c District I 1625 N French Dr , Hobbs, NM 88240 District II 1301 W Grand Avenue, Artesia, NM 88210 District III 1000 Rio Brazos Road, Aztec, NM 87410 District IV 1220 S St Francis Dr., Santa Fe, NM 87505

State of New Mexico Energy Minerals and Natural Resources

Oil Conservation Division 1220 South St. Francis Dr. Santa Fe, NM 87505 Form C-141 Revised October 10, 2003

Submit 2 Copies to appropriate District Office in accordance with Rule 116 on back side of form

Release Notification and Corrective Action OPERATOR Initial Report Final Report Dugan Production Corp. Kurt Fagrelius Name of Company Contact P.O. Box 420 Address Telephone No. 505-325-1821 Facility Name Facility Type Nice #1 (Separator) Permanent Pit Lease No. NM-16765 Surface Owner Federal Mineral Owner Federal LOCATION OF RELEASE Unit Letter Section Township Feet from the North/South Line Feet from the East/West Line Range 7 P 30N 14W 990 South 890 East San Juan Latitude 36.82378 N Longitude 108.34379 W NATURE OF RELEASE Volume of Release Unknown Type of Release Spill Clean-Up and Pit Closure Volume Recovered Unknown Source of Release Below grade permanent pit release Date and Hour of Occurrence Date and Hour of Discovery Unknown Was Immediate Notice Given? If YES, To Whom? N/A Yes No X Not Required By Whom? Date and Hour Was a Watercourse Reached? If YES, Volume Impacting the Watercourse. Yes X No RCUD MAR 14'11 If a Watercourse was Impacted, Describe Fully.* OIL CONS. DIV. N/A DIST. 3 Describe Cause of Problem and Remedial Action Taken.* During permanent pit closure a chloride impact was discovered. A five-point composite sample tested 1020-mg/kg chloride which exceed the threshold limits of 19.15.17.13.C. See attached sample results. Describe Area Affected and Cleanup Action Taken.* Contamination was addressed under the "spill rule" 19.15.30. C-144 ranking=20. Although there is a very small arroyo within 150-feet of the pit, this arroyo carries only small amounts of water during periods of high rainfall. Surface rocks are comprised of the Kirtland Shale which is not a source of groundwater in the area. Chloride release does not pose a threat to groundwater contamination I hereby certify that the information given above is true and complete to the best of my knowledge and understand that pursuant to NMOCD rules and regulations all operators are required to report and/or file certain release notifications and perform corrective actions for releases which may endanger public health or the environment. The acceptance of a C-141 report by the NMOCD marked as "Final Report" does not relieve the operator of liability should their operations have failed to adequately investigate and remediate contamination that pose a threat to ground water, surface water, human health or the environment. In addition, NMOCD acceptance of a C-141 report does not relieve the operator of responsibility for compliance with any other federal, state, or local laws and/or regulations. OIL CONSERVATION DIVISION Signature: Approved by District Supervisor: Printed Name: Kurt Eagrelius VP Exploration Title: Approval Date: 3-14-11 **Expiration Date:** E-mail Address: kfagrelius@duganproduction.com Conditions of Approval: Attached

15K1122139249

3/10/2011

Phone: 505-325-1821

^{*} Attach Additional Sheets If Necessary



August 10, 2010

MIKE SANDOVAL

DUGAN PRODUCTION

P. O. BOX 420

FARMINGTON, NM 87499

RE. PLI CLOSURES

Enclosed are the results of analyses for samples received by the laboratory on 08/06/10 10:00.

Cardinal Laboratories is accredited through Texas NELAP for:

Method SW-846 8021

Benzene, Toluene, Ethyl Benzene, and Total Xylenes

Method SW-846 8260

Benzene, Toluene, Ethyl Benzene, and Total Xylenes

Method TX 1005

Total Petroleum Hydorcarbons

Certificate number T104704398-08-TX. Accreditation applies to solid and chemical materials and non-potable water matrices.

Cardinal Laboratories is accreditated through the State of Colorado Department of Public Health and Environment for:

Method EPA 552.2

Haloacetic Acids (HAA-5)

Method EPA 524.2

Total Trihalomethanes (TTHM)

Method EPA 524.4

Regulated VOCs (V2, V3)

Accreditation applies to public drinking water matrices.

This report meets NELAP requirements and is made up of a cover page, analytical results, and a copy of the original chain-of-custody. If you have any questions concerning this report, please feel free to contact me.

Sincerely,

Celey D. Keene

Lab Director/Quality Manager

Celey to Keine



Analytical Results For:

DUGAN PRODUCTION MIKE SANDOVAL P. O. BOX 420 FARMINGTON NM, 87499 (505) 327-4043

Faile.

Received

08/06/2010

Reported Project Name. 08/10/2010 PIT CLOSURES

Project Number:

NICE #1 SEP PIT

Project Location:

Sampling Date

08/04/2010

Sampling Type:

Soil

Sampling Condition

Cool & Intact

Sample Received By.

Jodi Henson

NOT GIVEN

Sample ID: NICE #1 (H020567-01)

BTEX 8021B	mg/kg		Analyzed By: ZL						
Analyte	Result	Reporting Limit	Analyzed	Method Blank	$B_{\mathcal{C}}$	% Recovers	True Value Qu	RPF	Qualifier
Benzene ⁴	- 0.050	0.050	08/07/2010	ND	1.11	113	1.00	0.713	
Toluenex	<0.050	0.050	08/07/2010	ND	1.12	112	1.00	1.65	
Ethylhenzene*	< 0.050	0.050	08/07/2010	ND	1,13	113	1.00	1.59	
Total Xylenes*	<0.150	0.150	08/07/2010	ND	3.35	117	3.00	1.34	
Surrogate 4-Bromofinorobenzene (PIL	161	% 80-120		The market of the same of the			7 - en 2000 serious art		
Chloride, SM4500CI-B	mg	/kg	Analyze	d By: HM					
Analyte	kesult	Reporting Limit	Analyzea	Method Blani	BS	% Recovery	True Value QC	RPL	Qualifier
Chloride	1020	16.0	08/09/2010	ND	416	104	400	3.7/	
TPH 418,1	mg/kg		Analyzed By: AB						
Analyte	Result	Reporting Limit	Analyzed	Method Blank	BS	% Recovery	True Value QC	RPE	Qualifier
IPH 418.1	. 100	100	08/06/2010	ND	971	95.2	1020	2.18	
TPH 8015M mg/kg		/kg	Analyzed By: AB						QM-05
Analyte	Result	Reporting Limit	Analyzed	Method Blank	BF	% Recovery	True Value QC	1343	Qualitiei
GRO C6-C10	<10.0	10.0	08/08/2010	ND	157	78.7	200	0.202	
DRO >C10-C28	11.4	10.0	08/08/2010	ND	152	76.2	200	0,648	
Surrogate 1-Chlorooctane		% 70-130							
Surrogate: 1-Chloroociadecane	923	% 70 130							

Cardinal Laboratories

*= Accredited Analyte

PERSENDIE LESSIN BY BY DESIGNED CONTINUES SAVING BY CORRESPONDED TO BY COME ASSET LESSING OF THE CONTINUE OF THE BY THE TO BE ADMITTED TO BE ADMITTED ASSET AND THE CONTINUES OF THE CONTINUES OF



Notes and Definitions

Ort- "	the species can was subservacestand limits for the Movardor MSL quality matro-whereas it is be to carrier and the
	were written in deplan to the release to be the fall matery or in our troll and the center of each, table
M	Analyse fact for the fift of an accounting terms requiring facts
RPI	Echanic Forcem Efficiency
1.2	Sample inclinations of proper temperature of Gillion below
***	Insuffice 1 time to rescribenperature
•	Unlande by SM450JuLFF agecand require samples be received at milhelion 61 c.
	Sample: reported on an as received hasis (well) unless otherwise noted on report

Cardinal Laboratories

"=Accredited Analyte

MEASE WITE Leasts and Takington Conditions in an other society to any count of singly were passed to contact to end to the analysis of country to the analysis of the

Celly & Keine

Analytical Laboratories	
Laboratories	

CHAIN OF CUSTODY RECORD

Page

or

1
Client // Sef 170d.
Contact: Mile Scalary
Address. 1- Lox 420
rollington A. 141.
Phone Number 3 > 6 - 6929
FAX Number. 827-8046

NOTES:

1) Ensure proper container packaging

2) Ship samples promptly following collection.

3) Designate Sample Reject Disposition.

Project Name:

Table 1. - Matrix Type

1 = Surface Water, 2 = Ground Water

3 = Soil/Sediment, 4 = Rinsate, 5 = Oil

6 = Waste, 7 = Other (Specify)

Samplers Signature:

FOR GAL USE ON GALJOB #

Green Analytical Laboratories FAX (970) 247-4227 Lab Name (970) 247-4220 Analyses Required 75 Suttle Street, Durango, CO 81303 Address Miscellaneous Preservative(s) Collection Unpreserved (Ice Only) Sample Filtered ? Y/N Collected by: (Init.) No of Containers Other (Specify) Sample ID Comments Date. Time Matrix Type From Table 1 H2S04 HCL 8-4-10 44 2:50 3.10 Relinquished by: Date: Time:

* Sample Reject : ! Return [| Dispose [| Store (30 Days)

Dugan Production Nice #1 Seperator Pit



Reference Point: Well Head



9.M X11, T X8,D

From Reference Point Go S. 10 degrees SW. For a distance of 42' to Center of Pit.

Permanent pit: Nice #1 (Separator)

API number: 30-045-26499

Results of sample analysis on the five-point composite sample collected on the subject permanent pit exceeded limits permissible under the "pit rule" (19.15.17.13.C) (see attached C-141 with analytic results).

The Environmental Bureau of the Oil Conservation Division (OCD) in Santa Fe is hereby provided a C-144 (closure report) and an "initial" C-141 (release notification) with analytic results of soil testing. The closure date on the C-144 (box 21) shows the date that the soil analysis did not meet pit rule standards. Also, this letter hereby provides notice that the subject permanent pit will be closed according to the requirements of the "spill rule" (19.15.30).

The OCD district office in Aztec is hereby provided a copy of the "initial report" C-141 (release notification) with analytic results of soil testing and also notice that the subject permanent pit will be closed according to the requirements of the "spill rule" (19.15.30). Assessment, clean-up and remediation of the reported spill will be done in accordance with the spill rule under the authority of the Aztec District office of the OCD. The "final report" C-141 with photo documentation of site reclamation will be sent to the Aztec District office of the OCD.

Following clean-up of the reported release and determination that the release is not a threat to groundwater contamination, the permanent pit will be closed in accordance with the approved C-144 (closure plan) and will include the following:

- 1. Stockpiled sub-surface soil will be used to backfill pit and re-contour (to a final or intermediate cover that blends with the surrounding topography). A minimum of fourfeet of compacted, non-waste containing, earthen material will be used as backfill.
- 2. Stockpiled surface soil will be used as a cover over the backfilled pit and disturbed area no longer needed for production operations. The soil cover will include either the background thickness of top soil or one-foot of suitable material to establish vegetation at the site whichever is greater. The soil cover will be constructed to the sites existing grade and prevent water collection or ponding and erosion of the cover material.
- 3. Disturbed areas will be seeded the first growing season after the pit is closed. Seeding will be accomplished by drilling on contour whenever possible or by other division approved methods. BLM stipulated seed mixes will be used on all Federal lands and OCD approved seed mixes (administratively approved if required) will be used on all State or private lands. Vegetative cover will equal 70% of the native perennial vegetative cover (un-impacted) consisting of at least three native plant species, including at least one grass, but not including noxious weeds, and maintain that cover through two consecutive growing seasons. If alternate seed mix is required by the state, private owner or tribe, it will be implemented with administrative approval if needed. Seeding or planting will be continued until successful vegetative growth occurs.
- 4. The Aztec District office of the OCD will be notified after each re-seeding operation and after successful re-vegetation has been achieved.

Kurt Fagrelius VP – Exploration, Dugan Production Corp. Farmington, New Mexico 87401 505-325-1821 (O), 505-320-8248 (C) kfagrelius@duganproduction.com

Lease Name:	Nice #1					
API No.: 30-04	15-26499					
Site Specific I	nfromatio	on				
Depth to	350-ft	Distance to Surface	150-ft	Wellhead Protection Area	>1000-ft	
Groundwater		Water Body		Distance from Water Source		
Total Ranking	Score					-
Depth to	Ranking	Distance to Surface	Ranking	Wellhead Protection Area	Ranking Score	Total Ranking
Groundwater	Score	Water Body	Score	Distance from Water Source	Yes =20, No=0	Score
<50-feet	20	<200-feet	20	<1000-feet from water source	0	
50 - 99	10	200 - 1000	10	<200-feet domestic water	0	
>100-feet	0	>1000-feet	0			20
		Total	Ranking	Score	Sample	
>19		10 - 19	0 - 9	Analysis		
Benzene (mg/kg)		10	10	10 <0.050		
BTEX (mg/kg)		50	50	50	<0.150	
TPH (mg/kg)		100	1000	5000	<100	
Chorides (mg/kg)		N.A.	N.A.	N.A.	1020	
Note: Apolytics	al mothod	s used for Penzone S	VAL 946 D	TEV CVV 946 TDU 419 1 and 6	Chloridae 4500 C	1 D
Note. Analytica	ai memod	s used for benzene s	VV-040, D	TEX SW-846, TPH 418.1 and 0	Iniorides 4500-C	1-D.
C-144 ranking	= 20. Ch	loride release does no	ot pose a	threat to groundwater contamin	ation. Although	there is a
				of the pit, this arroyo carries or		
	d	uring peirods of high r	ainfall. S	urface rocks are comprised of t	he Kirtland Shale	and it is
	n	ot a source of ground	water in th	ne area.		

,

Nice #1 Hydrogeologic Report

The Nice #1 is located on Federal Lands on the northwest margin of the San Juan Basin, in San Juan County, New Mexico. The area is characterized as a Kirtland Shale "Badlands" area that is bordered by "Pinon Mesa" (1 mile east).

A records search of the NM Office of the State Engineer –iWATERS database was conducted on a three square mile area centered on the Nice #1 location (Exhibit 2). No water wells were located in the search area. The results of the search are shown on Exhibit 1.

The main source of stock water in the region is encountered in valley-fill deposits in existing arroyos at shallow depths of approximately 15 – 50 feet below the surface and stock tanks constructed on surface shale layers at the confluence and upper reaches of arroyos. The below grade tank is not located in an arroyo; there is a very small arroyo 150-feet to the west (Exhibit 2) (See Visual Inspection Certification).

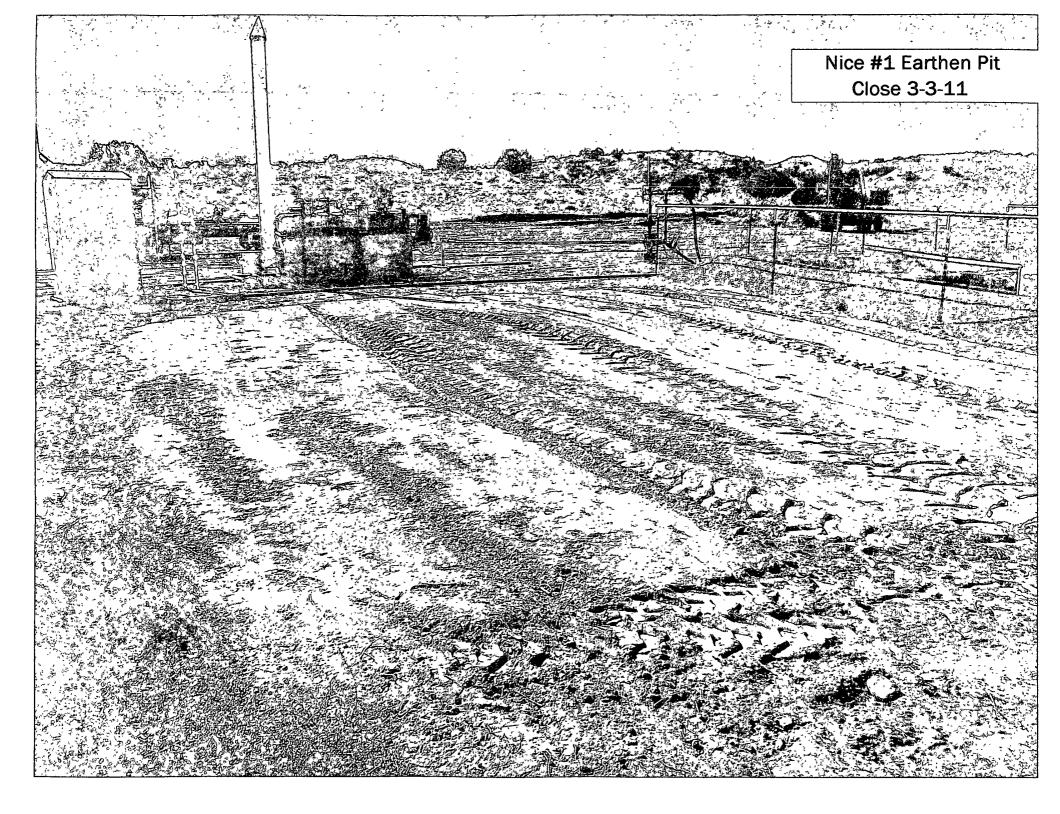
The Kirtland Shale extends from the surface down to a depth of approximately 400 feet. The interval is comprised of an upper shale member, middle sandstone member (Farmington Ss.) and a lower shale member. The middle sandstone member is either absent or very poorly developed. The entire Kirtland section is comprised of siltstone and shale. Near the base of the interval (350-360') there is siltstone that may contain very minimal amounts of poor quality ground water.

Based on electric open hole logs, the iWATERS database and literature reviewed, depth to ground water ranges from 15-20 feet below the surface in major arroyos in the area. Moving away from the washes, depth to ground water drops rapidly to greater than 200 feet below the surface. At the location of the below grade tank, minimal amounts of poor quality ground water might be found in siltstone of the lower Kirtland between 350 and 360 feet below the surface. Additional sources of poor quality water would be Fruitland siltstone between 720 and 875, Fruitland sand at 1000 to 1020 feet and the Pictured Cliffs Sandstone at 1110 feet below the surface.

Excessive drilling depth, unpredictable variations in reservoir quality and water quality have discouraged the drilling of water wells in the in the subject area.

This Hydrogeologic Report was prepared by Mr. Kurt Fagrelius, Geologist for Dugan Production. Mr. Fagrelius has been employed as a geologist for Dugan for the past 31-years, received a MS in Geology from NMIMT in Socorro, NM and a BS in Geology from FLC in Durango, CO.

- Stone, W.J., Lyford, F.P., Frenzel, P.F., Mizell, N.H., and Padgett, E.T., 1983, Hydrogeology and water resources of San Juan Basin, New Mexico: New Mexico Bureau of Mines and Mineral Resources Hydrologic Report 6, 70 p.
- Brown, D.R., and Stone, W.J., 1979, Hydrogeology of Aztec quadrangle, San Juan County, New Mexico: New Mexico Bureau of Mines and Mineral Resources Hydrogeologic Sheet 1.
- Levings, G.W., Craigg, S.D., Dam, W.L. Kernodle, J.M., and Thorn, C.R., 1990, Hydrogeology of the San Jose, Nacimiento, and Animas Formations in the San Juan Structural Basin, New Mexico, Colorado, Arizona and Utah: U.S.G.S., Atlas HA-720-A, Sheet 1 and 2.
- Thorn, C.R., Levings, G.W., Craigg, S.D., Dam, W.L., and Kernodle, J.M., 1990, Hydrogeology of the Ojo Alamo Sandstone in the San Juan Structural Basin, New Mexico, Colorado, Arizona and Utah: U.S.G.S, Atlas HA-720-B, Sheet 1 and 2.



Nice #1 LandFarm Close 3-3-11

From:

Kurt Fagrelius

Sent:

Wednesday, February 23, 2011 5 15 PM

To:

'Powell, Brandon, EMNRD', Spencer, Bertha, Evan Rowland (erowland@slo state nm us),

'dave_mankiewicz@nm blm gov', 'Mark_Kelly@nm blm gov', 'lucas_vargo@blm gov'

Cc:

Kurt Fagrelius, Johnny Lane, Mike Sandoval

Attachments: 72-Hr Notice to Close Permanent Pits 3-1 Thru 3-3-2011 xls

Dear Mr Brandon Powell, Ms Bertha Spencer, Mr Evan Rowland, Mr Dave Mankiewicz, Mr Mark Kelly and Mr Lucas Vargo,

Dugan Production Corp is hereby giving notice that Dugan will be closing the permanent pits on the following well pads

- 1) Phantom Ranch #1
- 2) Marathon #1 (Separator)
- 3) Drip Tank #1 (600-ft from Greek's Fete #2)
- 4) Nice #1
- 5) Rainbow Seeker #1

Site specific and soil analysis information for each permanent pit is included in the enclosed attachment

Those highlighted in blue (#'s 1, 3 & 4) are located on Federal Surface, the one highlighted in red (#2) is located on Navajo Indian Alloted Surface and the one highlighted in black (#5) is on Private surface

Permanent pits will be closed starting Tuesday, February 1, 2011 thru Thursday, February 3, 2011

If you have any questions or require additional information, please contact me

Kurt Fagrelius Dugan Production Corp 709 East Murray Drive Farmington, New Mexico 87401 505-325-1821 (O), 505-320-8248 (C)

Dugan Production Corp. Permanent Pits to Close 3-1 thru 3-3-2011

Lease Name	Phantom Ranch #1	Marathon #1 Separator	Drip Tank #1 by Greek's Fete #2			
API Number	30-045-26409	30-045-26436	N.A			
Surface Owner - Notice Sent	Federal	Indian Allotment	Federal			
Location - UL, Sec , Twp, Rge	F-21-T24N-R8W	A-4-T23N-R10W	B-24-T30N-R15W			
Latitude	36.30156 N	36.26132 N	36.80409 N			
Longitude	107.6888 W	107.89362 W	107.36689 W			
Benzene (<0.2 mg/kg)	<0.050 mg/kg	<0.100 mg/kg	<0.100 mg/kg			
Betex (<50 mg/kg)		<0.300 mg/kg	<0.300 mg/kg			
TPH - Analytic Mthd-418.1 (<100 mg/kg)		989 mg/kg	<100 mg/kg			
TPH=GRO + DRO - Analytic Mthd-8015 (<1000 mg/kg)		241 mg/kg	<10 mg/kg			
Chlorides (<250 mg/kg)	1700 mg/kg	1070 mg/kg	672 mg/kg			
Thresholds as per "Pit Rule" 19.15 17 NMAC are highlighted in red.						
Thresholds as per "Spill Rule" 19.15.30 NMAC are highlighted in blue.	· · · · · · · · · · · · · · · · · · ·	±				

Dugan Production Corp. Permanent Pits to Close 3-1 thru 3-3-2011

Nice #1 Separator	Rainbow Seeker #1
30-045-26499	30-045-26406
Federal	Private
P-7-T30N-R14W	G-29-T31N-R13W
36.82378 N	36.87439 N
108.34379 W	108.22339 W
<0.050 mg/kg	<0.100 mg/kg
<0.150 mg/kg	<0.300 mg/kg
<100 mg/kg	545 mg/kg
11.4 mg/kg	31 mg/kg
1020 mg/kg	768 mg/kg

From: Sent: postmaster@duganproduction com

Wednesday, February 23, 2011 5 16 PM

To:

Kurt Fagrelius

Subject:

Delivery Status Notification (Relay)

Attachments:

ATT41863 txt, Untitled Attachment





ATT41863.txt (409 Untitled Attachment

B)

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

Brandon.Powell@state.nm.us

From: postmaster@duganproduction.com

Sent: Wednesday, February 23, 2011 5 16 PM

To: Kurt Fagrelius

Subject: Delivery Status Notification (Relay)

Attachments: ATT41872 txt, Untitled Attachment



ATT41872.txt (422 Untitled Attachment

B)

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

erowland@slo.state.nm.us

From:

Rowland, Evan [erowland@slo state nm us]

To:

Sent:

Kurt Fagrelius Thursday, February 24, 2011 9 10 AM

Subject:

Read

Your message

To:

erowland@slo.state.nm.us

Subject:

was read on 2/24/2011 9:10 AM

From:

postmaster@duganproduction com

Sent:

Wednesday, February 23, 2011 5 17 PM

To:

Kurt Fagrelius

Subject:

Delivery Status Notification (Relay)

Attachments:

ATT41884 txt, Untitled Attachment





ATT41884 txt (396 Untitled Attachment

B)

This is an automatically generated Delivery Status Notification.

Your message has been successfully relayed to the following recipients, but the requested delivery status notifications may not be generated by the destination.

Bertha.Spencer@bia.gov

From:

Sent:

mkelly@blm gov Thursday, February 24, 2011 5 58 AM Kurt Fagrelius

To:

Return Receipt

Your

document:

was

Mark Kelly/FFO/NM/BLM/DOI

received

by:

at:

02/24/2011 05:58:25 AM

From:

Sent:

dmankiew@blm gov Thursday, February 24, 2011 7 27 AM Kurt Fagrelius

To:

Return Receipt

Your

document:

Dave Mankiewicz/FFO/NM/BLM/DOI

received

by:

at:

02/24/2011 07:27:03 AM

From:

Sent:

lvargo@blm gov Friday, February 25, 2011 9 29 AM Kurt Fagrelius

To:

Return Receipt

Your

document:

was

Lucas Vargo/FFO/NM/BLM/DOI

received

by:

at:

02/25/2011 09:29:02 AM

From:

System Administrator

To: Sent: Kurt Fagrelius, Johnny Lane, Mike Sandoval Wednesday, February 23, 2011 5 15 PM

Subject:

Delivered Delivery Status Notification (Success)

Your message

To.

'Powell, Brandon, EMNRD'; Spencer, Bertha; Evan Rowland (erowland@slo state nm.us); 'dave_mankiewicz@nm blm.gov';

'Mark_Kelly@nm.blm gov'; 'lucas_vargo@blm.gov'

Cc.

Kurt Fagrelius; Johnny Lane; Mike Sandoval

Subject

Sent:

2/23/2011 5·15 PM

was delivered to the following recipient(s):

Kurt Fagrelius on 2/23/2011 5:15 PM Johnny Lane on 2/23/2011 5.15 PM Mike Sandoval on 2/23/2011 5:15 PM

From:

Mike Sandoval

Sent:

Thursday, February 24, 2011 6 33 AM

To:

Kurt Fagrelius

Subject:

Read

Attachments: Read_ txt

From:

Johnny Lane

Sent:

Thursday, February 24, 2011 7 13 AM

To:

Kurt Fagrelius

Subject:

Read

Attachments: Read_ txt