Form 3160-3
(April 2004)

RECEIVED
MAR 31 2009
Bureau of Land Management
Farmington Field Office

RCVD MAY 21 '09
OIL CONS. DIV.
DIST. 3

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No. NO-G-0903-1758

6. If Indian, Allotee or Tribe Name: Navajo Allotted

1a. Type of work: [X] DRILL [ ] REENTER

7. If Unit or CA Agreement, Name and No.

1b. Type of Well: [ ] Oil Well [X] Gas Well [ ] Other [X] Single Zone [ ] Multiple Zone

8. Lease Name and Well No. Tom Wood Denn #2

2. Name of Operator: Dugan Production Corp.

9. API Well No. 30-045-34933

3a. Address: 709 East Murray Drive, Farmington, NM 87401

3b. Phone No. (include area code): 505-325-1821

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

4. Location of Well (Report location clearly and in accordance with any State requirements.*)
At surface 1000' FNL & 1500' FWL Lat. 36.15863 N
At proposed prod. zone Same as above Long. 107.70864 W

11. Sec., T. R. M. or Blk. and Survey or Area: Sec. 8, T22N, R8W NMPM

14. Distance in miles and direction from nearest town or post office*: Approx. 50-miles SE of Bloomfield, NM

12. County or Parish: San Juan

13. State: NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any): 1000-Feet

16. No. of acres in lease: 160.0-Acres

17. Spacing Unit dedicated to this well: 320.0 Acres - (N/2)

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.: N.A.

19. Proposed Depth: 1065-Feet

20. BLM/BIA Bond No.: On File

21. Elevations (Show whether DF, KDB, RT, GL, etc.): GL-6742'

22. Approximate date work will start*: ASAP

23. Estimated duration: 5-Days

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

24. Attachments

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

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: Kurt Fagrelius — Name (Printed/Typed): Kurt Fagrelius — Date: 3/31/2009

Title: Geologist

Approved by (Signature): — Name (Printed/Typed): — Date: 5/20/09

Title: Acting AFM Minerals — 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 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 885' - 900' feet. The interval will be fracture stimulated.

MAY 21 2009

NMOCD

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

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

RECEIVED
MAR 31 2009
Bureau of Land Management
Farmington Field Office

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

[1] API Number	[2] Pool Code	[3] Pool Name
30-045-34933	71629	BASIN FRUITLAND COAL

[4] Property Code	[5] Property Name	[6] Well Number
37701	TOM WOOD DENN	2

[7] OGRID No.	[8] Operator Name	[9] Elevation
006515	DUGAN PRODUCTION CORPORATION	6742'

[10] Surface Location

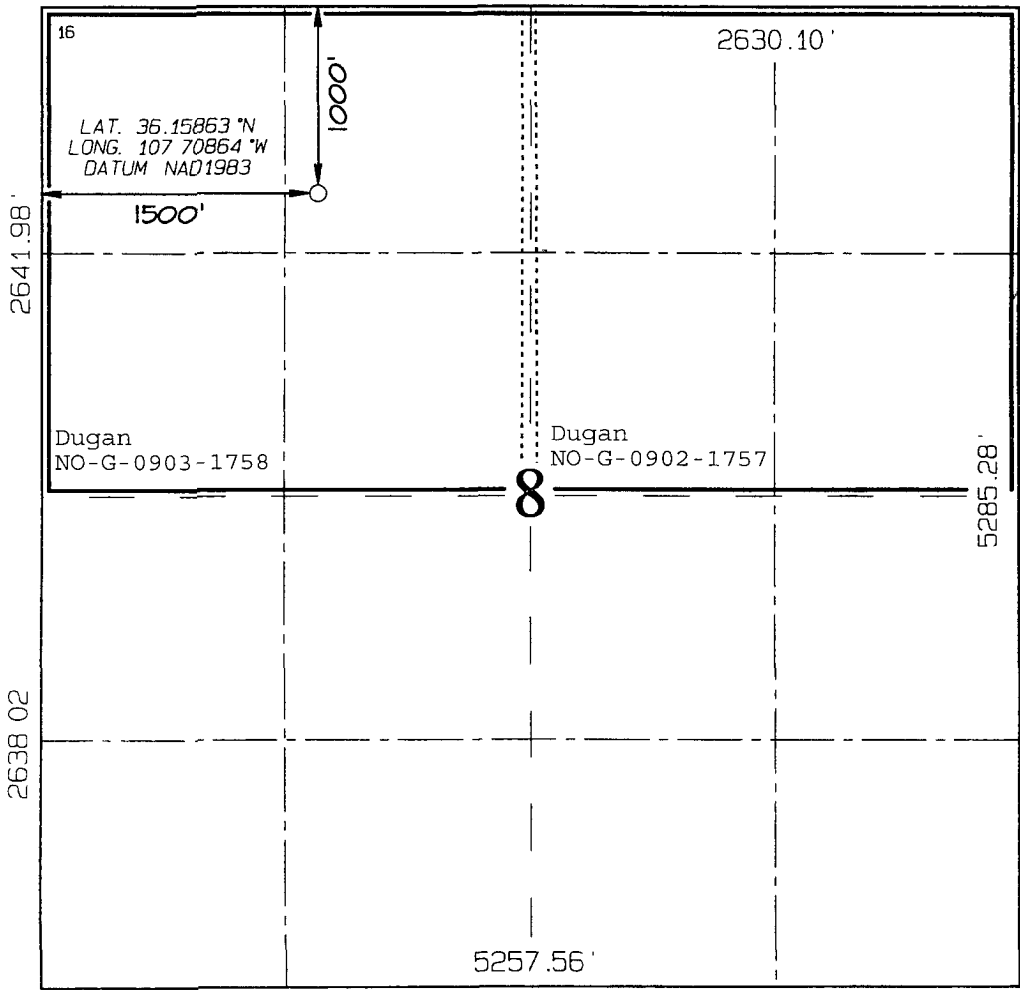
UL or lot no	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
C	8	22N	8W		1000	NORTH	1500	WEST	SAN JUAN

[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	[13] Joint or Infill	[14] Consolidation Code	[15] Order No
320.0 Acres - (N/2)			

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



[17] OPERATOR CERTIFICATION

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.

Kurt Fagrelius — 3/31/2009
Signature — Date

Kurt Fagrelius
Printed Name

[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

Date of Survey: APRIL 28, 2008

Signature and Seal of Professional Surveyor

JASON C. EDWARDS
NEW MEXICO
15269
REGISTERED PROFESSIONAL SURVEYOR

JASON C. EDWARDS
Certificate Number 15269

EXHIBIT B
OPERATIONS PLAN
Tom Wood Denn #2

APPROXIMATE FORMATION TOPS:

Nacimiento	Surface
Ojo Alamo	220′
Kirtland	320′
Fruitland	570′
Pictured Cliffs	912′
Total Depth	**1065′**

Catch samples every 10 feet from 750 feet to total depth.

LOGGING PROGRAM:
Run cased hole GR-CCL-CNL from total depth to surface.

CASING PROGRAM:

Hole Size	Casing Size	Setting Wt./ft.	Depth	Grade and Condition
12-1/4"	8-5/8"	24#	120′	J-55
7"	5-1/2"	14#	1065′	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% $CaCl_2$.
Circulate cement to surface.

Production Stage-Cement with 100 cf 2% lodense with
¼# celloflake/sx followed by 65 cf Class "B" with
¼# celloflake/sx.
Total cement slurry for production stage is 165 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# working pressure, factory tested to 2000#.
Huber 5-1/2"x2-7/8" tubing head, 1000# working pressure, factory tested to 2000#.

Blow-Out Preventor 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 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.

Blow-Out Preventor Equipment (BOPE) tests will be performed without using a test plug because of the following reason:

A Gardner Denver 2000 drilling rig will be used to drill this shallow coal well. The largest BOP that will fit under this rig is a Schafer 6" 2000 series that has an internal diameter of 7.0625". This BOP is screwed on to a Hercules LM85 casing head that has an internal minimum bore of 7.920". The casing head is screwed onto 8-5/8" surface casing that has an internal diameter of 8.097".

Currently Dugan is unable to get a test plug for the casing head (7.920" ID) or surface casing 8.097" ID) that will pass through the BOP 7.0625" ID).

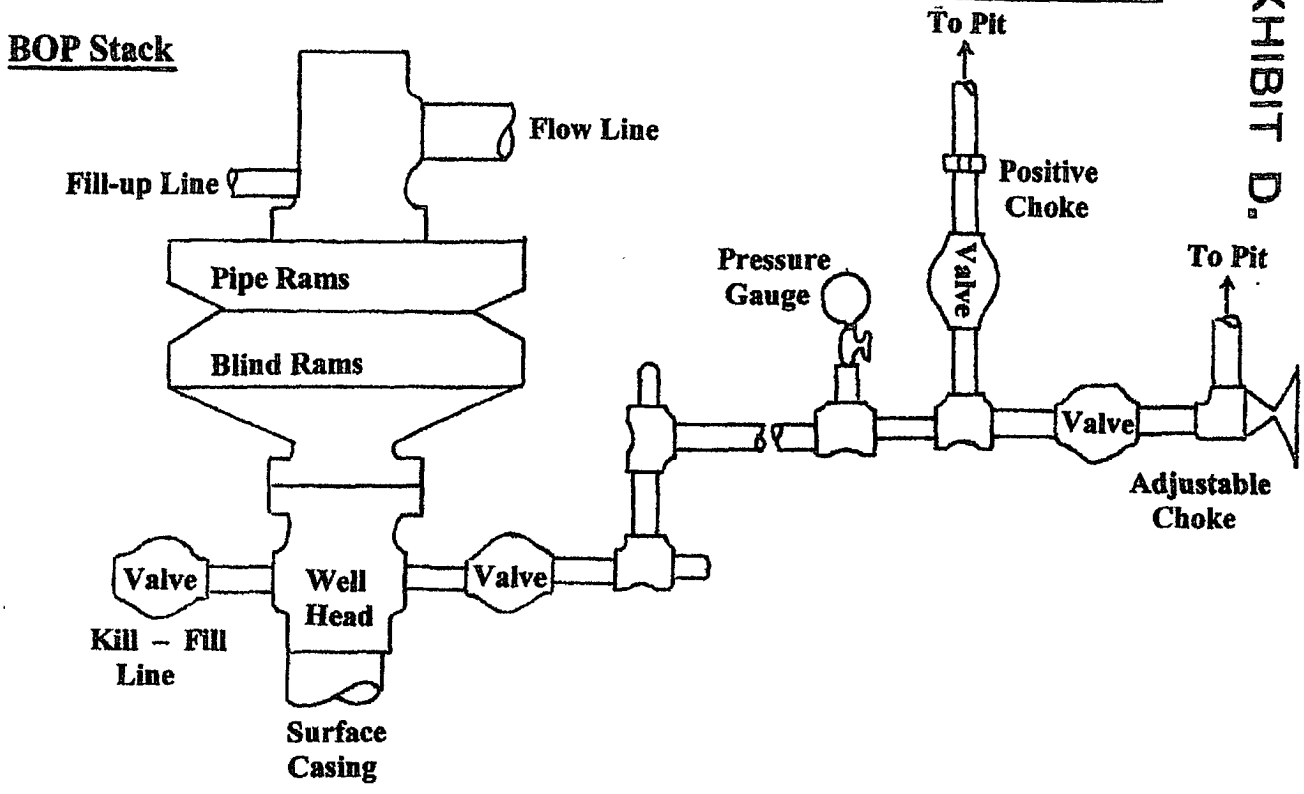
Will test BOPE and surface casing together. The test will include a low pressure test to 250 psig held for five minutes and a high pressure test to 800 psig held for thirty minutes (with no more than a 10 percent pressure drop during the duration of the tests). If a 10 percent or greater pressure drop occurs, a packer will be run to isolate the surface casing and BOPE to locate the source of the leak.

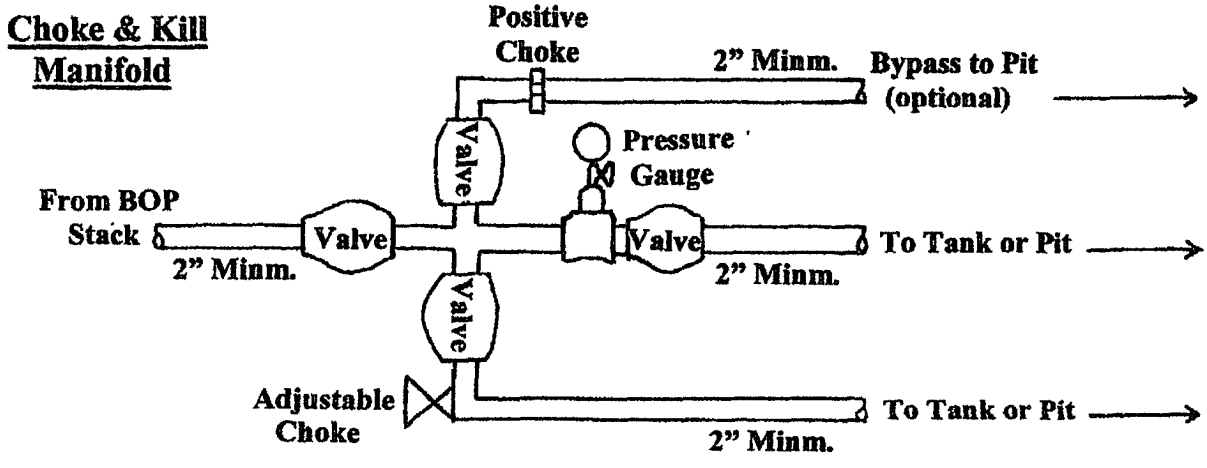
Contacts:

Dugan Production Corp. Office and Radio Dispatch: 325-1821
Mark Brown: 327-3632 (H), 320-8247 (M)
Kurt Fagrelius: 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.





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

DUGAN PRODUCTION CORP.
Tom Wood Denn #2