District I
1301 W Grand Avenue, Artesia, 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 X Final Report Dugan Production Corp. Kurt Fagrelius Name of Company Contact P.O. Box 420 Telephone No. 505-325-1821 Facility Name Champ #1 Separator Facility Type Permanent Pit Surface Owner Federal Mineral Owner Federal Lease No. NM-42059 LOCATION OF RELEASE Unit Letter Township Feet from the North/South Line Section Range Feet from the East/West Line 1980 5 23N 10W C 660 North West San Juan Latitude 36.26105 N Longitude 107.92069 W NATURE OF RELEASE Type of Release Spill Cleanup and Pit Closure Volume of Release Date and Hour of Discovery N/A Volume Recovered N/A Source of Release Date and Hour of Occurrence Was Immediate Notice Given? If YES, To Whom? N/AYes No Not Required By Whom? Date and Hour Was a Watercourse Reached? If YES, Volume Impacting the Watercourse. Yes X No **DEC 2010** If a Watercourse was Impacted, Describe Fully.* OIL CONS. DIV. DIST, 3 N/A Describe Cause of Problem and Remedial Action Taken.* During permanent pit closure a chloride impact was discovered. A five-point composite sample tested 1120-mg/kg Chloride. Describe Area Affected and Cleanup Action Taken.* 184-yards of contaminated soil were dug from permanent pit and hauled to Envirotech land farm. Once all contaminated soil had been removed a five-point composite sample was taken and tested 480-mg/kg Chloride. The C-144 spill ranking was determined to be 0. The Chloride release is not 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 Fagrelius VP Exploration Approval Date: 1/30 Title: **Expiration Date:**

Date. 11/11/2010

* Attach Additional Sheets If Necessary

E-mail Address. kfagrelius@duganproduction.com

Phone: 505-325-1821

nJK1133446896

Attached

Conditions of Approval



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

October 11, 2010

MIKE SANDOVAL

DUGAN PRODUCTION

P. O. BOX 420

FARMINGTON, NM 87499

RE: PIT CLOSURES

Enclosed are the results of analyses for samples received by the laboratory on 10/05/10 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 D. Keine



Analytical Results For:

DUGAN PRODUCTION MIKE SANDOVAL P. O. BOX 420 FARMINGTON NM, 87499

Fax To:

(505) 327-4043

Received:

10/05/2010

Sampling Date:

09/30/2010

Reported:

Sampling Type:

Soil

10/11/2010

Sampling Condition:

Cool & Intact

Project Name: Project Number: PIT CLOSURES CHAMP #1 SEPARATOR PIT

Sample Received By:

Jodi Henson

Project Location:

NOT GIVEN

Sample ID: CHAMP #1 (H020977-01)

| BTEX 8021B | mg, | /kg | Analyze | d By: cms | | | | | |
|-------------------------------------|--------|-----------------|-----------------|-----------------|------|------------|---------------|------|-----------|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier |
| Benzene* | <0.025 | 0.025 | 10/08/2010 | ND | 1.94 | 96.9 | 2.00 | | |
| Toluene* | <0.025 | 0.025 | 10/08/2010 | ND | 1.92 | 96.2 | 2.00 | | |
| Ethylbenzene* | <0.025 | 0.025 | 10/08/2010 | ND | 1.98 | 99.2 | 2.00 | | |
| Total Xylenes* | <0.075 | 0.075 | 10/08/2010 | ND | 5.79 | 96.5 | 6.00 | | |
| Surrogate 4-Bromofluorobenzene (PIL | 96 1 | % 80-120 | | *** | | | | | |
| Chloride, SM4500CI-B | mg, | /kg | Analyze | d By: HM | | | · | | |
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier |
| Chloride | 480 | 16.0 | 10/07/2010 | ND | 416 | 104 | 400 | 0.00 | |
| TPH 418.1 | mg, | /kg | Analyzed By: AB | | | | | | |
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier |
| TPH 418.1 | < 100 | 100 | 10/08/2010 | ND | 970 | 95.1 | 1020 | 9.51 | |
| TPH 8015M | mg, | /kg | Analyze | Analyzed By: AB | | _ | | | |
| Analyte | Result | Reporting Limit | Anałyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier |
| GRO C6-C10 | <10.0 | 10.0 | 10/08/2010 | ND | 164 | 82.0 | √200 | 3.84 | |
| DRO >C10-C28 | <10.0 | 10.0 | 10/08/2010 | ND | 185 | 92.7 | 200 | 3.35 | |
| Total TPH C6-C28 | <10.0 | 10.0 | 10/08/2010 | | | | | | |
| Surrogate 1-Chlorooctane | 98 1 | % 70-130 | | | | | | | |
| Surrogate 1-Chlorooctadecane | 100 | % 70-130 | | | | | | | |

Cardinal Laboratories

*=Accredited Analyte

PLEASE NOTE Lability and Damages Cardinals lability and client's exclusive remedy for any claim ansing, whether based in contract or tort, shall be limited to the amount paid by client for analysiss. All claims, including those for negligence and any other cause whatsoever shall be deemed varied unless made in winting and received by Cardinal within thirty (30) days after completion of the applicable service. In no event shall Cardinal be lable for incidental or consequential damages, michiding, without limitation, business interruptions, loss of use, or loss of prints incurred by Client, its abbilitations, affailates or successors arising out of or related to the performance of the services hereunder by Cardinal, regardless of whether such claims 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.



Notes and Definitions

QM-05 The spike recovery was outside acceptance limits for the MS and/or MSD due to matrix interference. The LCS and/or LCSD

were within acceptance limits showing that the laboratory is in control and the data is acceptable.

ND Analyte NOT DETECTED at or above the reporting limit

RPD Relative Percent Difference

** Samples not received at proper temperature of 6°C or below.

*** Insufficient time to reach temperature.

Chloride by SM4500Cl-B does not require samples be received at or below 6°C

Samples reported on an as received basis (wet) unless otherwise noted on report

Cardinal Laboratories *=Accredited Analyte

PLEASE NOTE Lability and Damages Cardinal's lability and clients' exclusive remety for any claim ansing, 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 varied unless made in writing and received by Cardinal within thirty (30) days after completion of the applicable service. In no event, shall Cardinal be faible to incidental or corresponding dismages, including, without limitation, business interruptions, loss of use, or loss of profits incidental or corresponding dismages, affaitates or successions arising out of or related to the performance of the services hereunder by Cardinal, regardless of whether such claims is based upon any of the above stated reasons or otherwise. Results related into the reproduced except in full with written approval of Cardinal Laboratoms.

Celey D. Keine

| Analytical aboratories |
|------------------------|
| l aboratorios |
| Laboratories |

| _ | Laboratories | |
|---------------|--------------|--|
| Client: Disc | ign frod. | |
| Contact: | Ke Sandayal | |
| Address: | | |
| Phone Number: | 330-0929 | |
| FAX Number: | 327-4043 | |

CHAIN OF CUSTODY RECORD

1) Ensure proper container packaging.

2) Ship samples promptly following collection. 3) Designate Sample Reject Disposition.

NOTES:

Project Name:

| FOR GALUSE ONLY |
|-----------------|
| GALJOB# |
| |
| |
| |

| Lab Name: Green Ana | lytical Labor | atories | (9 | 70) 24 | 7-4220 |) FA | X (9 | 970) | 247- | 4227 | 7 | | | | An | alyse | es R | equir | ed | | | | | |
|---------------------------|---------------|---------------|-----------------------|-----------------------------|-------------------|-----------------------|------------------------|------|----------|-------|-------|------------------|---------|---------------|------|-----------|----------|-------|----------|---|------|----------|---------------------------------------|-------------|
| Address: 75 Suttle | Street, Duran | go, CO 813 | 303 | | | | | | | | | | | | | | | | | | | | | |
| | Collec | ction | | Miscell | aneous | S | | Pre | serv | ative | (s) | | | | | l | Ž | | | | | | | |
| Sample ID H 20977 — | Date | Time | Collected by: (Init.) | Matrix Type From Table 1 | No. of Containers | Sample Filtered ? Y/N | Unpreserved (Ice Only) | HNO3 | НСГ | H2SO4 | NAOH | Other (Specify) | 5.9 p.y | and 8015 | BIEX | 10H 118,1 | TOT FOLK | 7 | | | | | Comm | ents |
| #20977 - 1Chap#/ | 9-30.10 | 2:00 | | | | | | | | | | | | | | | ٠ | | | | | | | |
| 2 | | | | | | - | | | | | | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. | | | | | | | | | | | | | | | | | | | | | | | · · · · · · · · · · · · · · · · · · · | |
| 6 | | | | | | | | | | | | | | | | | | | <u> </u> | | | | | |
| 7 | | | | | | | | | | | | | | | | | | | | | | | , | |
| 8. | | | | | | | | | | | | | | | | | | | | | 1 | | | |
| 9. | | | | | | | | | | - | | | | | | | | | | | | | | |
| 10. | 11 | | | | | | | | | 7 | , | | | $/\backslash$ | | | | | | | | | | |
| Relinquished by: | | / | · | Date & | 1,20 | 16 | Time | 4. | 10 | Rece | wed t | Y-1. | ; | 17 | 12.1 | Is. | | | 1 | L | Date | 2011 | T)p | ie 35 |
| Relinquished by: | | | | Date: | | | Time | · · | J | Rela | ived | ///// ру: | 10 | 2 | ar | 10 | 1 | | | | Die | 16 11 60 | \mathcal{O} Tin | 70.10 |
| Sample Reject: Return | I I Dienova | 1 1 Store (2) | D) | | | | | | | a. | - | | | | A | | | | | | | | | |

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

5°C #26

Page 4 of 4

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.

22607

Job:

06094-0047

DATE.

January 15,2009

Champ #1- accept exempt contaminated soil

and oil from production stream.

Ordered by Fred Cornish

Project Manager:

April Pohl

| <u>Employee</u> | Staff Type | Description | <u>Units</u> | | <u>Rate</u> | <u>Total</u> |
|-------------------|-------------|-------------------|--------------|----------|-------------|--------------|
| 01/09/2009 | | | | | | |
| Landfarm | | | | | | |
| D 151 T 1 | | BOL# 32332 | 2.00 | ea | 10 00 | 20 00 |
| Paint Filter Test | | BOL# 32332 | 2.00 | ea | 15.00 | 30 00 |
| Chloride Analysis | -Water | BOL# 32332 | 20.00 | 5 | 18 00 | 360 00 |
| Contaminated Sc | il Receival | BUL# 32332 | 20.00 | су | 18 00 | 360 00 |
| | | Landfarm Total: | 24.00 | | - | 410.00 |
| | ŧ | 01/09/2009 Total: | 24.00 | | | 410.00 |
| 01/13/2009 | | | | | ~ | |
| Landfarm | | | | | | |
| Daint Filter Tank | | BOL# 32351 | 4.00 | ea | 10.00 | 40.00 |
| Paint Filter Test | | BOL# 32351 | 5.00 | ea | 15.00 | 75.00 |
| Chloride Analysis | -Water | BOL# 32351 | 44.00 | . | 40.00 | 700.00 |
| Contaminated Sc | il Receivat | BOL# 32351 | 44.00 | су | 18.00 | 792.00 |
| | * | Landfarm Total: | 53.00 | | - | 907.00 |
| | | 01/13/2009 Total: | 53.00 | | = | 907.00 |
| | | Invoice Sub-total | | | | 1,317 00 |

Invoice # 22607 Job # 06094-0047

| Employee Sta | <u>ff Type</u> | <u>Description</u> | <u>Units</u> | <u>Rate</u> | <u>Total</u> |
|--------------------|----------------|--------------------|--------------|-------------|--------------|
| , | 5 | Sales Tax | | | 81.49 |
| Amount due this Ir | nvoice | | | | \$1,398.49 |

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.

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

<u>Invoice</u>

Invoice Number

26960

Job. DATE 06094-0077

October 6,2010

Champ #1 - accept exempt contaminated

soil from pit closure

Ordered by Mike Sandoval

Project Manager

April Pohl

| Employee | Staff Type | <u>Description</u> | <u>Units</u> | | Rate | Total |
|---------------------|-------------|--------------------|--------------|------|-------|--------|
| 09/28/2010 | | | | | | |
| Landfarm | | | | | | |
| 5 .5v + | | BOL# 36631 | 1 00 | EA | 10 00 | 10.00 |
| Paint Filter Test (| L+) | BOL# 36631 | 1 00 | ΕA | 15.00 | 15 00 |
| Chloride (LF) | | DOI # 20004 | | O. / | 40.00 | 040.00 |
| Contaminated So | nl Receival | BOL# 36631 | 12.00 | CY | 18.00 | 216 00 |
| | | BOL# 36634 | 1 00 | EA | 10.00 | 10.00 |
| Paint Filter Test (| LF) | BOL# 36634 | 1.00 | ΕA | 15 00 | 15 00 |
| Chloride (LF) | | | | | • | |
| Contaminated Sc | ol Receival | BOL# 36634 | 12.00 | CY | 18 00 | 216 00 |
| | | Landfarm Total: | 28.00 | | ` | 482.00 |
| | | Landiann Total. | 20.00 | | | 402.00 |
| | | 09/28/2010 Total: | 28.00 | | _ | 482.00 |
| 09/29/2010 | | | | | | |
| Landfarm | | | | | | |
| | | BOL# 36653 | 1 00 | EA | 10 00 | 10 00 |
| Paint Filter Test (| LF) | BOL# 36653 | 1 00 | EA | 15 00 | 15.00 |
| Chloride (LF) | | | | | | |
| Contaminated So | ul Receival | BOL# 36653 | 12.00 | CY | 18 00 | 216 00 |
| oomannided od | | Landfarm Total: | 14.00 | | | 241.00 |
| Lab | | Landiann Total. | 14.00 | | | 241.00 |
| | | BOL# 36640 | 1 00 | EA | 10 00 | 10 00 |
| Paint Filter Test (| (LF) | BOL# 36640 | 1.00 | ΕA | 15 00 | 15.00 |

Invoice # 26960 Job # 06094-0077

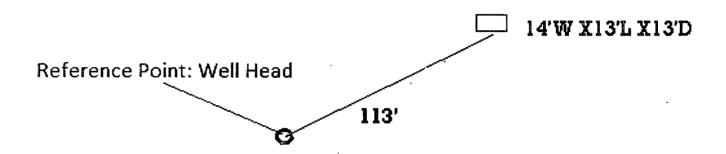
| | <u>Employee</u> | Staff Type | <u>Description</u> | <u>Units</u> | | . <u>Rate</u> | <u>Total</u> |
|------|----------------------|---|--------------------|--------------|----|---------------|--------------|
| | Chloride (LF) | | BOL# 36640 | 36.00 | CY | 18 00 | 648,00 |
| | Contaminated Soi | l Receival | BOL# 30040 | 36.00 | CT | 18 00 | 646,00 |
| | | · | Lab Total: | 38.00 | | _ | 673.00 |
| | | | 9/29/2010 Total: | 52.00 | | _ | 914.00 |
| 09/3 | 30/2010 | | | | | | |
| Land | dfarm | | | | | | |
| | | | BOL# 36658 | 1.00 | EA | 10 00 | 10.00 |
| | Paint Filter Test (L | _F) | BOL# 36658 | 1 00 | EA | 15.00 | 15.00 |
| | Chloride (LF) | | | | | | |
| | Contaminated Soil | l Receival | BOL# 36658 | 36.00 | CY | 18.00 | 648 00 |
| | oomanii ataa oo | T T C C C T C T C T C T C T C T C T C T | BOL# 36673 | 1.00 | EA | 10 00 | 10 00 |
| | Paint Filter Test (L | -F) | BOL# 36673 | 4.00 | | 45.00 | 45.00 |
| | Chloride (LF) | | BOL# 366/3 | 1.00 | EA | 15.00 | 15.00 |
| | | | BOL# 36673 | 12 00 | CY | 18 00 | 216.00 |
| | Contaminated Soi | I Receival | | | | | |
| | | | Landfarm Total: | 52.00 | | _ | 914.00 |
| | | | 09/30/2010 Total: | 52.00 | | = | 914.00 |
| | | | Invoice Sub-total | | | | 2,310.00 |
| | | | Sales Tax | | | | 145.82 |
| | Amount due th | is Invoice | | | | | \$2,455.82 |

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
Champ #1
Tank Pit





From Reference Point Go N.25 Degrees NE. For a Distance of 113' to Center of Pit.

Permanent pit: Champ #1 API number: 30-045-26891

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

| Lease Name: | Champ # | f1 (Separator) | | | | |
|-----------------|------------|---|------------|--------------------------------|-----------------|---------------|
| API No.: 30-04 | 15-26891 | | | | | |
| | <u></u> | | | | | |
| Site Specific I | nfromation | on | | | | |
| Depth to | 150-ft | Distance to Surface | 1600-ft | Wellhead Protection Area | > 1000-ft 🛴 | |
| Groundwater | | Water Body | | Distance from Water Source | | |
| | L | | | | | |
| Total Ranking | | *************************************** | | | | |
| 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 S | Score | Sample | |
| | | >19 | 10 - 19 | 0 - 9 | Analysis | |
| Benzene (mg/k | (g) | 10 | 10 | 10 | <0.025 | |
| BTEX (mg/kg) | | 50 | 50 | 50 | 0.075 | |
| TPH (mg/kg) | | 100 | 1000 | 5000 | <20 | |
| Chorides (mg/l | (g) | N.A. | N.A. | N.A. | 480 | |
| | | | | | | |
| Note: Analytic | al method | s used for Benzene S | W-846, B | TEX SW-846, TPH 8015 and C | hlorides 4500-C | 1-B. |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| C-144 ranking | =0. Chlo | ride release does not l | pose a thr | eat to groundwater contaminati | on. | • |
| | | | | | | |

V

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Champ #1 Hydrogeologic Report

The Champ #1 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. Mesa tops are dominated by tall stands of sage with sparse grass in the arroyos and low-lying areas.

A records search of the NM Office of the State Engineer –iWATERS database was conducted on a three square mile area centered on the Champ #1 location (Exhibit 2). One water well was located 7,900 feet to the northeast (total depth 373 feet, no other available information). 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 shall layers at the confluence and upper reaches of arroyos. The below grade tank is not located in an arroyo; the closest arroyo is 1,600 feet to the southwest (Exhibit 2).

The Nacimiento extends from the surface down to a depth of approximately 150 feet and is comprised of mudstone / shale with a trace of siltstone. The Nacimiento is not a good source of water in the area; the section does not have rocks capable of storing groundwater and has been breeched to a depth of 100 feet by arroyos 3/4-miles to the southeast.

The Ojo Alamo Sandstone extends from 150 - 230 feet and is comprised of a coarse grained sandstone inter-bedded with lenses of mudstone and occasional conglomeratic sandstone. If the Ojo Alamo contains groundwater, it would be in the lower sands below a depth of about 160 feet.

The Kirtland Shale interval is from 230-680 feet in depth and is comprised entirely of mudstone / shale with a few thin siltstone layers inter-bedded with shale from 320-390 feet. These thin stringers of siltstone might contain very minimal amounts of ground water.

The Fruitland Formation and Pictured Cliffs Sandstone from 970-1100 feet contain larger amounts of very poor quality ground water. Analysis of this water is available upon request from Dugan Production Corp.

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

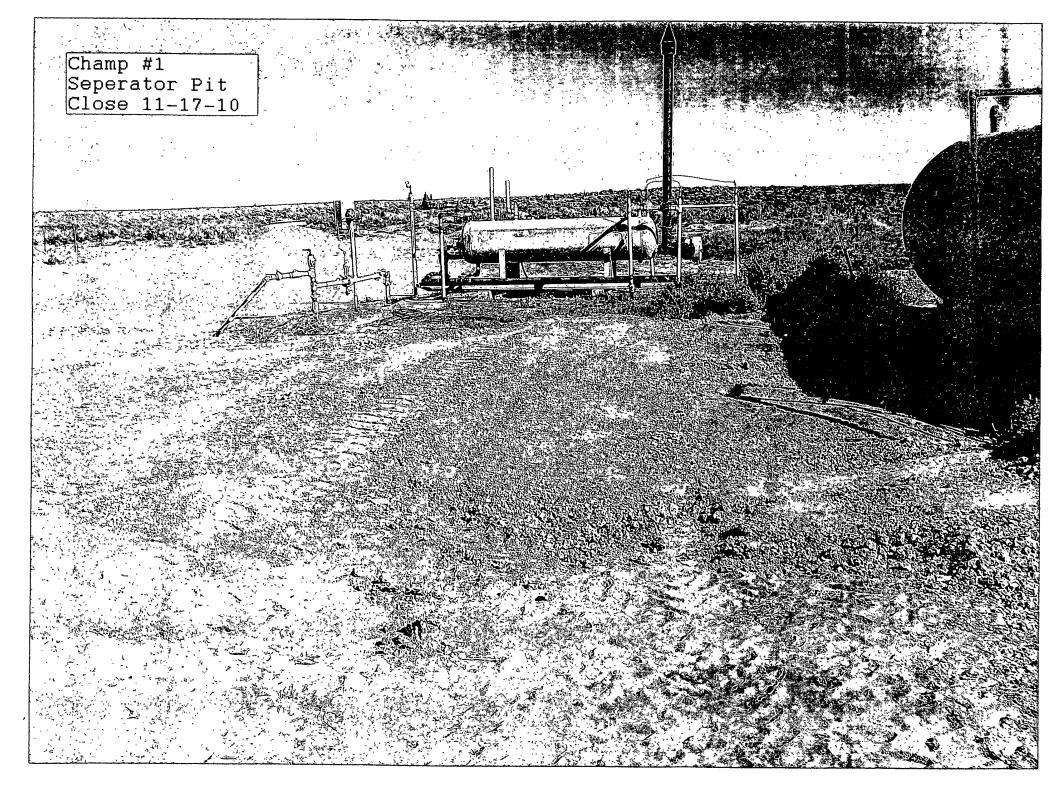
Based on electric open hole logs, the iWATERS database and literature reviewed, very minor amounts of poor quality ground water might be found at a depth below 160 feet from the lowermost Ojo Alamo Sandstone. A deeper and larger source of poor quality groundwater occurs in the Fruitland Coals and Pictured Cliffs Sandstone from 970-1100 feet.

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.
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- 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. Geological Survey, Atlas HA-720-B, Sheet 1 and 2.

For Energency Call 505, 325-182;

AN JUAN II. N



From:

Kurt Fagrelius

Sent:

Wednesday, November 03, 2010 10:43 AM

To:

'Powell, Brandon, EMNRD'; 'dave_mankiewicz@nm blm.gov', 'Mark_Kelly@nm blm.gov'

Cc:

Johnny Lane

Subject:

72-Hour Notice to Close Permanent Pits

Attachments: 72-Hour Notice to Close 11-8-2010.xls

Mr Brandon Powell, Mr. Dave Mankiewicz and Mr. Mark Kelly

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

- 1) April Surprise #5 & 6 Tank Battery
- 2) August #1
- 3) Champ #1 Production Tank
- 4) Champ #1 Separator
- 5) July Jubilee #3
- 6) Par #1

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

All are located on Federal Surface; and the

Permanent pits will be closed starting Monday November 8, 2010 thru Wednesday November 10, 2010.

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

Sincerely,

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

Dugan Production Corp. Permanent Pits to be Closed on November 8, 2010

| Lease Name | April Surprise #5 & 6 TB | August #1 | Champ #1 Prod | Champ #1 Sep | July Jubilee #3 | Par #1 |
|-------------------------------|--------------------------|--------------|---------------|--------------|-----------------|--------------|
| API Number | 30-045-25947 | 30-045-26520 | 30-045-26981 | 30-045-26981 | 30-045-25904 | 30-045-28968 |
| | | | | | | , |
| Surface Owner - Notice Sent | Federal | Federal | Federal | Federal | Federal | Federal |
| Location - UL, Sec., Twp, Rge | B-7-23N-9W | M-35-24N-10W | C-5-23N-9W | C-5-23N-9W | I-29-24N-9W | A-11-23N-10W |
| Latitude | 36.24701 N | 36.26505 N | 36.26105 N | 36.26105 N | 36.28293 N | 36.24661 N |
| Longitude | 107:82675 W | 107.87149 W | 107.92069 W | 107.92069 W | 107.81756 W | 107.85806 W |
| | | 1 | ī I | | _ | |
| C-144 Ranking Score | 10 | 0 | 0 | 0 | 10 | 10 |
| | · | | | | · | |
| Benzene (mg/kg) | !<0.100 | <0.100 | <0.100 | <0.025 | <0.050 | <0.050 |
| Betex (mg/kg) | <0.300 | <0.300 | <0.300 | < 0.075 | < 0.300 | <0.150 |
| TPH (mg/kg) - Analy Mthd | 422 - 8015 | 250 - 418.1 | 650 - 418.1 | <10 - 8015 | <31.8 - 8015 | <10 - 8015 |
| Chlorides (mg/kg) | 96 | 256 | 32 | 480 | 240 | 64 |
| | J | | 1 | | | ! |
| Total Yards Contaminated | 72-yds | 32-yds | 60-yds | 60-yds | 36-yds | 12-yds |
| Soil Hauled to Landfarm | | | | | | .1 |

From: postmaster@duganproduction.com

Sent: Wednesday, November 03, 2010 10:44 AM

To: Kurt Fagrelius

Subject: Delivery Status Notification (Relay)

Attachments: ATT06139.txt; 72-Hour Notice to Close Permanent Pits





ATT06139.txt (407 72-Hour Notice to Close Perman...

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:

Sent: Subject:

Powell, Brandon, EMNRD [Brandon.Powell@state.nm.us] Wednesday, November 03, 2010 2:06 PM Read: 72-Hour Notice to Close Permanent Pits

Your message

To:

Brandon.Powell@state.nm.us

Subject:

was read on 11/3/2010 2:06 PM.

From:

Sent:

Mark_Kelly@blm.gov Wednesday, November 03, 2010 1:11 PM Kurt Fagrelius

To:

Subject:

72-Hour Notice to Close Permanent Pits

Return Receipt

Your

72-Hour Notice to Close Permanent Pits

document:

was

Mark Kelly/FFO/NM/BLM/DOI

received

by:

at:

11/03/2010 01:10:49 PM

From:

System Administrator

To:

Sent:

Subject:

Johnny Lane Wednesday, November 03, 2010 10:43 AM Delivered: 72-Hour Notice to Close Permanent Pits

Your message

To:

Powell, Brandon, EMNRD; dave_mankiewicz@nm.blm.gov; Mark_Kelly@nm.blm.gov

Cc:

Johnny Lane

Subject:

72-Hour Notice to Close Permanent Pits

Sent:

11/3/2010 10:43 AM

was delivered to the following recipient(s):

Johnny Lane on 11/3/2010 10:43 AM

From: Johnny Lane

Sent: Wednesday, November 03, 2010 11:00 AM

To: Kurt Fagrelius

Subject: Read: 72-Hour Notice to Close Permanent Pits

Attachments: ATT06169.txt

Your message

To: Powell, Brandon, EMNRD; dave_mankiewicz@nm.blm.gov; Mark_Kelly@nm.blm.gov

Cc: Johnny Lane

Subject: 72-Hour Notice to Close Permanent Pits

Sent: 11/3/2010 10:43 AM

was read on 11/3/2010 10:59 AM.