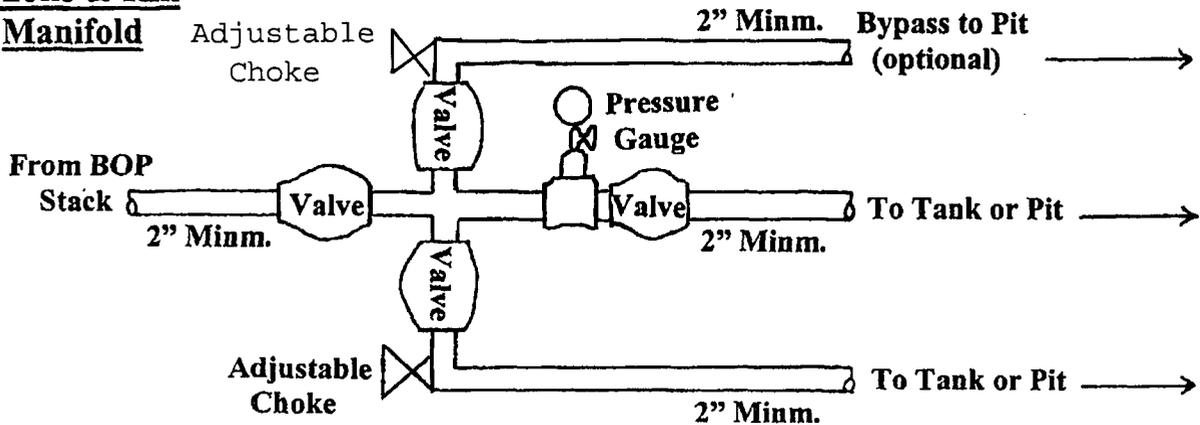
EXHIBIT D.

BOP Stack



Choke & Kill

Manifold



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

DUGAN PRODUCTION CORP.
Olympic #91