

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

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

APPLICATION FOR PERMIT TO DRILL OR REENTER JUL 06 2009

5. Lease Serial No.
NMNM-999737
6. If Indian, Allottee or Tribe Name

7. If Unit or CA Agreement, Name and No
Federal 21-7-18

8. Lease Name and Well No
3

9. API Well No
30-043-21073

10. Field and Pool, or Exploratory
Basin Fruitland Coal

11. Sec., T., R., M., or Blk. and Survey or Area
N Section 18, T21N, R7W

12. County or Parish
Sandoval

13. State
NM

17. Spacing Unit dedicated to this well
322.32
W/2 320.00 acres

20. BLM/BIA Bond No. on file
PIB0003277

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

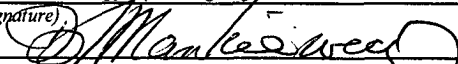
RCVD JUL 21 '09

OIL CONS. DIV.

DIST 3

25. Signature  Name (Printed/Typed) William Schwab III Date 7/29/2009

Title President NIKA Energy Operating/ Agent for SG Interests I, LTD

Approved by (Signature)  Name (Printed/Typed) D. Mankiewicz Date 7/17/09

Title AFM 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 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.

A new access road approximately 1,912.27 feet in length would be required for this location.

This APD is also serving as an application for an on-lease gas and water pipeline lies of approximately 1,912.27 feet; both to be parallel to the access road.

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

JUL 27 2009

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

NMOCD

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

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

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

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

JUL 06 2009

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION

1 API Number 30-043-21073		2 Pool Code 71629		3 Farming/Pool Name/Office Basin Fruitland Coal	
4 Property Code 37752		5 Property Name FEDERAL 21-7-18			6 Well Number 3
7 OGRID No 20572		8 Operator Name SG INTERESTS I, LTD.			9 Elevation 6702

10 Surface Location

UL or Lot No N	Section 18	Township 21 N	Range 7 W	Lot Idn.	Feet from the 1055	North/South Line South	Feet from the 1705	East/West Line West	County 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
12 Dedicated Acres 322.32 W/2									
13 Joint or Infill W/2									
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		N 89°45' W		79.79 Ch.	
(20.095 Ch.)		(49.90 Ch.)		39.795 Ch.	
Lot No. (Typ.) 1					
80.99 Ch.				80.94 Ch.	
2		Sec.			
		18			
3		Lat. 36.04722° N Long. 107.62056° W			
N 0°12' E		1705'		N 0°07' E	
4		1055'			
(20.20 Ch.)		(19.90 Ch.)		39.81 Ch.	
N 89°48' W				79.91 Ch.	
Bearings from GLO Plat					

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 undivided 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 mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order, heretofore entered by the division.

Signature: *William S. ...* Date: *1/24/2009*

Printed Name: *William S. ...*

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: *03 Feb 2009*

Signature and Seal of Professional Surveyor: *William E. Mahnke*

Certificate Number: *8466*

**SG INTERESTS I, INC.
FRUITLAND DRILLING PROGRAM
TS**

WELL NAME: Federal 21-7-18 #3

FIELD NAME: Basin Fruitland Coal

LOCATION: SESW Section 18, T21N, R7W
1055' FSL, 1705' FWL
UL - N
Sandoval County, New Mexico

DATE: March 2009

PROPOSED TD: 695'

DEPTH TO MINERALS: 520'

Note: Review APD Stipulations before moving on location. Review regulatory notification requirements and notify accordingly. Comply with all safety and environmental requirements.

Notify: BLM Field Office Manager (Inspection and Enforcement Section) 24 hours before SPUD, CEMENTING OR PLUGGING OPERATIONS at (505) 599-8907.

DIRECTIONS:

From the intersection of Hwy 550 and County Road 7900 at \pm mile marker 112.7 on Hwy 550 turn right onto Co. Rd. 7900. Follow Co. Rd. 7900 14.6 miles to "T" intersection, turn left, continue 3.0 miles to first road on the right past a large water tank, south of road, turn right onto lease road and travel southwesterly \pm 0.4 miles. Turn right and follow access road 1912 feet northeasterly to location.

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"	695'

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'-695'	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 Formation Density log from TD to the surface casing shoe.

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'	125 sx Type 5 2% CaCl, 1/4#sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	201 sx Type 5 1/4#/sx celloflake, 3# Gilsonite

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 ~ 6702', KB ~ 6707'

Formation Tops:

Formation	Depth
Ojo Alamo	20'
Kirtland	195'
Fruitland	345'
Coal Top	520'
PC	545'
Total Depth	695'

Note: TD will be 150' below the lowest coal. The company man will be on location once coal(s) 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.

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

Federal 21-7-18 #3
SESW (UL, N) Sec 18, T21N-R7W
1055' FSL & 1705' FWL
Sandoval County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	20'
Kirtland	195'
Fruitland	345'
Coal Top	520'
PC	545'
Total Depth	695'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	520
-----------------	-----

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.

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>Csg Size</u>	<u>Wt, Grd, Jt</u>
12-1/4"	0-180'	8-5/8"	24.0#, J-55, STC
7-7/8"	0-695'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 125 sx (144 cu ft) Type 5 w/2% CaCl and 1/4#/sx of celloflake (Yield = 1.15 cuft/sx, Weight = 15.8 #/gal). Cement volumes include 100% 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 201 sx (237 cu ft) Type 5 w/ 3# gilsonite and 1/4#/sx celloflake (Yield = 1.15 cuft/sx, Weight = 15.8 #/gal). Cement volume includes 50% 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 7 centralizers. Class B or G may be used depending on availability of Type 5.

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, if run, 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.

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.

7. Operations:

Anticipated spud date is August 2009 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.

2-M SYSTEM

