

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

2004 JUL 9 AM 11 39

APPLICATION FOR PERMIT TO DRILL OR REENTER

RECEIVED

OTO FARMINGTON NM

5. Lease Serial No. NOO-C-14-20-5051
6. If Indian, Allottee or Tribe Name NAVAJO ALLOTTED
7. If Unit or CA Agreement, Name and No.
8. Lease Name and Well No. RUSTY NAIL COM 90
9. API Well No. 3004320988
10. Field and Pool, or Exploratory BASIN FRUITLAND COAL
11. Sec., T., R., M., or Blk. and Survey or Area C Sec 34 T22N R6W Mer NMP SME: BIA
12. County or Parish SANDOVAL
13. State NM
17. Spacing Unit dedicated to this well 320.00 N/2
20. BLM/BIA Bond No. on file
23. Estimated duration 6-DAYS

1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER	
1b. Type of Well: <input type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other: CBM <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone	
2. Name of Operator DUGAN PRODUCTION CORP. Contact: KURT FAGRELIUS E-Mail: kfagrellius@duganproduction.com	
3a. Address 709 EAST MURRAY DRIVE FARMINGTON, NM 87401	3b. Phone No. (include area code) Ph: 505.325.1821 Fx: 505.327.4613
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface NENW 875FNL 1840FWL 36.05560 N Lat, 107.27330 W Lon At proposed prod. zone	
14. Distance in miles and direction from nearest town or post office* APPROX. 8-MILES SOUTH OF COUNSELORS, NEW MEXICO	
15. Distance from proposed location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 875 FEET	16. No. of Acres in Lease 160.00
18. Distance from proposed location to nearest well, drilling, completed, applied for, on this lease, ft. APPROX. 80 FEET	19. Proposed Depth 1530 MD
21. Elevations (Show whether DF, KB, RT, GL, etc.) 7044 GL	22. Approximate date work will start 08/08/2004

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>Kurt Fagrellius</i>	Name (Printed/Typed) KURT FAGRELIUS	Date 07/09/2004
Title GEOLOGIST		
Approved by (Signature) <i>D. Monks</i>	Name (Printed/Typed)	Date 8-26-04
Title AFM	Office FFO	

Application approval does not warrant or certify 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.

Additional Operator Remarks:

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 1370' - 1380'. The interval will be fractured.

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

NMOCGD

District I
PO Box 1980, Hobbs, NM 88241-1980

District II
PO Drawer DD, Artesia, NM 88211-0719

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-043-20988		*Pool Code 71629	*Pool Name BASIN FRUITLAND COAL
*Property Code 34289	*Property Name RUSTY NAIL COM		*Well Number 90
*OGRID No. 006515	*Operator Name DUGAN PRODUCTION CORPORATION		*Elevation 7044'

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	34	22N	6W		875	NORTH	1840	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

¹² Dedicated Acres 320.0 Acres - (N/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ 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

<div><p>¹⁶</p><p>1840'</p><p>875'</p><p>5256.24'</p><p>5347.32'</p><p>5353.26'</p><p>5256.24'</p><p>34</p><p>JENSON NM-16582</p><p>DUGAN NM-93448</p><p>DUGAN NM-27163</p><p>DUGAN NOO-C-14-20-5051</p><p>APR 2004</p></div>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p>I hereby certify that the information 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.</p> <p>Signature <u>Kurt Fagrelius</u></p> <p>Printed Name <u>Kurt Fagrelius</u></p> <p>Title <u>Geologist</u></p> <p>Date <u>July 8, 2004</u></p>
	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p>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.</p> <p>Date of Survey: <u>JUNE 28, 2004</u></p> <p>Signature and Seal of Professional Surveyor</p> <div><p>JASON C. EDWARDS Certificate Number 15269</p></div>

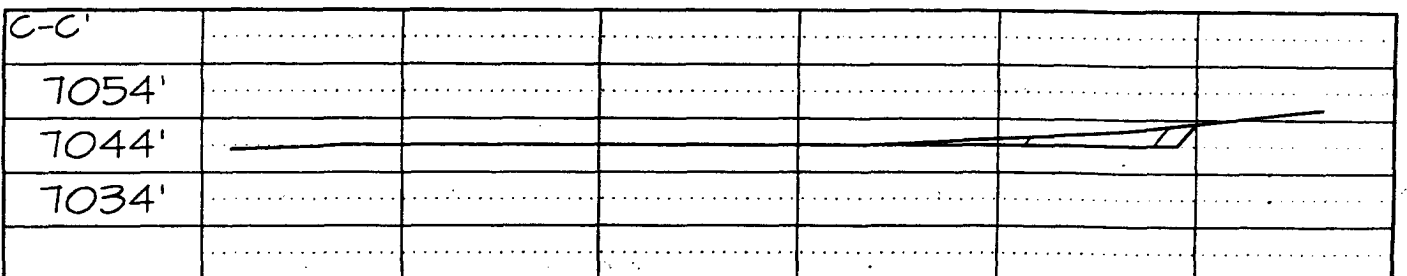
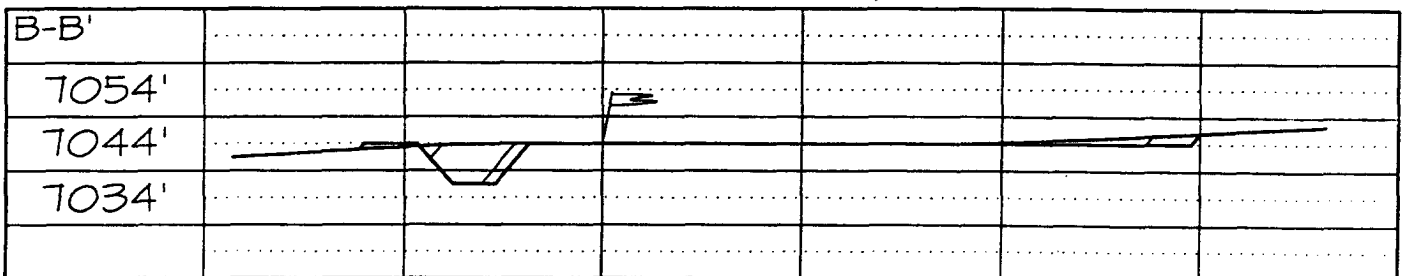
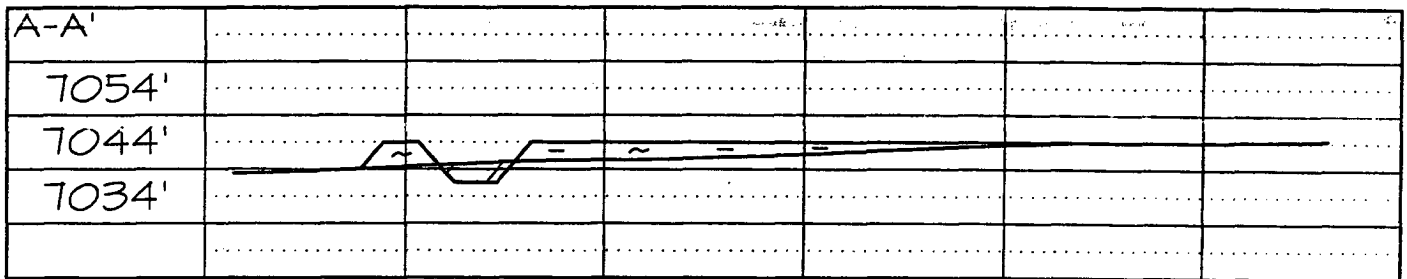
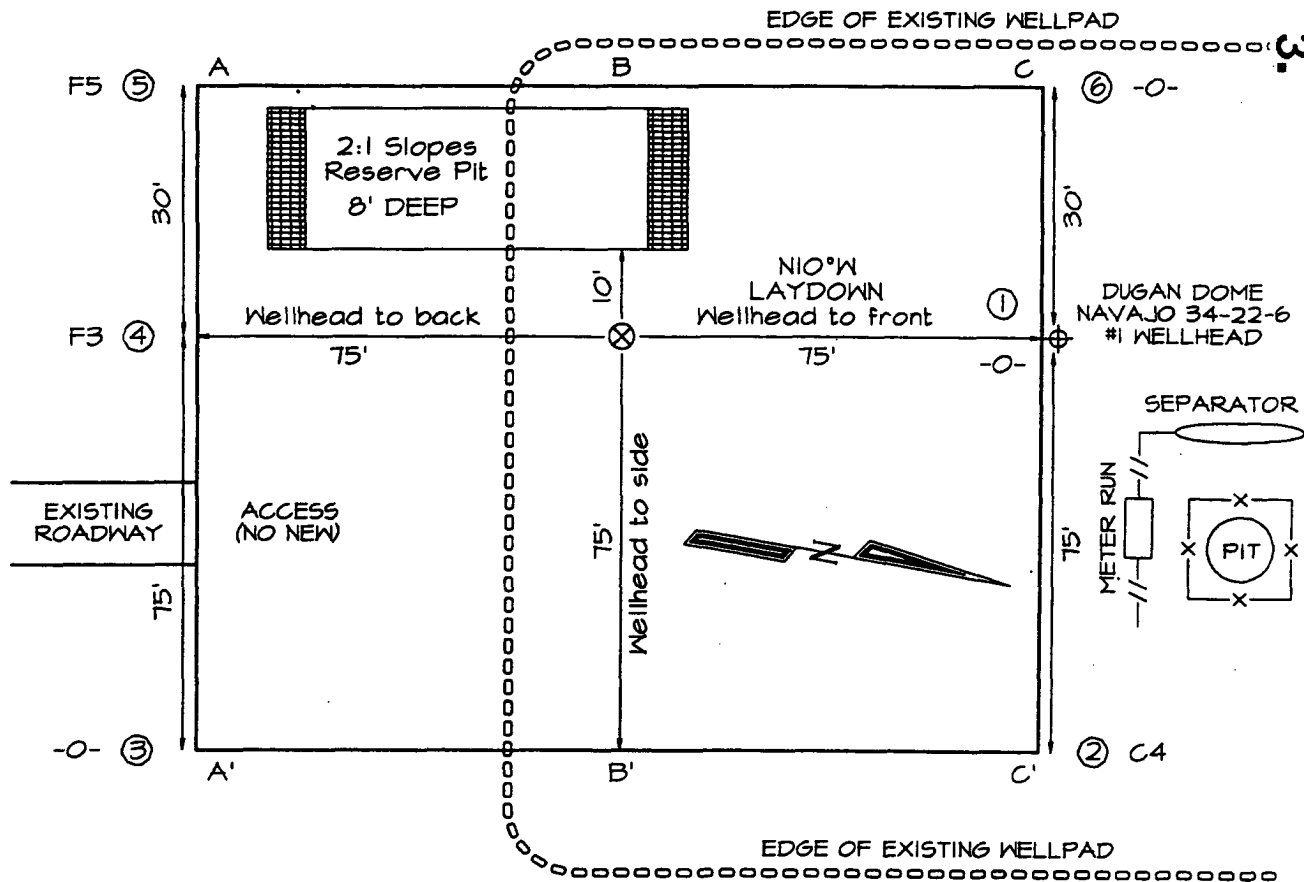
DUGAN PRODUCTION CORPORATION RUSTY NAIL #90
875' FNL & 1840' FWL, SECTION 34, T22N, R6W, NMPM
SANDOVAL COUNTY, NEW MEXICO ELEVATION: 7044'

PLAT 3.

PLAT NOTE:

SURFACE OWNER
 Navajo Allotted
 Tribal Land

LATITUDE: 36°05'56"
LONGITUDE: 107°27'33"
 DATUM: NAD1927



Note: Contractor should call One-Call for location of any marked or unmarked buried pipelines or cables on well pad and/or access road at least two (2) working days prior to construction.

EXHIBIT B
OPERATIONS PLAN
Rusty Nail Com #90

APPROXIMATE FORMATION TOPS:

Ojo Alamo	1020'
Kirtland	1095'
Fruitland	880'
Pictured Cliffs	1380'
Total Depth	1530'

Catch samples every 10 feet from 1350 feet to total depth.

LOGGING PROGRAM:

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

CASING PROGRAM:

<u>Hole</u> <u>Size</u>	<u>Casing</u> <u>Size</u>	<u>Wt./ft.</u>	<u>Setting</u> <u>Depth</u>	<u>Grade and</u> <u>Condition</u>
9-7/8"	7"	20#	120'	J-55
6-1/4"	4-1/2"	10.5#	1530'	J-55

Plan to drill a 9-7/8" hole and set 120' of 7" OD, 20#, J-55 surface casing. Then plan to drill a 6-1/4" hole to total depth with gel-water mud program to test the Fruitland Coal. 4-1/2", 10.5#, 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 155 cf 2% lodense with
¼# celloflake/sx followed by 80 cf Class "B" with
¼# celloflake/sx.
Total cement slurry for production stage is 235 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.

WELLHEAD EQUIPMENT:

Huber 7"x4-1/2" casing head, 1000# WP, tested to 2000#.

Huber 4-1/2"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

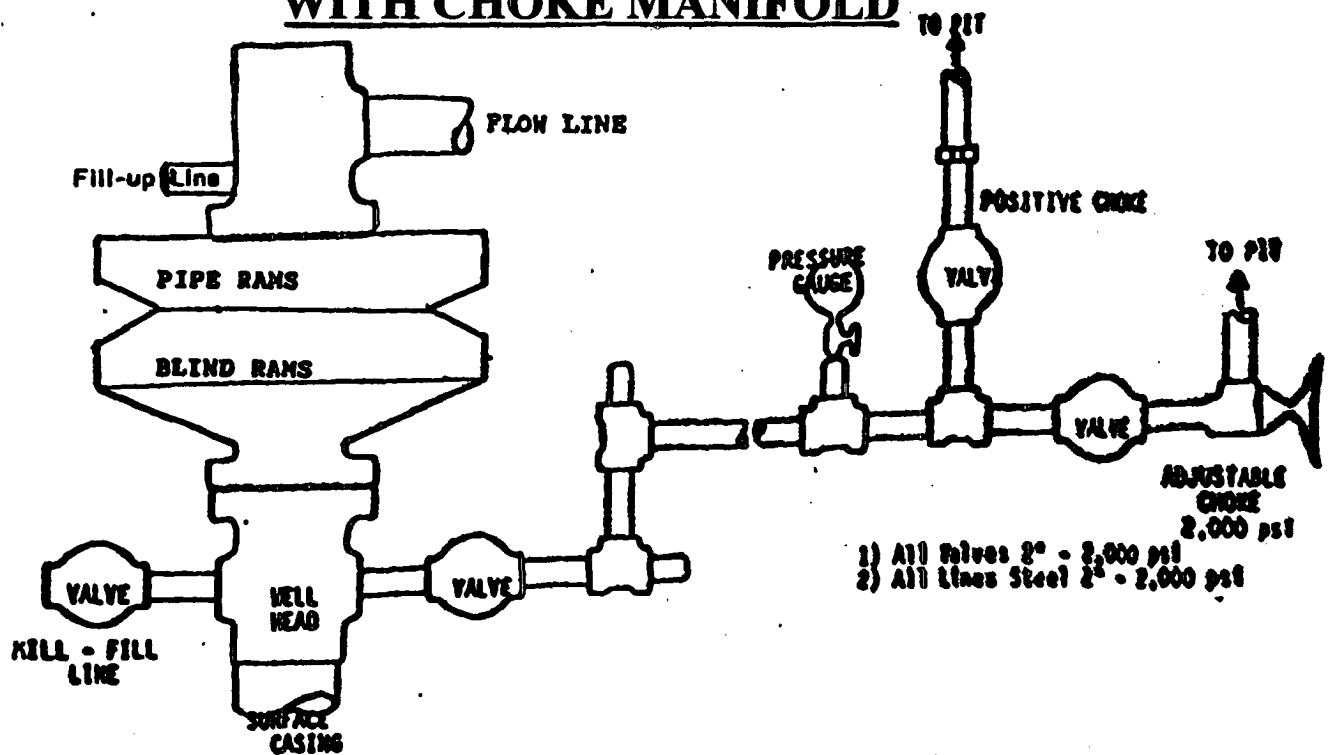
Mark Brown	327-3632 (H)
	320-8247 (M)

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

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

BOP DIAGRAM WITH CHOKE MANIFOLD

EXHIBIT D.



BOP and Related Equipment will include for a 3000 psi system:

2000 PSI DOUBLE RAM BLOWOUT PREVENTER

Kill line (3" minimum)

1 kill line valve (3" minimum)

1 choke line valve

2 chokes

Upper belly cock valve with handle available

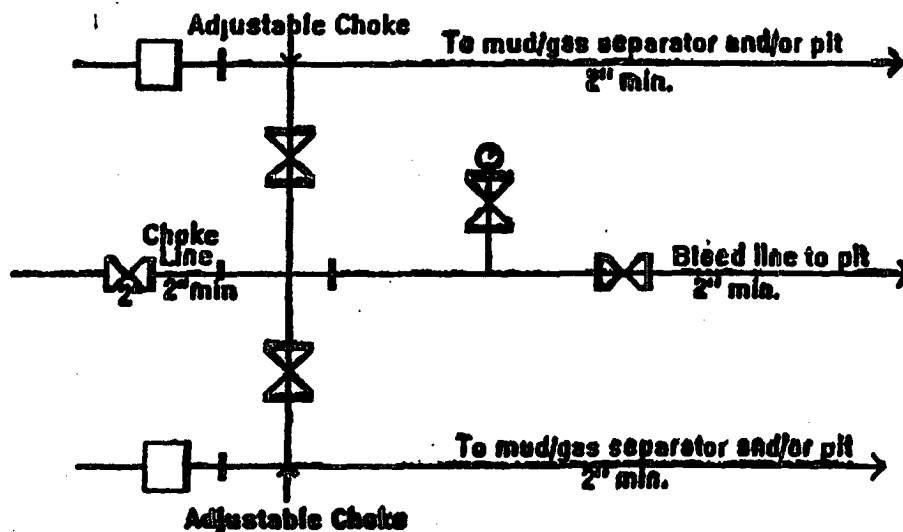
Safety valve and subs to fit all drill string connections in use

Pressure gauge on choke manifold

3" minimum choke line

Fill-up line above the uppermost preventer

BOP equipment will be tested as required in Section III A.1 of Onshore Order 2, plus a 30% safety factor.



2M Choke Manifold Equipment - Configuration May Vary

**DUGAN PRODUCTION CORP.
RUSTY NAIL COM #90**