

SWD-293-A pwvJ060449274



Nika Energy Operating

January 30, 2006

Mr. William Jones PE
NMOCD
1220 South St Francis Drive
Santa Fe, NM 87505

William,

Last week you brought to my attention the probability of the revocation of SG Interests Injection Permit for the Pot Mesa #2 WDW. The reason given is the injection was permitted for the Cliffhouse member of the Mesa Verde and this zone is being now targeted as a possible fresh water supply.

The Pot Mesa #2 was originally drilled as a Menefee Producer. The Menefee zone was abandoned as a producer in this wellbore and the permit to spot a cement plug above the Menefee and perforate the Cliffhouse was approved by the BLM December 20th, 1985. NMOCD approval was given to use the Cliffhouse as a Water Disposal Well January 30th, 1986 (Order SWD-293).

As a result of our discussion and my subsequent discussion with Steve Hayden (NMOCD Aztec), I propose an amended permit to inject into the Menefee member of the Mesa Verde. With this proposal SG will squeeze the Cliffhouse perforations, pressure test, drill out the existing cement plug, and re-establish communication with the existing Menefee perforations. The original Menefee perforations were not stimulated other than an acid breakdown. SG would also propose a hydraulic fracture in the Menefee zone.

SG Interests has identified Yates as the only offset operator within 1/2 mile of the subject well. SG is currently notifying Yates of the intended amendment to the permit. SG is also in the process of putting the "Public Notice" in the Gallup Independent.

If you have any questions please call 970.259.2701 or 970.749.5867.

Thank you,



Tripp Schwab
Agent for SG Interests

Nika Energy Operating

February 1, 2006

Mr. William Jones, P.E.
NMOCD
1220 South St. Francis Drive
Santa Fe, NM 87505

RE: Pot Mesa Well No. 2 (API No. 30-031-20888)
Division Order No. SWD-293

2006 FEB 3 PM 12 58

William,

As requested, SG Interests recently submitted a letter outlining plans to abandon existing Cliffhouse perforations for water disposal in the above-mentioned well and attempt to re-establish communication with existing Menefee perforations for purpose of water disposal. The existing gross Menefee interval is 2242' to 3030'.

As per your phone conversation with Bob Sagle, SG will perforate and hydraulically fracture the following additional Menefee intervals for purpose of water disposal:

2614-32'
2658-75'
2692-2704'

Please call me or Bob Sagle (970-259-5205) if additional discussion is needed.

Thank you,



Tripp Schwab
Agent for SG Interests

Affidavit of Publication

STATE OF NEW MEXICO

) SS

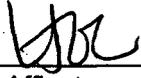
COUNTY OF MCKINLEY

LYDIA JOE being duly sworn upon oath, deposes and says:

As LEGALS CLERK of The Independent, a newspaper published in and having a general circulation in McKinley County, New Mexico and in the City of Gallup, New Mexico and having a general circulation in Cibola County, New Mexico and in the City of Grants, New Mexico and having a general circulation in Apache County, Arizona and in the City of St. Johns and in the City of Window Rock, Arizona therein: that this affiant makes this affidavit based upon personal knowledge of the facts herein sworn to. That the publication, a copy of which is hereto attached was published in said newspaper during the period and time of publication and said notice was published in the newspaper proper, and not in a supplement thereof, for two time, the first publication being on the 2nd day of February, 2006, the second publication being on the _____ day of _____ 20_____, the third publication being on the _____ day of _____ 20_____.

and the last publication being on the 4th day of February, 2006.

That such newspaper, in which such notice or advertisement was published, is now and has been at all times material hereto, duly qualified for such purpose, and to publish legal notices and advertisements within the meaning of Chapter 12, of the statutes of the State of New Mexico, 1941 compilation.



Affiant.

Sworn and subscribed to before me this 6th day of February, A.D., 2006.


Notary Public

My commission expires:

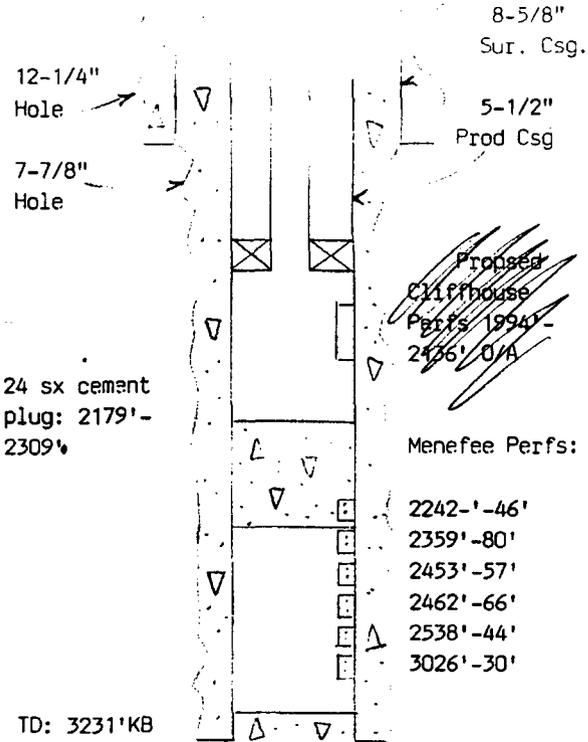
February 7, 2009

LEGAL NOTICE
Gallup-McKinley County
New Mexico:
Propose to amend Order SWD-293 water disposal well permit for Pot Mesa #2, 1785 FNL and 2175 FEL, Section 10, T20N, R6W, McKinley County, New Mexico. Abandon injection zone Cliffhouse, and activate injection zone Menefee Sand. Injection zone depths 2242' to 2544', and #026' to 3030'. Anticipated rate 2000 BOPD. Anticipated pressure 500 psig. Interested parties must file objections or request for hearing with the Oil Conservation Division, 1220 South Francis Drive, Santa Fe, New Mexico 87505 within 15 days.
Legal #7455 Published in The Independent, February 2 & 4, 2006.

INJECTION WELL DATA SHEET

OPERATOR	Hesperian Oil and Gas Corporation		Pool Name	
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
2	1785' FNL & 2175' FEL	10	20N	06W

Schematic



Tabular Data

Surface Casing
 Size 8-5/8" Cemented with 80 sx.
 TOC Surface feet determined by Circulated
 Hole size 12-1/4"

Intermediate Casing
 Size _____ Cemented with _____ sx.
 TOC _____ feet determined by _____
 Hole size _____

Long string
 Size 5-1/2" Cemented with 405 sx.
 TOC Surface feet determined by Circulated
 Hole size 7-7/8"
 Total depth 3231' KB

Injection interval
1994 2242 feet to 3030 feet
 (perforated or open-hole, indicate which)

Tubing size 2-7/8" lined with Plastic set in a
 (material)
5-1/2" Baker Lok-Set packer at 1994 feet
 (brand and model)

(or describe any other casing-tubing seal).

Other Data

- Name of the injection formation ~~Cliffhouse~~
- Name of Field or Pool (if applicable) Wildcat Mesaverde SWD; MENEFEE
- Is this a new well drilled for injection? Yes No
 If no, for what purpose was the well originally drilled? The well was originally drilled as a Menefee producer
- Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail (sacks of cement or bridge plug(s) used) Perfs: 2242'-46'; 2359'-80'; 2453'-57'; 2462'-66'; 2538'-44'; 3026'-30'. Spotted 24 sx cement plug from 2179' to 2309'. WILL DRILL OUT AND FRACTURE MENEFEE
- Give the depth to and name of any overlying and/or underlying oil or gas zones (pools) in this area. None

District I
1625 N. French Dr., Hobbs, NM 88240
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87504

State of New Mexico
Energy Minerals and Natural Resources

Form C-104A
August 11, 2000

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87504

Submit 1 copy of the final affected wells
list along with 2 copies of this form per
number of wells on that list to
appropriate District Office

Change of Operator

Previous Operator Information:

OGRID: 014634
Name: MERRION OIL & GAS CORP
Address: 610 REILLY AVENUE
Address: _____
City, State, Zip: FARMINGTON, NM 87401

New Operator Information:

Effective Date: 7/01/03
New Ogrid: 20572
New Name: SG Interests I, Ltd.
Address: 1331 Lamar, Suite 501
Address: _____
City, State, Zip: Houston, TX 77010

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the attached list of wells is true and complete to the best of my knowledge and belief.

New Operator

Signature: Gary S. Weber

Printed name: Gary S. Weber

Title: Vice President

Date: 7/7/03

Phone: 713-951-0100



Previous operator complete below:

Previous

Operator: MERRION OIL & GAS CORPORATION

Previous

OGRID: 014634

Signature: Steven S. Dunn

Printed

Name: STEVEN S. DUNN

NMOCD Approval

Signature: _____

Printed

Name: 278
SUPERVISOR DISTRICT #3

District: AUG - 8 2003

Date: _____

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SUBMIT IN DUPLICATE*

(See other In-
structions on
Reverse Side)

Form approved.
Budget Bureau No. 1004-0137
Expires August 31, 1985

WELL COMPLETION OR RECOMPLETION REPORT AND LOG *

1a. TYPE OF WELL: OIL WELL GAS WELL DRY Other RECEIVED

b. TYPE OF COMPLETION: NEW WELL WORK OVER DEEP-EN PLUG BACK DIFF. RESV. Other RECEIVED JAN 14 1986

2. NAME OF OPERATOR: Merrion Oil & Gas Corporation

3. ADDRESS OF OPERATOR: P. O. Box 840, Farmington, New Mexico 87499

4. LOCATION OF WELL (Report location clearly and in accordance with all lease requirements):
At surface 1785' FNL and 2175' FEL
At top prod. interval reported below Same
At total depth Same

14. PERMIT NO. DATE ISSUED

5. LEASE DESIGNATION AND SERIAL NO.: NM 24964

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME: Pot Mesa

9. WELL NO.: 2

10. FIELD AND POOL, OR WILDCAT: WC Mesaverde

11. SEC., T., R., M., OR BLOCK AND SURVEY OR AREA: Sec. 10, T20N, R6W

12. COUNTY OR PARISH: McKinley

13. STATE: NM

15. DATE SPUDDED: 10/23/85

16. DATE T.D. REACHED: 10/28/85

17. DATE COMPL. (Ready to prod.):

18. ELEVATIONS (DF, RKB, RT, GR, ETC.):* 6904' KB

19. ELEV. CASINGHEAD: 6891' GL

20. TOTAL DEPTH, MD & TVD: 3250' KB

21. PLUG. BACK T.D., MD & TVD: 3184' KB

22. IF MULTIPLE COMPL. HOW MANY*

23. INTERVALS DRILLED BY: →

ROTARY TOOLS: 0 - TD

CABLE TOOLS:

24. PRODUCING INTERVAL(S), OF THIS COMPLETION—TOP, BOTTOM, NAME (MD AND TVD)*: 2242 - 3030' KB, 130 holes, Mesaverde

25. WAS DIRECTIONAL SURVEY MADE: No.

26. TYPE ELECTRIC AND OTHER LOGS RUN: Gammar Ray Correlation Bond Log, IES Induction & Compensated Density Log

27. WAS WELL CORED: No.

RECEIVED
BUREAU OF LAND MANAGEMENT
FARMINGTON RESOURCE AREA
OIL CON. DIV.
DIST. 3
JAN 14 1986

28. CASING RECORD (Report all strings set in well)

CASING SIZE	WEIGHT, LB./FT.	DEPTH SET (MD)	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
8-5/8"	23 #/ft., J-55	96' KB	12-1/4"	80 sx Class B 2% CaCl2 (94)	4)
5-1/2"	15.5 #/ft. J-55	3225' KB	6-3/4"	215 sx Class B 2% Chemical	Ext. (442.9)
				190 sx Class H 2% Gel (231)	8)

29. LINER RECORD

SIZE	TOP (MD)	BOTTOM (MD)	SACKS CEMENT*	SCREEN (MD)

30. TUBING RECORD

SIZE	DEPTH SET (MD)	PACKER SET (MD)

31. PERFORATION RECORD (Interval, size and number)

2242-46, 16 holes; 2359-80, 42 holes; 2453-57, 16 holes; 2462-66, 16 holes; 2538-44, 24 holes; 3026-30, 16 holes.

32. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.

DEPTH INTERVAL (MD)	AMOUNT AND KIND OF MATERIAL USED
2309' KB	24sx Plug, Class H Neat Cement
Top 2179' KB	(28 32 cu. ft.)

33.* PRODUCTION

DATE FIRST PRODUCTION: Dry

PRODUCTION METHOD (Flowing, gas lift, pumping—size and type of pump)

WELL STATUS (Producing or shut-in): shut-in

DATE OF TEST	HOURS TESTED	CHOKE SIZE	PROD'N. FOR TEST PERIOD	OIL—BBL.	GAS—MCF.	WATER—BBL.	GAS-OIL RATIO
			→				

FLOW. TUBING PRESS.	CASING PRESSURE	CALCULATED 24-HOUR RATE	OIL—BBL.	GAS—MCF.	WATER—BBL.	OIL GRAVITY-API (CORR.)
		→				

34. DISPOSITION OF GAS (Sold, used for fuel, vented, etc.)

TEST WITNESSED BY: ACCEPTED FOR RECORD

35. LIST OF ATTACHMENTS

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records

SIGNED: [Signature] TITLE: Operations Manager

DATE: JAN 13 1986

*(See Instructions and Spaces for Additional Data on Reverse Side)

37. SUMMARY OF POROUS ZONES: (Show all important zones of porosity and contents thereof; cored intervals; and all drill-stem, tests, including depth interval tested, cushion used, time tool open, flowing and shut-in pressures, and recoveries):

FORMATION	TOP	BOTTOM	DESCRIPTION, CONTENTS, ETC.	NAME	TOP	
					MEAS. DEPTH	TRUE VERT. DEPTH
Mesaverde	2242	3030	Water	Ojo Alamo Kirtland Fruitland Pictured Cliffs Lewis Cliffhouse Menefee Point Lookout Mancos	Surface 308 483 760 960 1974 2145 3011 3066	

38. GEOLOGIC MARKERS

ANALYSIS NO. 2Q-39-85

FIELD RECEIPT NO. _____

API FORM 45-1

API WATER ANALYSIS REPORT FORM

Company MERRION OIL & GAS		Sample No. 2 (10:30AM)	Date Sampled 5-18-85	
Field Wildcat	Legal Description Sec.10, T20N, R6W		County or Parish McKinley	State NM
Lease or Unit Pot Mesa	Well # #1	Depth 3109	Formation Menefee	Water. B/D
Type of Water (Produced, Supply, etc.)			Sampling Point	Sampled By

DISSOLVED SOLIDS

CATIONS	mg/l	me/l
Sodium, Na (calc.)	<u>4089</u>	<u>177.8</u>
Calcium, Ca	<u>120</u>	<u>6.0</u>
Magnesium, Mg	<u>97</u>	<u>8.0</u>
Barium, Ba	_____	_____
Potassium, K ⁺	<u>-0-</u>	<u>-0-</u>

ANIONS

Chloride, Cl	<u>5871</u>	<u>165.5</u>
Sulfate, SO ₄	<u>250</u>	<u>5.2</u>
Carbonate, CO ₃	<u>trace</u>	_____
Bicarbonate, HCO ₃	<u>1286</u>	<u>21.1</u>
_____	_____	_____
_____	_____	_____

Total Dissolved Solids (calc.)
11713

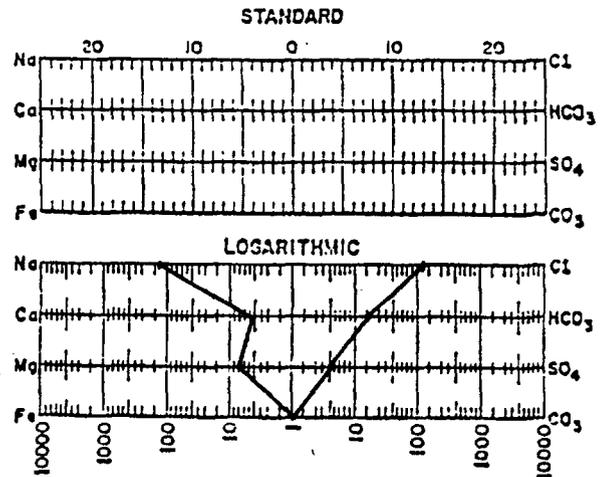
Iron, Fe (total) -0-
Sulfide, as H₂S _____

REMARKS & RECOMMENDATIONS:

OTHER PROPERTIES

pH	<u>8.1</u>
Specific Gravity, 60/60 F.	<u>1.010</u>
Resistivity (ohm-meters) <u>78°F.</u>	<u>0.60</u>
Total hardness	<u>700</u>
_____	_____
_____	_____

WATER PATTERNS — me/l



ANALYST: Steve Schelske

THE WESTERN COMPANY OF
NORTH AMERICA, FARMINGTON, NM
(505) 327-6222

Please refer any questions to: Clay Terry, District Engineer or Tom Burris, Field Engineer

2/17/06

Inactive Well List

**Total Well Count:36 Inactive Well Count:4 Since:11/23/2004
Printed On: Thursday, February 16 2006**

District	API	Well	ULSTR	OCD Unit	OGRID	Operator	Lease Type	Well Type	Last Production	Formation/Notes	Status	Days in TA
3	30-031-20892	CORRALES #001	O-3 -20N-06W	O	20572	SG INTERESTS I LTD	F	O	09/2004	POT MESA MV		
3	30-031-20898	CORRALES #002	N-3 -20N-06W	N	20572	SG INTERESTS I LTD	F	O	07/2003			
3	30-031-20888	POT MESA #002	G-10-20N-06W	G	20572	SG INTERESTS I LTD	F	S	07/2003	SWD; MESAVERDE		
3	30-031-20890	POT MESA #004	C-10-20N-06W	C	20572	SG INTERESTS I LTD	F	O	02/2004			

WHERE Ogrid:20572, County:All, District:All, Township:All, Range:All, Section:All, Production(months):15

*Amendment To SWD-293
in order to
BRING TAD
well into
compliance*