

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NMNM-113429
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 Federal
2. Name of Operator SG Interests I, LTD		7. If Unit or CA Agreement, Name and No. Federal 21-6-28
3a. Address P.O. Box 2677 Durango, CO 81302	3b. Phone No. (include area code) (970) 259-2701	8. Lease Name and Well No. 1
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1310' FNL & 1310' FEL At proposed prod. zone		9. API Well No. 30-043-21012
14. Distance in miles and direction from nearest town or post office* approximately 13 miles southwest of Counselor Trading Post, 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) 1310'		11. Sec., T., R., M., or Blk. and Survey or Area A Section 28, 21N, 6W
16. No. of Acres in lease 1,161.35	17. Spacing Unit dedicated to this well E/2 320	12. County or Parish Sandoval
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. See attached map	19. Proposed Depth 1025'	13. State NM
20. BLM/BIA Bond No. on file PIB0003277	21. Elevations (Show whether DF, KDB, RT, GL, etc.) 6,905 GR	22. Approximate date work will start* as soon as permitted
23. Estimated duration 1 month	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 	Name (Printed/Typed) William Schwab III	Date 1/5/06
Title Agent for SG Interests I, LTD		
Approved by (Signature) 	Name (Printed/Typed) Jim Lovato	Date 6/8/06
Title Acting AFM	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 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 reverse)

SG Interests I, LTD. proposes to drill a well to develop the Basin Fruitland Coal formation at the above described location in accordance with the attached drilling and surface use plans.

The surface is under jurisdiction of the Bureau of Land Management, Farmington Field Office.

This location has been archaeologically surveyed by Aztec Archaeological Consultants. Copies of their report have been submitted directly to the BLM.

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

NMOC

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1680 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

2006 JAN 9 AM 6 35 Form C-102

Revised June 10, 2003

RECEIVED
Submit to Appropriate District Office
070 FARMINGTON NM
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

'API Number 30-043-21012	'Pool Code 71629	'Pool Name Basin Fruitland Coal
'Property Code 35512	'Property Name FEDERAL 21-6-28	'Well Number 1
'OGRID No. 20572	'Operator Name SG INTERESTS I, LTD.	'Elevation 6905'

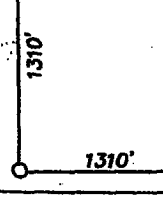
10 Surface Location

UL or lot no. A	Section 28	Township 21N	Range 6W	Lot Idn.	Feet from the 1310	North/South line NORTH	Feet from the 1310	East/West line EAST	County SANDOVAL
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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
'Dedicated Acres 320	'Joint or Infill	'Consolidation Code	'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	N 89°14' W	80.09 ch.		17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. Wm Schwab Jr. Signature William Schwab Jr. Printed Name Agent for SG Interests This and E-mail Address 12/1/05 Date
80.20 ch.				
N 07°12' E	28			
	N 89°19' W	79.68 ch.		
				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. November 4, 2005 Date of Survey Signature and Seal of Professional Surveyor WILLIAM E. MAHNKE II Certificate Number 8466

Submit 3 Copies To Appropriate District
Office
District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., 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 and Natural Resources

Form C-103
May 27, 2004

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

WELL API NO. <u>30-043-21012</u>	
5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/> FED <input checked="" type="checkbox"/>	
6. State Oil & Gas Lease No. Federal NMNM-113429 lease number being verified with NMSO	
7. Lease Name or Unit Agreement Name Federal 21-6-28	
8. Well Number #1	
9. OGRID Number	
10. Pool name or Wildcat Basin Fruitland Coal	
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 6,905 ft	
Pit or Below-grade Tank Application <input checked="" type="checkbox"/> or Closure <input type="checkbox"/>	
Pit type <u>Drilling</u> Depth to Groundwater <u>>1,000'</u> Distance from nearest fresh water well <u>>1,000'</u> Distance from nearest surface water <u>>1,000'</u>	
Pit Liner Thickness: <u>12</u> mil Below-Grade Tank: Volume <u>1000 Bbls</u> ; Construction Material <u>Synthetic</u>	

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☐
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐

OTHER: Pit Application ☒

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: ☐

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

See attached Drilling Program and BOP

Drilling/Completion pit to be located approximately 15 feet from wellhead. Pit multi-use drilling and completion to avoid additional site disturbance and pit will be considered out of service once production tubing set. Pit to be 75 feet long by 15 feet wide by 10 feet deep. Pit to be constructed, operated and closed in accordance with NMOCD guidelines and SGI procedures.

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☒, a general permit ☐ or an (attached) alternative OCD-approved plan ☐.

SIGNATURE [Signature] TITLE Agent for SG Interests I, Ltd. DATE 1/5/06

Type or print name William Schwab III E-mail address: tripp@nikaenergy.com Telephone No. 970-259-2701

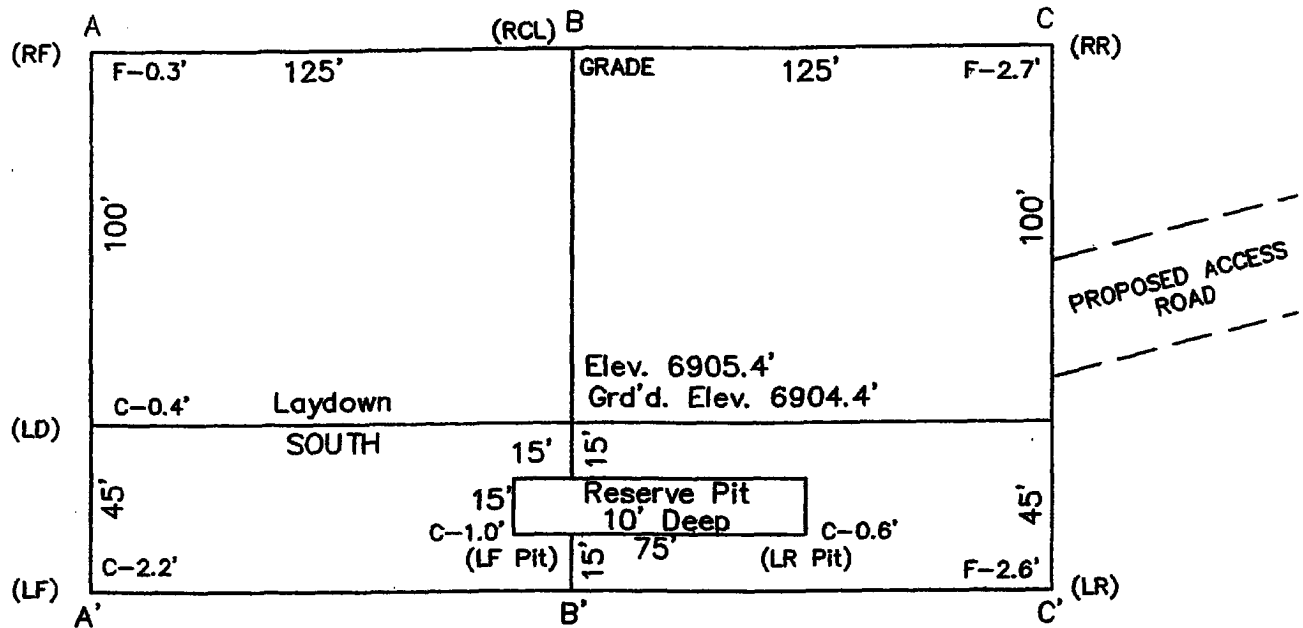
For State Use Only

APPROVED BY: [Signature] TITLE DEPUTY OIL & GAS INSPECTOR, DIST. 2 DATE JUN 12 2006
Conditions of Approval (if any):

SG INTERESTS I, LTD.

FEDERAL 21-6-28 #1

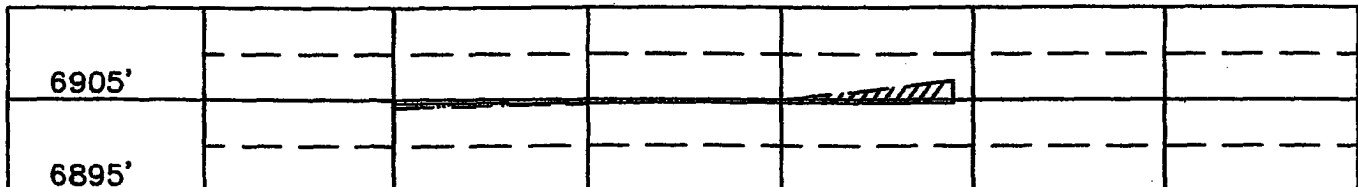
1310' FNL, 1310' FEL SECTION 28, T21N, R6W, NMPM
SANDOVAL COUNTY, N.M.



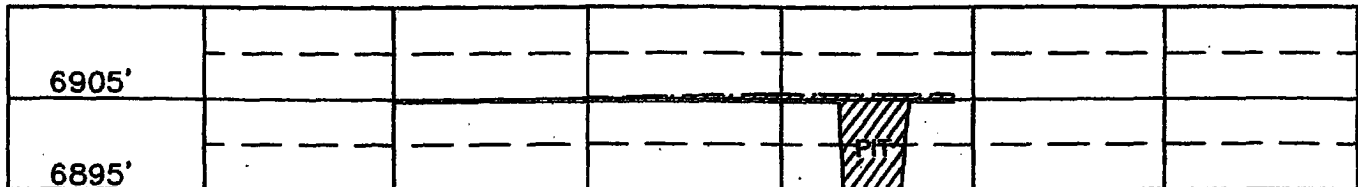
Scale: 1"=50'



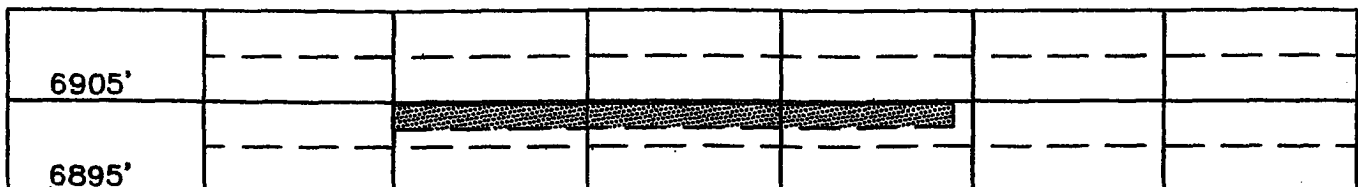
A-A' Vert.: 1"=20' Horiz.: 1"=50' C/L



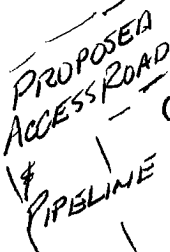
B-B'



C-C'



FEDERAL 21-6-28 #1
1310' FNL, 1310' FEL SECTION 28, T21N, R6W, NMPM
SANDOVAL COUNTY, N.M.



6905'						
6895'						

6905'						
6895'						

6905'						
6895'						

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
Budget Bureau No. 1004-0135
Expires: November 30, 2000.

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.*

5. Lease Serial No.
NMNM 113429

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
☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator

SG Interests I LTD.

3a. Address
P.O. Box 2677 Durango, CO 81302

3b. Phone No. (include area code)
(970) 259-2701

8. Well Name and No.
Federal 21-6-28 #1

9. API Well No.

3004321012

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

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
1310'FNL & 1310' FEL, T. 21N., R. 6W., Section 28

11. County or Parish, State
Sandoval, New Mexico

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

TYPE OF SUBMISSION

- ☒ Notice of Intent
☐ Subsequent Report
☐ Final Abandonment Notice

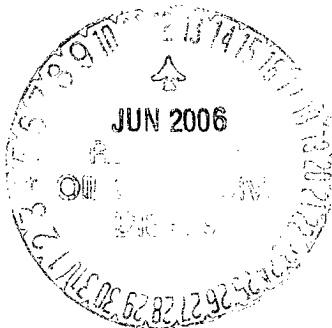
TYPE OF ACTION

- | | | |
|---|---|--|
| <input type="checkbox"/> Acidize | <input type="checkbox"/> Deepen | <input type="checkbox"/> Production (Start/Resume) |
| <input type="checkbox"/> Alter Casing | <input type="checkbox"/> Fracture Treat | <input type="checkbox"/> Reclamation |
| <input type="checkbox"/> Casing Repair | <input type="checkbox"/> New Construction | <input type="checkbox"/> Recomplete |
| <input type="checkbox"/> Change Plans | <input type="checkbox"/> Plug and Abandon | <input type="checkbox"/> Temporarily Abandon |
| <input type="checkbox"/> Convert to Injection | <input type="checkbox"/> Plug Back | <input type="checkbox"/> Water Disposal |

- ☐ Water Shut-Off
☐ Well Integrity
☒ Other
Submission of drilling procedure
Access Road change

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated 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 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.)

Submission of Drilling Procedure for this proposed well.
Submission of Change for proposed acce road.



2006 MAY 12 AM 8 38
RECEIVED
OTC ADMINISTRATION UNIT

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

Name (Printed/Typed)
William Schwab III

Title AGENT FOR SG INTERESTS

Signature

Date 5/11/2006

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

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 operation thereon.

Title

Office

Date

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, makes it a crime for any person knowingly and willfully to make any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

NMOCD

NIKA ENERGY OPERATING, LLC
SG INTERESTS I, LTD.

WELL NAME: Federal 21-6-28 #1

FIELD NAME: Basin Fruitland Coal

LOCATION: Sec 28-T21N-R6W
UL A; 1310' FNL & 1310' FEL
McKinley County, New Mexico

PROPOSED TD: 1025'

DRILLING SKELETON:

<u>Interval</u>	<u>Hole Size</u>	<u>Casing Size</u>	<u>Depth</u>
Surface	12-1/4"	7"	150'
Production	6-1/4"	4-1/2"	1025'

MUD PROGRAM:

<u>Interval</u>	<u>Mud Type</u>	<u>Mud Weight</u>	<u>Funnel Viscosity</u>	<u>Water Loss</u>
0 - 150'	Native	8.5 - 9.1	30 - 50	N/C
150' - TD	Native/LSND	8.5 - 9.1	30 - 50	8 - 10

CORE PROGRAM: None

ELECTRICAL LOGGING PROGRAM: Openhole logs will include a GR/Caliper and a DIL/Formation Density log from TD to the surface casing shoe

Fruitland Drilling Program - Federal 21-6-28 #1

Page 2

CASING AND CEMENTING PROGRAM:

<u>Interval</u>	<u>Size, Wt, Grade, Thread</u>	<u>Depth</u>	<u>Cement</u>
Surface	7", 20#, J-55, ST&C	150'	140 sx Class B w/2% CaCl + 1/4#/sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	110 sx Class B. Both slurries to contain 1/4#/sx celloflake.

WELLHEAD: 3000# Independent Style

BLOWOUT PREVENTION EQUIPMENT REQUIREMENTS:

<u>Description</u>	<u>Rating</u>
Double Ram Type Preventer	2000 psi
Rotating Head	2000 psi

BOPE testing will be done by third party testers in accordance with Onshore Order No. 2. The test must be performed and recorded using a test pump, calibrated test gauges and properly calibrated strip or chart recorder. The test gauges and recorders must be of the proper range and resolution commensurate with the authorized test pressure. The test must be recorded in the driller's log and will include a low pressure test requirement of 250 psig held for 5 minutes and a high pressure test requirement held for 10 minutes. Casing pressure tests must be held for 30 minutes with no more than 10 percent pressure drop during the test.

Fruitland Drilling Program - Federal 21-6-28 #1

Page 3

GEOLOGIC PROGNOSIS:

Elevations: GL ~ 6905', KB ~ 6810'

Formation Tops:

<u>Formation</u>	<u>Depth</u>
Ojo Alamo	345'
Kirtland	475'
Fruitland	650'
Coal Top	850'
PC	875'
Total Depth	1025'

Note: TD will be 150' below the lowest coal. The company man will be on location once coals are penetrated until TD to monitor drilling breaks and to insure that 150' of rathole is drilled. When the hole is logged, if a coal zone is indicated within 150' of bottom, additional hole is to be drilled to provide 150' of rathole. Log of offset well(s) will be enclosed for correlation.

MUD PROGRAM:

A fresh water native mud (using lime, benex & gel additions) will be used to drill the surface hole. The 6-1/4" hole should be drilled with native mud and a LSND mud as necessary for hole stability just before the top of the Fruitland formation is encountered.

At the top of the Fruitland formation mud weights should be sufficient to control pressures; viscosity should be in the 30 - 50 sec range with a water loss of 8 - 10 cc, as needed.

The Fruitland Coals are expected to be under-pressured to normal-pressured and may encounter lost circulation. LCM should be stored on location and used as needed in the event of lost circulation. Barite should also be on location in the event an over-pressured zone is encountered and a kick is taken.

CASING AND CEMENTING PROCEDURE:

Note: Notify BLM 24 hours prior to spud and testing of BOP's and cementing. 505-599-8907. Note the new (June 1, 2005) Federal (BLM) requirements for the testing and test recording of the Blow-out Preventer Equipment. A copy is attached to the approved APD.

Surface Casing:

1. Drill to a minimum of 150ccommodate tallied 7" casing plus 3'. Casing tally to be taken on location.
2. Use a landing joint of 7" casing to set casing at ground level. Guide shoe on casing should be not more than 2 feet off bottom. Casing head flange to be set at ground level.
3. Displace hole with casing volume of fresh water ahead of cement.
4. Pump Class B cement with 2% CaCl at 5-7 barrel per minute.
5. Drop top plug and displace with fresh water when preflush returns are observed at the surface. Do not over-displace.
6. If plug does not bump, hold pressure for a minimum of three hours.
 - a. Wait on cement a minimum of 8 hours or until surface samples are hard *, whichever is longer before nipping up the BOP. Install test plug in casing head and pressure test stack to 2000 psig for 30 minutes.
 1. * Note: The BLM requirement is a minimum of 250 psi @ 60degrees F compressive strength before BOP may be nipped up.
 2. Notes: Use a standard 7" guide shoe, a 7" insert float, 3 centralizers and 1 stop ring. Set insert on top of first joint. Bakerlok shoe, float collar and bottom two joints of casing.

Production Casing:

1. Roll casing off truck with thread protectors in place.
2. Visually inspect, rabbit, number, and tally casing on racks. Remove thread protectors and clean threads. Use quick release protectors while running casing. Do not move or roll casing without thread protectors in place.
3. Change out pipe rams to accommodate 4-1/2" casing.
4. Bakerlok 4-1/2" float shoe to bottom of first joint of casing.
5. Bakerlok 4-1/2" differential float collar to top of first joint of casing. Bakerlok second joint of casing into top of float collar. Run "marker joint" 100' above top coal as per openhole logs.
6. Casing should be made up to proper torque (1320 ft-lb for 10.5# or 1540 ft-lb for 11.6#) using an API thread compound.
7. Casing should be run no faster than 2 feet per second (20 seconds per 40 foot joint). At the first indication of mud loss, the running time should be doubled to 40 seconds per joint (1 foot per second).
8. Break circulation at 400 feet and 700 feet and circulate a minimum of 15 minutes. Make sure that the hole is not flowing. Adjust mud properties as necessary. Circulate the last joint of casing to TD. Kick pumps in slowly to minimize surge pressures.
9. Turbolizing centralizers should be run on each of the first 7 joints. A stop-ring should be used to hold the first centralizer in place. Place the remaining centralizers on collars.
10. After casing is landed at TD, circulate hole until mud properties measured at the flowline are within the ranges given in the "Mud Program" of this drilling prognosis.
11. Rig up rotational cementing head and return lines. Chixson should be long enough to allow 25'-30' reciprocation.
12. Pump 10 barrels of fresh water. Pump 20 barrel chemical wash. Pump cement slurry. Wash lines.
13. Drop top plug and displace with water. Do not over-displace. Pipe should be rotated at 10-20 RPM or reciprocated at least 20 feet every two to three minutes throughout displacement.
14. Bump plug with 500 psi over final displacement pressure. Hold pressure for 5 minutes. If plug does not bump, hold initial shut down pressure on casing for 5 minutes. Then check to see that float is holding (flow back into cement pump tank).

Production Casing cont.

15. Set slips, cut off casing and nipple down BOP. A thread protector or some other appropriate obstruction should be placed on the top of the casing stub to prevent loss of material downhole.

Cement Slurry Designs and Notes

<u>Slurry</u>	<u>Cement & Additives</u>	<u>Water Requirements</u>	<u>Weight</u>	<u>Yield</u>
Production	Class B + 1/4#/sx celloflake	5.2 gals/sx	15.6 ppg	1.18 cu. ft/sk

Figure slurry volume as follows: Calculate slurry using caliper volume + 50% excess. Cement volume shown in this prognosis is based on hole and casing size and surface/long string annular volumes plus percentage excess shown above.

NOTES:

1. Pump rates should be a minimum of 4 BPM through displacement.
2. Slurry weights should be measured using a mud balance at least every 10 minutes during mixing.
3. At least two samples of the tail should be caught and monitored at room temperature for thickening time.
4. Run Temperature Log if cement does not circulate.

Blow Out Preventer (BOP) Exhibit #1

2-M SYSTEM

