

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

30-045-26823

OPERATOR

☐ Initial Report ☒ Final Report

Name of Company	Dugan Production Corp.	Contact	Kurt Fagrelus
Address	P.O. Box 420	Telephone No.	505-325-1821
Facility Name	Gold Medal #5 (Separator)	Facility Type	Permanent Pit

Surface Owner	Federal	Mineral Owner	Federal	Lease No.	NM-22044
---------------	---------	---------------	---------	-----------	----------

LOCATION OF RELEASE

Unit Letter	Section	Township	Range	Feet from the	North/South Line	Feet from the	East/West Line	County
O	31	24N	10W	660	South	1980	East	San Juan

Latitude 36.26465 N Longitude 107.9341 W

NATURE OF RELEASE

Type of Release	Spill Clean-Up and Pit Closure	Volume of Release	Unknown	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?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Not Required	If YES, To Whom?	N/A		
By Whom?		Date and Hour			
Was a Watercourse Reached?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	If YES, Volume Impacting the Watercourse.			

If a Watercourse was Impacted, Describe Fully.*

N/A

Describe Cause of Problem and Remedial Action Taken.*

During permanent pit closure chloride and TPH impacts were discovered. A five-point composite sample tested 1550-mg/kg chloride and 713-mg/kg TPH 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. 60-cubic yards of contaminated soil was hauled from site of release to Envirotech Landfarm. C-144 ranking=0. The Chloride and TPH releases do not pose a threat to groundwater contamination. See attachment to "Final C-141" and invoice #22796.

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: <i>Kurt Fagrelus</i>	Approved by District Supervisor: <i>Jonathan D. Kelly</i>	
Printed Name: Kurt Fagrelus	Approval Date: 11/30/2011	Expiration Date:
Title: VP Exploration	Conditions of Approval:	Attached <input type="checkbox"/>
E-mail Address kfagrelus@duganproduction.com		
Date: 12/13/2010 Phone: 505-325-1821		

* Attach Additional Sheets If Necessary

nJK 11 334482 78



PHONE (575) 393-2326 • 101 E. MARLAND • HOBBS, NM 88240

December 31, 2009

Fred Cornish
Dugan Production Corporation
4100 Piedras Street
Farmington, NM 87401

Re: Earth Pit Closure

Enclosed are the results of analyses for sample number H18942, received by the laboratory on 12/23/09 at 11:15 am.

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 Hydrocarbons

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

Cardinal Laboratories is accredited 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 524.2	Regulated VOCs (V2, V3)

Accreditation applies to public drinking water matrices.

Total Number of Pages of Report: 6 (includes Chain of Custody)

Sincerely,

Celey D. Keene
Laboratory Director

This report conforms with NELAP requirements.



PHONE (575) 393-2326 • 101 E. MARLAND • HOBBS, NM 88240

ANALYTICAL RESULTS FOR
DUGAN PRODUCTION CORP.
ATTN: FRED CORNISH
4100 PIEDRAS ST.
FARMINGTON, NM 87401
FAX TO: (505) 325-4873

Receiving Date: 12/23/09
Reporting Date: 12/31/09
Project Number: NOT GIVEN
Project Name: EARTH PIT CLOSURE
Project Location: NOT GIVEN

Sampling Date: 12/21/09
Sample Type: SOIL
Sample Condition: COOL & INTACT @ 6°C
Sample Received By: CK
Analyzed By: ZL

LAB NO.	SAMPLE ID	BENZENE (mg/kg)	TOLUENE (mg/kg)	ETHYL BENZENE (mg/kg)	TOTAL XYLENES (mg/kg)
ANALYSIS DATE:		12/30/09	12/30/09	12/30/09	12/30/09
H18942-1	ST. MORITZ #1	<0.050	<0.050	<0.050	<0.300
H18942-2	AUGUST #1 SEP.	<0.050	<0.050	<0.050	<0.300
H18942-3	GOLD MEDAL #1	<0.050	<0.050	<0.050	<0.300
H18942-4	SILVER MEDAL #1 SEP.	<0.050	<0.050	<0.050	<0.300
H18942-5	GOLD MEDAL #2 SEP.	<0.050	<0.050	<0.050	<0.300
H18942-6	CHAMP #1 T.B. PROD. T.	<0.050	<0.050	0.223	<0.300
H18942-7	CHAMP #1 T.B. SEP.	<0.050	<0.050	<0.050	<0.300
H18942-8	CHAMP #7 T.B. PROD. T.	<0.050	<0.050	<0.050	<0.300
H18942-9	CHAMP #7 T.B. SEP.	<0.050	<0.050	<0.050	<0.300
H18942-10	MARY LOU T. BON #1	<0.050	<0.050	<0.050	<0.300
H18942-11	CALGARY #88 T.B., P.T.	<0.050	<0.050	<0.050	<0.300
H18942-12	CALGARY #88 T.B. SEP.	<0.050	<0.050	<0.050	<0.300
H18942-13	GOLD MEDAL #5 T.B., P.T.	<0.050	<0.050	<0.050	<0.300
H18942-14	GOLD MEDAL #5 T.B., SEP.	<0.050	<0.050	<0.050	<0.300
H18942-15	FLO JO #1 PROD. T.	<0.050	<0.050	<0.050	<0.300
Quality Control		0.049	0.047	0.048	0.130
True Value QC		0.050	0.050	0.050	0.150
% Recovery		98.0	94.0	96.0	86.7
Relative Percent Difference		<1.0	<1.0	<1.0	<1.0

METHODS: BTEX - SW-846 8021B.

TEXAS NELAP ACCREDITATION T104704398-08-TX FOR BENZENE, TOLUENE, ETHYL BENZENE,
AND TOTAL XYLENES. Reported on wet weight.

Cheryl Kuehn
Chemist

Date 12/31/09

H18942 BTEX DUGAN

PLEASE NOTE: Liability and Damages. Cardinal's liability and client's exclusive remedy for any claim arising, whether based in contract or tort, shall be limited to the amount paid by client for analyses. All claims, including those for negligence and any other cause whatsoever shall be deemed waived unless made in writing and received by Cardinal within thirty (30) days after completion of the applicable services. In no event shall Cardinal be liable for incidental or consequential damages, including, without limitation, business interruptions, loss of use, or loss of profits incurred by client, its subsidiaries, affiliates or successors arising out of or related to the performance of services rendered by Cardinal, regardless of whether such claim is based upon any of the above-stated reasons or otherwise. Results relate only to the samples identified above. This report shall not be reproduced except in full with written approval of Cardinal Laboratories.



CARDINAL LABORATORIES

PHONE (575) 393-2326 • 101 E. MARLAND • HOBBS, NM 88240

ANALYTICAL RESULTS FOR
DUGAN PRODUCTION CORP.
ATTN: FRED CORNISH
4100 PIEDRAS ST.
FARMINGTON, NM 87401
FAX TO: (505) 325-4873

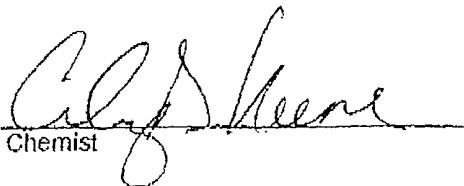
Receiving Date: 12/23/09
Reporting Date: 12/30/09
Project Number: NOT GIVEN
Project Name: EARTH PIT CLOSURE
Project Location: NOT GIVEN

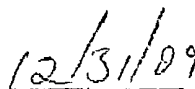
Sampling Date: 12/21/09
Sample Type: SOIL
Sample Condition: COOL & INTACT @ 6°C
Sample Received By: CK
Analyzed By: AB

LAB NUMBER SAMPLE ID		418.1 TOTAL TPH (mg/kg)
ANALYSIS DATE		12/28/09
H18942-1	ST. MORITZ #1	<100
H18942-2	AUGUST #1 SEP.	<100
H18942-3	GOLD MEDAL #1	<100
H18942-4	SILVER MEDAL #1 SEP.	<100
H18942-5	GOLD MEDAL #2 SEP.	<100
H18942-6	CHAMP #1 T.B. PROD. T.	8,800
H18942-7	CHAMP #1 T.B. SEP.	<100
H18942-8	CHAMP #7 T.B. PROD. T.	<100
H18942-9	CHAMP #7 T.B. SEP.	<100
H18942-10	MARY LOU T. BON #1	<100
H18942-11	CALGARY #88 T.B., P.T.	141
H18942-12	CALGARY #88 T.B. SEP.	<100
H18942-13	GOLD MEDAL #5 T.B., P.T.	<100
H18942-14	GOLD MEDAL #5 T.B., SEP.	713
H18942-15	FLO JO #1 PROD. T.	900
Quality Control		306
True Value QC		300
% Recovery		102
Relative Percent Difference		3.1

METHODS: EPA 418.1

Not accredited for TPH 418.1. Reported on wet weight.


Chemist


Date

H18942 418.1 DUGAN

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ANALYTICAL RESULTS FOR
DUGAN PRODUCTION
ATTN: FRED CORNISH
4100 PIEDRAS STREET
FARMINGTON, NM 87401
FAX TO: (505) 325-4873

Receiving Date: 12/23/09
Reporting Date: 12/30/09
Project Number: NOT GIVEN
Project Name: EARTH PIT CLOSURE
Project Location: NOT GIVEN

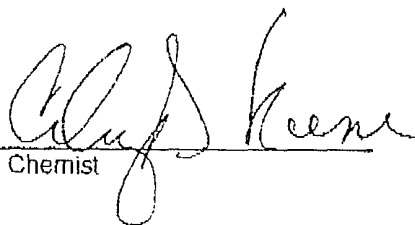
Analysis Date: 12/30/09
Sampling Date: 12/21/09
Sample Type: SOIL
Sample Condition: COOL & INTACT @ 3.5°C
Sample Received By: CK
Analyzed By: HM

LAB NUMBER	SAMPLE ID	Cl ⁻ (mg/kg)
H18942-1	ST. MORITZ #1	8,200
H18942-2	AUGUST #1 SEP.	6,800
H18942-3	GOLD MEDAL #1	1,340
H18942-4	SILVER MEDAL #1 SEP.	992
H18942-5	GOLD MEDAL #2 SEP.	448
H18942-6	CHAMP #1 T.B. PROD T.	752
H18942-7	CHAMP #1 TB SEP.	1,120
H18942-8	CHAMP #7 TB PRDD T.	864
H18942-9	CHAMP #7 TB SEP.	608
H18942-10	MARY LOU T. BON #1	880
H18942-11	CALGARY #88 T.B., P.T.	1,760
H18942-12	CALGARY #88 T.B. SEP.	352
H18942-13	GOLD MEDAL #5 T.B., P.T.	2,240
H18942-14	GOLD MEDAL #5 T.B., SEP.	1,550
H18942-15	FLOJO #1 PROD. T	1,100
Quality Control		500
True Value QC		500
% Recovery		100
Relative Percent Difference		< 0.1

METHOD: Standard Methods

4500-ClB

Note: Analyses performed on 1:4 w:v aqueous extracts Not accredited for Chloride.

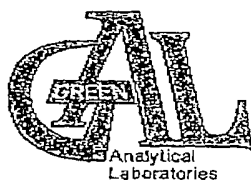

Chemist

Date

12/31/09

H18942 Dugan

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CHAIN OF CUSTODY RECORD

Page 1 of 2

Client: Dugan PRODUCTION
 Contact: FRED CORNISH
 Address: _____
 Phone Number: 505-330-0929
 FAX Number: 505-325-4873

NOTES:

- 1) Ensure proper container packaging.
- 2) Ship samples promptly following collection.
- 3) Designate Sample Reject Disposition.

PO# _____

Project Name: ERATH P. Closure

Table 1. - Matrix Type	
1 = Surface Water,	2 = Ground Water
3 = Soil/Sediment,	4 = Rinsate, 5 = Oil
6 = Waste, 7 = Other (Specify)	_____

FOR GAL USE ONLY

GAL JOB # _____

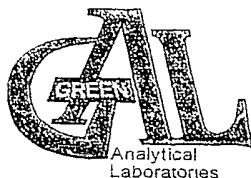
Samplers Signature: Fred Cornish

Lab Name: Green Analytical Laboratories (970) 247-4220 FAX (970) 247-4227		Analyses Required										Comments	
Address: 75 Suttle Street, Durango, CO 81303		Collection		Miscellaneous			Preservative(s)						
Sample ID	Date	Time	Collected by: (Inil.)	Matrix Type From Table 1	No. of Containers	Sample Filtered Y/N	Unpreserved (Ice Only)	HNO3	HCL	H2SO4	NAOH		Other (Specify)
#18942 - St. Moritz #1	12-21-09	9:35 AM		3									
1. St. Moritz #1	12-21-09	9:35 AM		3									
2. August #1 Sep.	12-21-09	10:58 AM											
3. Gold Medal #1	12-21-09	10:35 AM											
4. Silver Medal #1 Sep.	12-21-09	10:50 AM											
5. Gold Medal #2 Sep.	12-21-09	11:10 AM											
6. Champ #1 TB Prod T.	12-21-09	11:30 AM											
7. Champ #1 TB Sep.	12-21-09	11:40 AM											
8. Champ #7 TB Prod T.	12-21-09	12:00 PM											
9. Champ #7 TB Sep.	12-21-09	12:10 PM											
10. Marysville Bon #1	12-21-09	1:05 PM											
Relinquished by: <u>Fred Cornish</u>	Date: <u>12-21-09</u>	Time: <u>4:44 PM</u>	Received by: <u>Cheryl Clark</u>		Date: <u>12/21/09</u>	Time: <u>10:14</u>							
Relinquished by: <u>Fed Ex</u>	Date: _____	Time: _____	Received by: <u>Cal Greene</u>		Date: <u>12/23/09</u>	Time: <u>11:15</u>							

* Sample Reject [] Return [] Dispose [] Store (30 Days)

35°C

C/I 6°C



Client: Dugan PRODUCTION
Contact: FRED CORNISH
Address: _____
Phone Number: 505-330-0929
FAX Number: 505-325-4873

CHAIN OF CUSTODY RECORD

Page 2 of 2

NOTES:

- 1) Ensure proper container packaging.
- 2) Ship samples promptly following collection.
- 3) Designate Sample Reject Disposition.

PO# _____

Project Name: _____

Table 1. - Matrix Type

1 = Surface Water. 2 = Ground Water
3 = Soil/Sediment. 4 = Rinsate. 5 = Oil
6 = Waste, 7 = Other (Specify) _____

FOR GAL USE ONLY

GAL JOB # _____

Samplers Signature: Fred Cornish

Lab Name: Green Analytical Laboratories (970) 247-4220 FAX (970) 247-4227		Analyses Required										Comments	
Address: 75 Suttle Street, Durango, CO 81303		Collection		Miscellaneous			Preservative(s)						
Sample ID	Date	Time	Collected by: (Init.)	Matrix Type From Table 1	No. of Containers	Sample Filtered Y/N	Unpreserved (Ice Only)	HNO3	HCL	H2SO4	NAOH		Other (Specify)
H18942-													
11 1 Calgacy #88T.B.P.T	12-21-09	12:25 PM		3									
12 2 Calgacy #88T.B. Sep.	12-21-09	12:35 PM											
13 3 Add Media #5T.B.P.T	12-21-09	1:25 PM											
14 4 Add Media #5T.B. Sep	12-21-09	1:35 PM											
15 5 Calgacy #88T.B.P.T													
15 6 Fld. So #1 Prod. T	12-21-09												
7													
8													
9													
10													
Relinquished by: <u>Fred Cornish</u>			Date: <u>12-21-09</u>	Time: <u>4:14 PM</u>	Received by: <u>Christa Clark</u>			Date: <u>12/21/09</u>	Time: <u>10:14</u>				
Relinquished by: <u>FedEx</u>			Date: _____	Time: _____	Received by: <u>Ally Hume</u>			Date: <u>12/23/09</u>	Time: <u>11:15</u>				

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

Envirotech
5796 US Hwy 64
Farmington, NM 87401
Phone: 505-632-0615
Fax: 505-632-1865



To.
Dugan Production Corp.
PO Box 420
Farmington, NM 87401

Invoice

Invoice Number: 22796
Job: 06094-0053
DATE: February 10, 2009

Gold Medal #5- accept exempt
contaminated soil and oil from production
stream

Ordered by Fred Cornish

Project Manager April Pohl

<u>Employee</u>	<u>Staff Type</u>	<u>Description</u>	<u>Units</u>	<u>Rate</u>	<u>Total</u>
02/03/2009					
Landfarm					
		BOL# 32564	3 00 ea	10.00	30.00
Paint Filter Test		BOL# 32564	3.00 ea	15 00	45.00
Chloride Analysis-Water		BOL# 32564	36.00 cy	18.00	648.00
Contaminated Soil Receival					
Landfarm Total:			42.00		723.00
02/03/2009 Total:			42.00		723.00
02/04/2009					
Landfarm					
		BOL# 32580	2.00 ea	10.00	20 00
Paint Filter Test		BOL# 32580	2 00 ea	15 00	30.00
Chloride Analysis-Water		BOL# 32580	24.00 cy	18.00	432.00
Contaminated Soil Receival					
Landfarm Total:			28.00		482.00
02/04/2009 Total:			28.00		482.00
Invoice Sub-total					1,205.00

Invoice # 22796 Job # 06094-0053

<u>Employee</u>	<u>Staff Type</u>	<u>Description</u>	<u>Units</u>	<u>Rate</u>	<u>Total</u>
		Sales Tax			74.56

Amount due this Invoice					<u>\$1,279.56</u>
-------------------------	--	--	--	--	-------------------

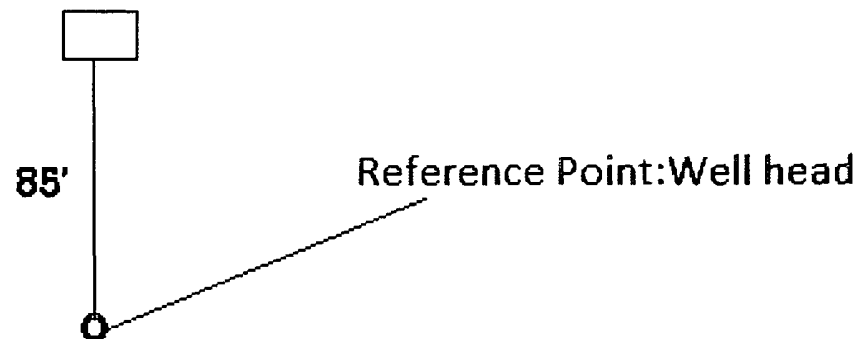
All invoices are due upon receipt A late charge of 1.5% will be added to any unpaid balance after 30 days.

This may not be the final bill - if charges are received after this invoice has been mailed, you will receive a separate invoice for those costs

Dugan Production
Gold Medal #5
Seperator Pit



12'W X12'L X9'D



From Reference Point Go Due N. For a
Distance of **85'** to Center of Pit.

Permanent pit: Gold Medal #5 (Separator)
API number: 30-045-26823

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 four-feet 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 Fagrelus
VP – Exploration, Dugan Production Corp.
Farmington, New Mexico 87401
505-325-1821 (O), 505-320-8248 (C)
kfagrelus@duganproduction.com

Lease Name: Gold Medal #5 (Separator)						
API No.: 30-045-26823.						
Site Specific Information						
Depth to	110-ft	Distance to Surface	1550-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			0
Total Ranking Score					Sample	
		>19	10 - 19	0 - 9	Analysis	
Benzene (mg/kg)		10	10	10	<0.050	
BTEX (mg/kg)		50	50	50	<0.300	
TPH (mg/kg)		100	1000	5000	713	
Chorides (mg/kg)		N.A.	N.A.	N.A.	1550	
Note: Analytical methods used for Benzene SW-846, BTEX SW-846, TPH 418.1 and Chlorides 4500-C1-B.						
C-144 ranking = 0. Chloride and TPH release does not pose a threat to groundwater contamination.						

Gold Medal #5 Hydrogeologic Report

The Gold Medal #5 is located on Federal land on the Chaco Slope area in San Juan County, New Mexico. The region is characterized as a high arid mesa broken by numerous, deep cutting arroyos. Vegetation in the area is predominantly short stands of sage and sparse grass.

A records search of the NM Office of the State Engineer –iWATERS database was conducted on a three square mile area centered on the Gold Medal #5 location (Exhibit 2). One water well was located 9,500-feet to the northeast (total depth 640', depth to water 595'). 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 confluences and upper reaches of arroyos. The below grade tank is not located in an arroyo; the closest arroyo is 1,550 feet to the north (Exhibit 2).

The Nacimiento Formation extends from the surface down to a depth of approximately 110 feet. Thin silty sands can occur near the base. However, the sands are discontinuous, have high silt content and would not be expected to contain any water.

The underlying Ojo Alamo Sandstone ranges from approximately 110 feet down to a depth of approximately 200 feet and is comprised of a coarse grained alluvial sandstone inter-bedded with lenses of mudstone and occasional conglomeratic sandstone. The Ojo Alamo may yield marginal quantities of water for livestock; however, the water quality is typically greater than 1,000 ppm total dissolved solids and high in sulfate (Stone, 1983).

The underlying Kirtland and Fruitland shale layers do not have reservoir rocks capable of storing ground water. The Fruitland Coal and Pictured Cliffs Sandstone from 970-1060 contain groundwater and natural gas. The water quality is very poor (>15,000 ppm TDS), what is recovered with natural gas production is disposed of in nearby salt water disposal wells (analysis of this water is available upon request from Dugan Production).

Based on electric open hole logs, the iWATERS database and literature reviewed, a water well in the area encountered groundwater at 595 feet, lesser amounts of poor quality ground water might be found at a depth of approximately 110-200 feet from the Ojo Alamo Sandstone. A deeper source of poor quality groundwater is the Fruitland Coal / Pictured Cliffs interval from 970-1060.

This Hydrogeologic Report was prepared by Mr. Kurt Fagrelus, Geologist for Dugan Production. Mr. Fagrelus 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., Craig, 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. Geological Survey, Atlas HA-720-A, Sheet 1 and 2.

Thorn, C.R., Levings, G.W., Craig, 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. Geological Survey, Atlas HA-720-B, Sheet 1 and 2.

MINI-PRODUCTION CORE
GOLD MEDAL #5TB
FED. LEASE #NM 22044
1980 FSL & 1980 FEL
SEC 31 T24N R10W NMPM
SAN JUAN CO. NM

For Emergency Call (505

Gold Medal #5
Seperator Pit
Close 12-17-10



Kurt Fagrelius

From: Kurt Fagrelius
Sent: Friday, December 10, 2010 9:06 AM
To: Powell, Brandon, EMNRD, dave_mankiewicz@nm.blm.gov; Mark_Kelly@nm.blm.gov; lucas_vargo@blm.gov; Spencer, Bertha
Cc: Johnny Lane; Mike Sandoval; Kurt Fagrelius
Subject: 72-hr Notice to Close 12-14 to 12-17-2010
Attachments: 72-Hour Notice to Close 12-14 to 12-17-2010.xls

Mr. Brandon Powell, Mr. Dave Mankiewicz, Mr. Mark Kelly, Mr. Lucas Vargo and Ms. Bertha Spencer.

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

- 1) Olympic #1 TB (Separator)
- 2) Olympic #1 TB (Prod. Tank)
- 3) Calgary #88 (Prod. Tank)
- 4) Calgary #88 (Separator)
- 5) Flo Jo #1 (Separator)
- 6) Gold Medal #1
- 7) Gold Medal #5 (Separator)
- 8) Gold Medal #5 (Prod. Tank)
- 9) Jim Thorpe #1 (Separator)
- 10) Road Runner #1

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

Those highlighted in blue (#s 1 – 4, 6 – 8 and #10) are located on Federal Surface; and those highlighted in red (# 5 and #9) are located on Navajo Allotted Surface.

Permanent pits will be closed starting Tuesday December 14, 2010 thru Friday December 17, 2010.

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)
kfagrelius@duganproduction.com

12/10/2010

Dugan Production Corp. Permanent Pits to be Closed on December 14 to December 17, 2010

Lease Name	Olympic #1 TB Sep.	Olympic #1 TB Prod.	Calgary #88 Prod.	Calgary #88 Sep.	Flo Jo #1 Sep
API Number	30-045-26007	30-045-26007	30-045-26784	30-045-26784	30-045-27463
Surface Owner - Notice Sent	Federal	Federal	Federal	Federal	Navajo Allotted
Location - UL, Sec., Twp, Rge	I-3-23N-10W	I-3-23N-10W	A-6-23N-10W	A-6-23N-10W	A-1-23N-11W
Latitude	36.2541 N	36.2541 N	36.77293 N	36.77293 N	36.26099 N
Longitude	107.87613 W	107.87613 W	107.92965 W	107.92965 W	107.9463 W
C-144 Ranking Score	0	0	0	0	0
Benzene (mg/kg)	<0.050	<0.050	<0.050	<0.050	<0.050
Betex (mg/kg)	<0.300	<0.300	<0.300	<0.300	<0.300
TPH (mg/kg) - Analy Mthd	<100 - 418.1	<100 - 418.1	142 - 418.1	<100 - 418.1	900 - 418.1
Chlorides (mg/kg)	928	2360	1760	352	1100
Total Yards Contaminated	20	20	62	N.A.	60
Soil Hauled to Landfarm					

Gold Medal #1	Gold Medal #5 Sep.	Gold Medal #5 Prod.	Jim Thorpe #1 Sep.	Road Runner #1
30-045-26035	30-045-26823	30-045-26823	30-045-26587	30-045-27693
Federal	Federal	Federal	Navajo Allotted	Federal
H-34-24N-10W	O-31-24N-10W	O-31-24N-10W	G-3-23N-10W	O-36-24N-11W
36.27290 N	36.26465 N	36.26465 N	36.25796 N	36.26461 N
107.87657 W	107.9341 W	107.9341 W	107.88081 W	107.95187 W
0	0	0	10	0
<0.050	<0.050	<0.050	<0.100	<0.050
<0.300	<0.300	<0.300	<0.300	<0.300
<100 - 418.1	713 - 418.1	<100 - 418.1	<10 - 418.1	<100 - 418.1
1340	1550	2240	1150	1440
30-yds	60-yds	60-yds	30-yds	90-yds

Kurt Fagrelus

From: postmaster@duganproduction.com
Sent: Friday, December 10, 2010 9:06 AM
To: Kurt Fagrelus
Subject: Delivery Status Notification (Relay)

Attachments: ATT32033.txt; 72-hr Notice to Close 12-14 to 12-17-2010



ATT32033.txt (407 B) 72-hr Notice to
Close 12-14 to...

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

Kurt Fagrelius

From: postmaster@duganproduction.com
Sent: Friday, December 10, 2010 9:06 AM
To: Kurt Fagrelius
Subject: Delivery Status Notification (Relay)

Attachments: ATT32045.txt; 72-hr Notice to Close 12-14 to 12-17-2010



ATT32045.txt (396 B) 72-hr Notice to
Close 12-14 to...

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

Kurt Fagrelius

From: Dave_Mankiewicz@blm.gov
Sent: Friday, December 10, 2010 11:08 AM
To: Kurt Fagrelius
Subject: 72-hr Notice to Close 12-14 to 12-17-2010

Return Receipt

Your 72-hr Notice to Close 12-14 to 12-17-2010
document:

was Dave Mankiewicz/FFO/NM/BLM/DOI
received
by:

at: 12/10/2010 11:07:32 AM

Kurt Fagrelius

From: Lucas_Vargo@blm.gov
Sent: Friday, December 10, 2010 11:20 AM
To: Kurt Fagrelius
Subject: 72-hr Notice to Close 12-14 to 12-17-2010

Return Receipt

Your 72-hr Notice to Close 12-14 to 12-17-2010
document:

was Lucas Vargo/FFO/NM/BLM/DOI
received
by:

at: 12/10/2010 11:19:49 AM

Kurt Fagrelius

From: System Administrator
To: Johnny Lane; Kurt Fagrelius; Mike Sandoval
Sent: Friday, December 10, 2010 9:06 AM
Subject: Delivered: 72-hr Notice to Close 12-14 to 12-17-2010

Your message

To: Powell, Brandon, EMNRD; dave_mankiewicz@nm.blm.gov; Mark_Kelly@nm.blm.gov; lucas_vargo@blm.gov; Spencer, Bertha
Cc: Johnny Lane; Mike Sandoval; Kurt Fagrelius
Subject: 72-hr Notice to Close 12-14 to 12-17-2010
Sent: 12/10/2010 9:06 AM

was delivered to the following recipient(s):

Johnny Lane on 12/10/2010 9:06 AM
Kurt Fagrelius on 12/10/2010 9:06 AM
Mike Sandoval on 12/10/2010 9:06 AM

Kurt Fagrelius

From: Mark_Kelly@blm.gov
Sent: Tuesday, December 14, 2010 5:59 AM
To: Kurt Fagrelius
Subject: 72-hr Notice to Close 12-14 to 12-17-2010

Return Receipt

Your 72-hr Notice to Close 12-14 to 12-17-2010
document:

was Mark Kelly/FFO/NM/BLM/DOI
received
by:

at: 12/14/2010 05:59:29 AM