

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

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

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NMNM-036941
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 JUN 12 PM 2 12 RECEIVED
2. Name of Operator SG Interests I, LTD c/o NIKA Energy Operating		7. If Unit or CA Agreement, Name and No. 8. Lease Name and Well No. Federal 21-6-35 #3
3a. Address P.O. Box 2677 Durango, CO 81302	3b. Phone No. (include area code) (970) 259-2701	9. API Well No. 30-043 - 21030
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 1920' FSL & 660' FWL At proposed prod. zone		10. Field and Pool, or Exploratory Basin Fruitland Coal
14. Distance in miles and direction from nearest town or post office* approximately 12.5 miles southeast of Counselor Trading Post, New Mexico		11. Sec., T., R., M., or Blk. and Survey or Area L Section 35, 21N, 6W
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 660'	16. No. of Acres in lease 2,040.00	17. Spacing Unit dedicated to this well 320.00 (S 1/2)
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. See attached map	19. Proposed Depth 980'	20. BLM/BIA Bond No. on file P120003277 NM 1935
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 6,812' 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.  | 4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).    |
| 2. A Drilling Plan.   | 5. Operator certification.   |
| 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). | 6. Such other site specific information and/or plans as may be required by the authorized officer. |

25. Signature <i>William Schwab III</i>	Name (Printed/Typed) William Schwab III	Date 6/9/06
Title President NIKA Energy Operating/ Agent for SG Interests I, LTD		
Approved by (Signature) <i>[Signature]</i>	Name (Printed/Typed) AFM	Date 8/16/06
Title AFM	Office FTO	

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

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 June 10, 2003  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

☐ AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

'API Number 30-043-21030	'Pool Code 71029	'Pool Name Basin Fruitland Coal
'Property Code 30955	'Property Name FEDERAL 21-6-35	'Well Number 3
'OGRID No. 20572	'Operator Name SG INTERESTS I, LTD.	'Elevation 6812

**10 Surface Location**


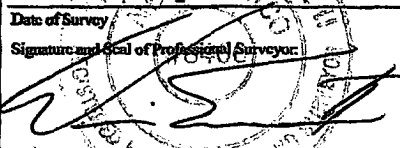
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	35	21N	6W		1920	South	660	West	Sandoval

**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 320.52	'Joint or Infill	'Consolidation Code	'Order No.
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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° 24' W	79.72 ch.		17	<b>OPERATOR CERTIFICATION</b> I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  Signature William Schnabbe Printed Name AGSW FOR SGT telap@nirkaenergy.com Title and E-mail Address 5/23/2006 Date
79.67 ch.				79.50 ch.	
	Sec.				
660'	LAT. 36.00514° N LONG. 107.44542° W	35		18	<b>SURVEYOR CERTIFICATION</b> 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. 11 May 2006 Date of Survey  Signature and Seal of Professional Surveyor William E. Mahnke II Certificate Number 8466
N 0° 45' E				N 0° 51' E	
1920'					
	N 89° 29' W 39.84 ch.	N 89° 24' W 39.93 ch.			

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

Form C-103  
May 27, 2004

SUNDRY NOTICES AND REPORTS ON WELLS (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)		WELL API NO. <u>30-043-21030</u>
1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other		5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/> FED X
2. Name of Operator SG Interests I, Ltd		6. State Oil & Gas Lease No. Federal NMNM-036941
3. Address of Operator C/O Nika Energy Operating, PO Box 2677, Durango, CO, 81303		7. Lease Name or Unit Agreement Name Federal 21-6-35
4. Well Location Unit Letter: L <u>1920</u> feet from the <u>south</u> line and <u>660</u> feet from the <u>west</u> line Section <u>35</u> Township <u>21N</u> Range <u>6W</u> NMPM County <u>Sandoval</u>		8. Well Number #3
11. Elevation (Show whether DR, RKB, RT, GR, etc.) <u>6,812 ft</u>		9. OGRID Number
Pit or Below-grade Tank Application <input checked="" type="checkbox"/> or Closure <input type="checkbox"/>		
Pit type <u>Drilling</u> Depth to Groundwater <u>&gt;100'</u> Distance from nearest fresh water well <u>&gt;1,000'</u> Distance from nearest surface water <u>&gt;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 ☐

SUBSEQUENT REPORT OF:  
REMEDIAL WORK ☐ ALTERING CASING ☐  
COMMENCE DRILLING OPNS. ☐ P AND A ☐  
CASING/CEMENT JOB ☐

OTHER: Pit Application ☒

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 William Schwab III TITLE Agent for SG Interests I, Ltd. DATE 6/9/06

Type or print name William Schwab III

E-mail address: tripp@nikaenergy.com

Telephone No. 970-259-2701

For State Use Only

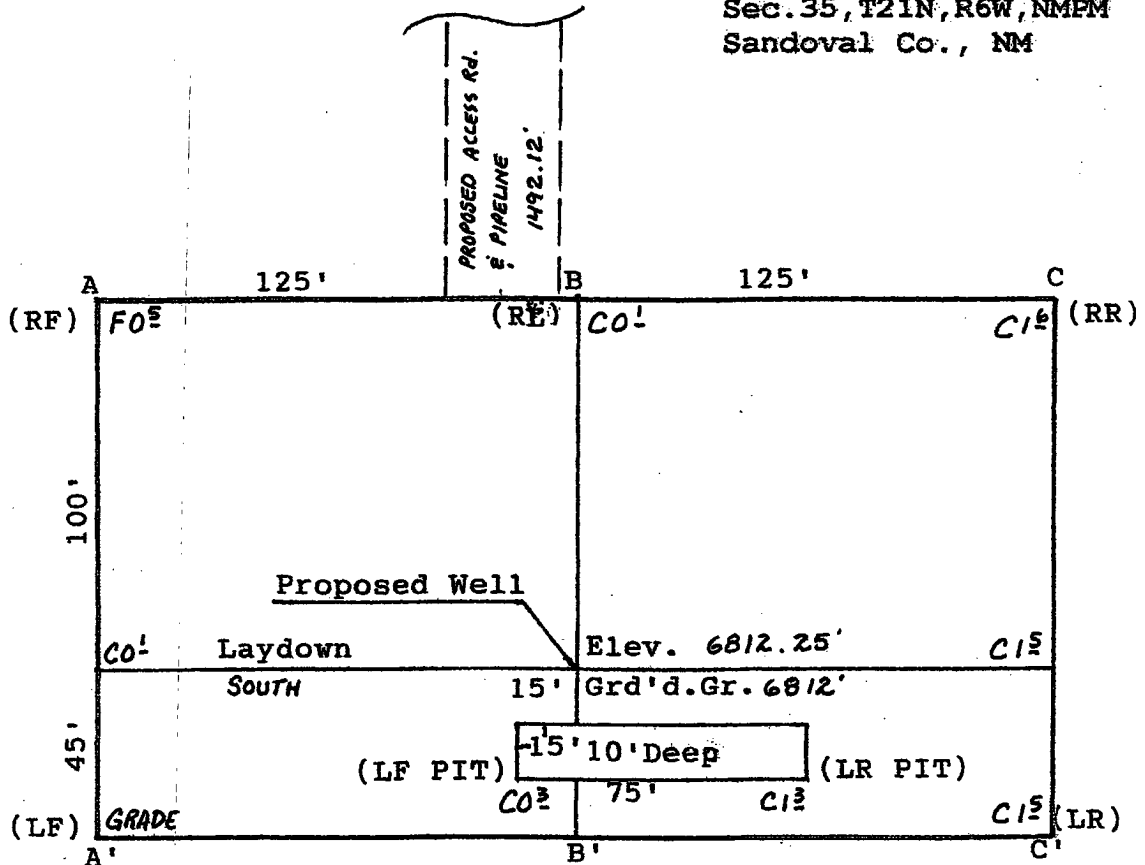
APPROVED BY: [Signature]

TITLE DEPUTY OIL & GAS INSPECTOR, DIST. 3

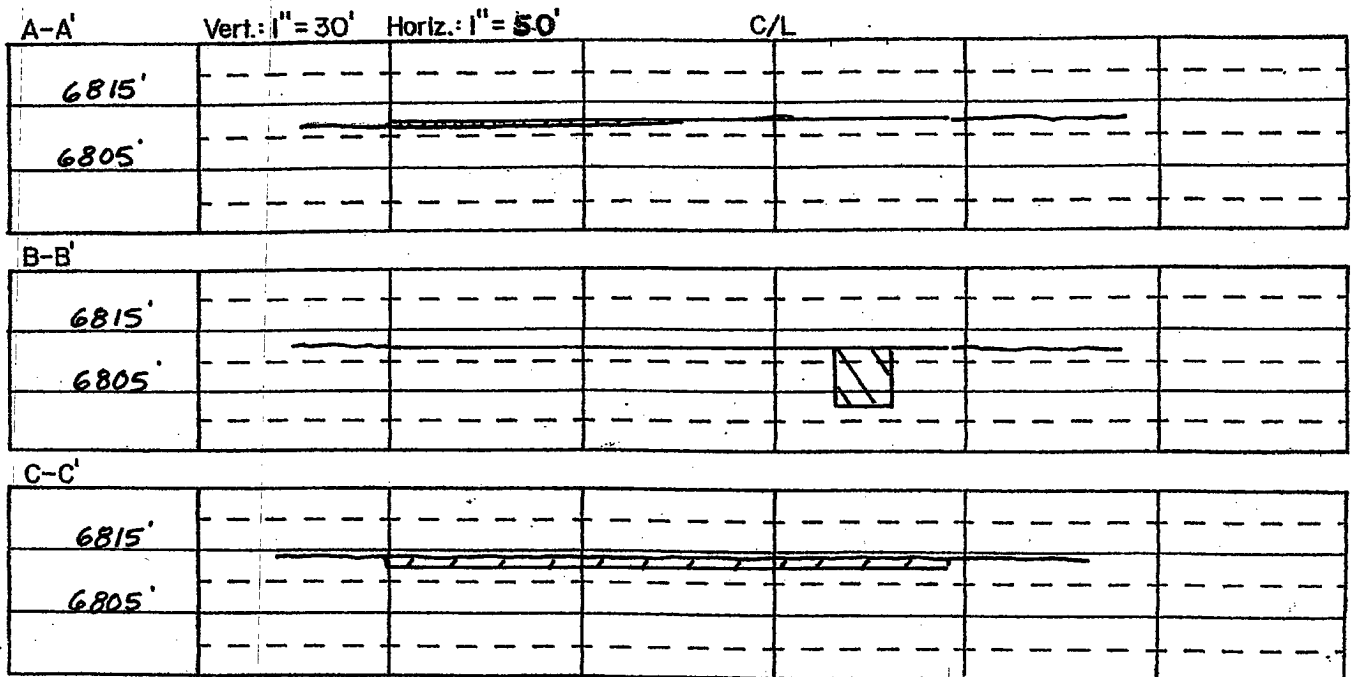
DATE AUG 21 2006

Conditions of Approval (if any):

SG INTERESTS I, LTD.  
 FEDERAL 21-6-35 #3  
 1920' FSL & 660' FWL  
 Sec. 35, T21N, R6W, NMPM  
 Sandoval Co., NM



Scale: 1"=50'



SG Interests I, Ltd.  
(Agent: Nika Energy Operating, LLC)  
PO Box 2677  
Durango, CO 81302  
(970) 259-2701

Federal 21-6-35 #3  
NWSW Sec 35-21N-R6W  
1920' FSL & 660' FWL  
Sandoval County, New Mexico

#### EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	290'
Kirkland	440'
Fruitland	635'
Pictured Cliffs	830'
Total Depth	980'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	815'
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3. Minimum Specifications for Pressure Control Equipment:

BOP equipment and accessories will meet or exceed BLM requirements outlined in 43 CFR Part 3160.

A 2000 psig double ram hydraulic BOP will be used (see attached diagram). Accessories to the BOP will meet BLM requirements for a 2000 psig system. The accumulator system capacity will be sufficient to close all BOPE with a 50% safety factor. Fill line, kill line and line to choke manifold will be 2". BOP's will be function tested every 24 hours and will be recorded on IADC log.

Surface casing will be tested to 1500 psig for 30 minutes.

## Eight Point Drilling Program - Federal 21-6-35 #3

### Page 2

Accessories to BOPE will include upper and lower Kelly cocks with handles, stabbing valve to fit drill pipe on floor at all times, string float at bit, 2000 psig choke manifold with 2" adjustable and 2" positive chokes, and pressure gauge.

#### 4. Casing and Cementing Program:

<u>Hole Size</u>	<u>Interval</u>	<u>Csq Size</u>	<u>Wt, Grd, Jt</u>
12-1/4"	0-180'	8-5/8"	20#, J-55, STC
7-7/8"	0-980'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 126 sx (149 cu ft) class B w/2% CaCl and 1/4#/sx of celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volumes include excess to circulate cement to surface. A guide shoe, insert float and three (3) centralizers will be used. WOC time is 8 hours. The casing will be pressure tested to 1500 psig.

Production Casing will be cemented with 285 sx (336 cu ft) class B w/2% CaCl and 1/4#/sx celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volume includes excess to circulate cement to surface. In the event cement is not circulated a temperature survey will be run to determine the actual cement top. Cementing equipment will include a guide shoe, float collar and 10 centralizers. Class G or H cement may be used depending on availability of Class B.

#### 5. Mud Program:

A native water based mud system (FW) will be used initially followed by a low-solids, non-dispersed gel system (LSND) as needed to condition the hole for logs. Adequate amounts of lost circulation and weighting material will be on location if needed as well as sorbitive agents to handle potential spills of fuel or lubricants.

<u>Depth</u>	<u>Type</u>	<u>Wt (ppg)</u>	<u>Vis (sec)</u>	<u>Wtr loss</u>
0-180'	FW	± 8.5	30-33	NC
180'-TD	FW & LSND	± 8.7-9.1	30-50	8-10 cc

6. Testing, Coring and Logging Program:

No DST's or cores are planned. Openhole logs will include GR, Induction, Density and Caliper Logs. The GR-Density logs will be run from TD to the top of the Fruitland formation. GR-Induction-Caliper logs will be run from TD to the bottom of the surface casing.

7. Anticipated Abnormal Pressures and Temperatures:

No abnormal pressures or temperatures are expected in this well. Maximum anticipated Fruitland reservoir pressure is 300 psig with a normal temperature gradient.

8. Operations:

Anticipated spud date is June 2006 or as soon as permits are received and work can be scheduled. Estimated drilling time is 4 - 5 days. The Fruitland will be completed as a cased hole completion, perforated and hydraulically fracture stimulated. Completion operations are expected to take 5 - 7 days and will commence as soon after completion of drilling operations and scheduling allow.

NIKA ENERGY OPERATING, LLC  
SG INTERESTS I, LTD.

WELL NAME: Federal 21-6-35 #3

FIELD NAME: Basin Fruitland Coal

LOCATION: Sec 35-T21N-R6W  
UL L; 1920' FSL & 660' FWL  
Sandoval County, New Mexico

PROPOSED TD: 980'

DRILLING SKELETON:

<u>Interval</u>	<u>Hole Size</u>	<u>Casing Size</u>	<u>Depth</u>
Surface	12-1/4"	8-5/8"	180'
Production	7-7/8"	4-1/2"	980'

MUD PROGRAM:

<u>Interval</u>	<u>Mud Type</u>	<u>Mud Weight</u>	<u>Funnel Viscosity</u>	<u>Water Loss</u>
0 - 180'	Native	8.5 - 9.1	30 - 50	N/C
180' - 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 21-6-35 #3  
Page 2

CASING AND CEMENTING PROGRAM:

<u>Interval</u>	<u>Size, Wt, Grade, Thread</u>	<u>Depth</u>	<u>Cement</u>
Surface	8-5/8", 24#, J-55, ST&C	180'	126 sx Class B w/2% CaCl + 1/4#/sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	285 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.

**GEOLOGIC PROGNOSIS:**

Elevations:           GL ~ 6812' , KB ~ 6817'

**Formation Tops:**

<u>Formation</u>	<u>Depth</u>
Ojo Alamo	290'
Kirtland	440'
Fruitland	635'
Coal Top	815'
PC	830'
Total Depth	980'

Note: TD will be 200' 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 200' 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 200' of rathole.

**MUD PROGRAM:**

A fresh water native mud (using lime, benex & gel additions) will be used to drill the surface hole. The 7-7/8" 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.

Blow Out Preventer (BOP) Exhibit #1

2-M SYSTEM

