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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
Farmington Field Office
APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. NOC-14-20-7311
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 Navajo Allotted
2. Name of Operator Dugan Production Corp.		7. If Unit or CA Agreement, Name and No.
3a. Address 709 East Murray Drive Farmington, NM 87401		8. Lease Name and Well No. Squaw Valley Com #91
3b. Phone No. (include area code) 505-325-1821		9. API Well No. 30-045-34577
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 1150' FSL and 660' FEL Lat. 36.25162 N At proposed prod. zone Same as above. Long. 107.89490 W		10. Field and Pool, or Exploratory Basin Fruitland Coal
11. Sec., T. R. M. or Bk. and Survey or Area p Sec. 4, T23N, R10W NMPM		
14. Distance in miles and direction from nearest town or post office* Approx 35-miles SE of Bloomfield, New Mexico		12. County or Parish San Juan
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drg. unit line, if any) 660 Feet		13. State NM
16. No. of acres in lease 160.0 Acres		17. Spacing Unit dedicated to this well S/2 - 320.0 Acres
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 1200'		20. BLM/BIA Bond No. On File
21. Elevations (Show whether DF, KDB, RT, GL, etc.) GL - 6636' This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4		23. Estimated duration 5-Days
22. Approximate date work will start* ASAP		24. Attachments

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

- 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 *Kurt Fagrelus* Name (Printed/Typed) Kurt Fagrelus Date 1/18/2008

Title Geologist

Approved by (Signature) *[Signature]* Name (Printed/Typed) Date 10/8/08

Title AFM Office PFO

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)

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

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 completed from approximately 975' - 1000'. The interval will be fracture stimulated.

OCT 14 2008

NMOCD

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

JAN 18 2008 AMENDED REPORT

Bureau of Land Management
Farmington Field Office

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30045-34577		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 37425	*Property Name SQUAW VALLEY COM		*Well Number 91
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 6636'

10 Surface Location

UL or lot no. P	Section 4	Township 23N	Range 10W	Lot Idn	Feet from the 1150	North/South line SOUTH	Feet from the 660	East/West line EAST	County SAN JUAN
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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
12 Dedicated Acres 320.0 Acres - (S/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

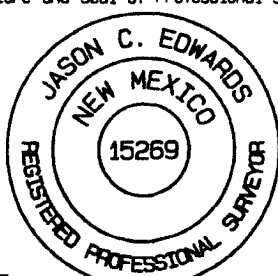
16	5245.68'				17 OPERATOR CERTIFICATION
1318.68'	LOT 4	LOT 3	LOT 2	LOT 1	I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the 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.
1311.42'					<i>Kurt Fagrelis</i> 1/18/2008 Signature Date Kurt Fagrelis Printed Name
4					18 SURVEYOR CERTIFICATION
Dugan NO-C-14-20-7310					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.
Dugan NO-C-14-20-7311					Survey Date: JANUARY 3, 2008
LAT: 36.25162°N LONG: 107.89490°W DATUM: NAD1983					Signature and Seal of Professional Surveyor
2623.50'	5254.92'				
660'					JASON C. EDWARDS Certificate Number 15269

EXHIBIT B
OPERATIONS PLAN
Squaw Valley Com #91

APPROXIMATE FORMATION TOPS:

Ojo Alamo	145'
Kirtland	235'
Fruitland	650'
Pictured Cliffs	1000'
Total Depth	1150'

Catch samples every 10 feet from 900 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>Wt./ft.</u>	<u>Setting Depth</u>	<u>Grade and Condition</u>
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	1150'	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 Fruitland Coal. 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% CaCl₂.
Circulate to surface.

Production Stage-Cement with 110 cf 2% lodense with
1/4# celloflake/sx followed by 70 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 180 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 usable 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, pump 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 - 350 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#.

BOP and Related Equipment will include for a 2000 psi system:

(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.

Contacts:

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

Mark Brown	327-3632 (H)
	320-8247 (M)

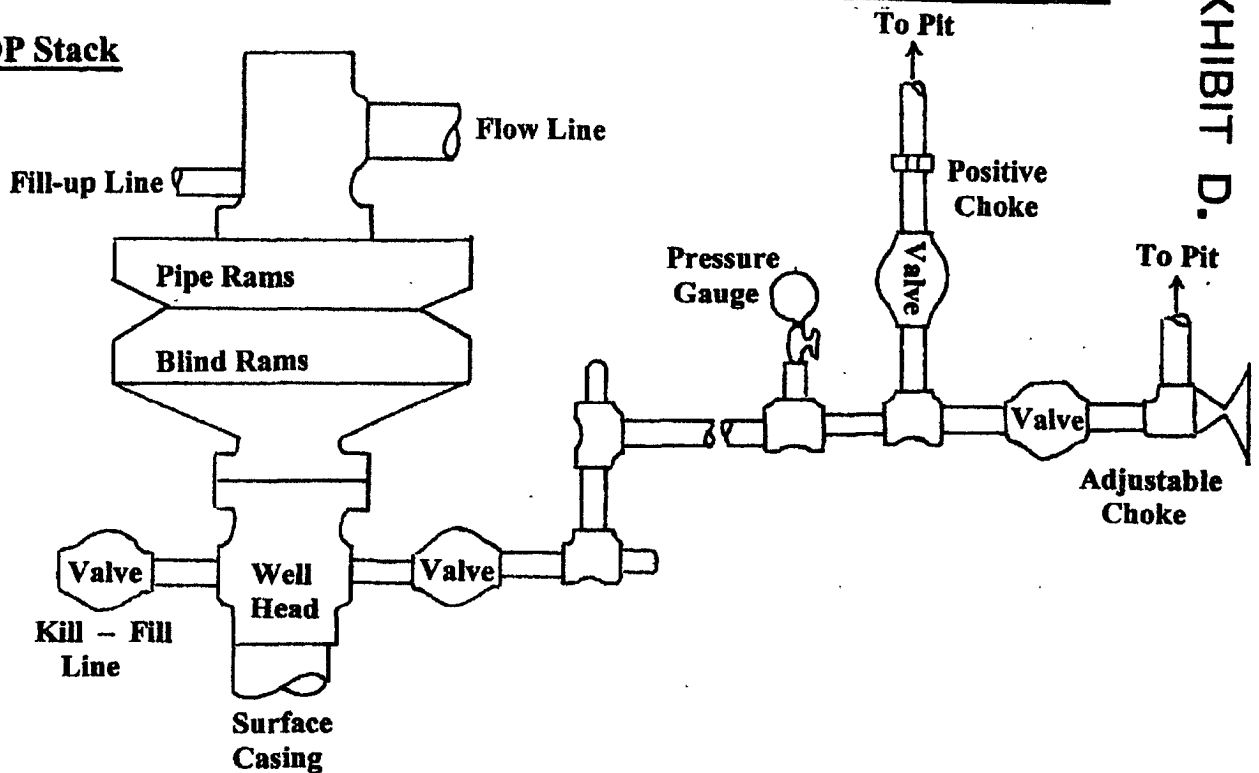
Kurt Fagrelus	325-4327 (H)
	320-8248 (M)

John Alexander	325-6927 (H)
	320-1935 (M)

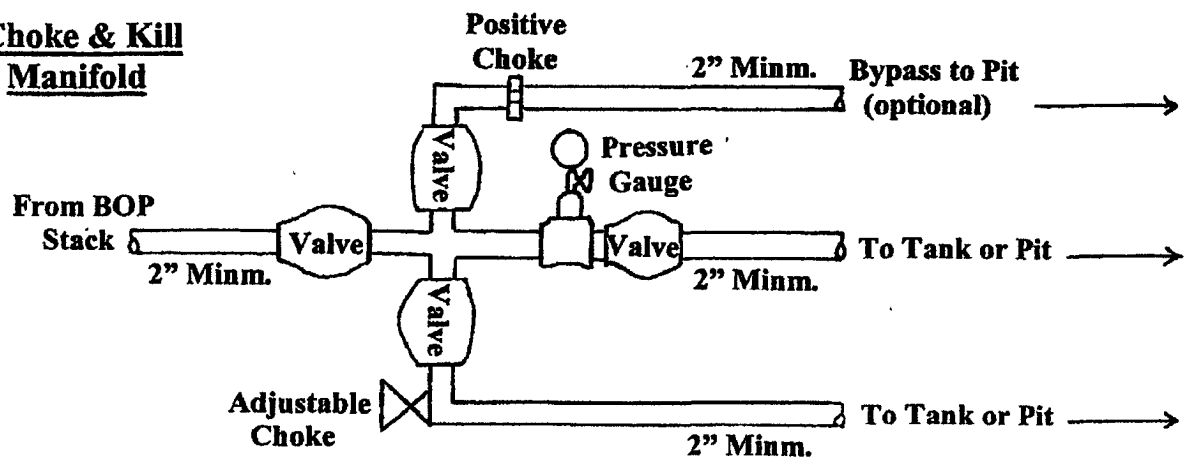
Well Control Equipment Schematic for 2,000 psi BOP

EXHIBIT D.

BOP Stack



Choke & Kill Manifold



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

DUGAN PRODUCTION CORP.
SQUAW VALLEY COM #91