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

30-045-28241

Release Notification and Corrective Action

OPERATOR

☐ Initial Report ☒ Final Report

Name of Company	Dugan Production Corp.	Contact	Kurt Fagrelius
Address	P.O. Box 420	Telephone No	505-325-1821
Facility Name	Champ #7 (Separator)	Facility Type	Permanent Pit

Surface Owner Federal	Mineral Owner Federal	Lease No. NM-42059

LOCATION OF RELEASE

Unit Letter	Section	Township	Range	Feet from the	North/South Line	Feet from the	East/West Line	County
K	5	23N	10W	1980	South	1830	West	San Juan

Latitude 36.25383 N **Longitude** 107.92136 W

NATURE OF RELEASE

Type of Release Spill Cleanup 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? ☐ Yes ☐ No ☒ Not Required	If YES, To Whom? N/A	
By Whom?	Date and Hour	
Was a Watercourse Reached? ☐ Yes ☒ No	If YES, Volume Impacting the Watercourse	

RECEIVED
DEC 2010
OIL CONS. DIV. DIST. 3

If a Watercourse was Impacted, Describe Fully *

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 608-mg/kg chlorides which exceeds the threshold limits as per subsection B of 19.15.17.13(B)(1)(b). See attached sample results

Describe Area Affected and Cleanup Action Taken *Contamination was addressed under the "spill rule", 19.15 30 60.0-cubic yards of contaminated soil was hauled from site of release to Envirotech Landfarm. C-144 ranking=10. The chloride release does not pose a threat to contamination of groundwater. See attachment to "Final C-141" and invoice #22651

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

Signature Kurt Fagrelius	OIL CONSERVATION DIVISION
Printed Name Kurt Fagrelius	Approved by District Supervisor Jonathan D. Kelly
Title VP Exploration	Approval Date 11/30/2011 Expiration Date
E-mail Address kfagrelius@duganproduction.com	Conditions of Approval / Attached ☐
Date November 11, 2010 Phone 505-325-1821	

* Attach Additional Sheets If Necessary

nJK1133442706

Chem 1
TR Sep

CARDINAL LABORATORIES

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 though 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.

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: 12/31/09
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

Chemist

12/31/09
Date

H18942 STED DUGAN

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

12/31/09
Date

H18942 418 T DUGAN

CARDINAL LABORATORIES

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

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-Cl⁻B

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

Chemist

12/31/09
Date

H18942 Dugan

CHAIN OF CUSTODY RECORD

Green Analytical Laboratories

Client: Dugan PRODUCTION
Contact: FRED CORNISH
Address:
Phone Number: 505-330-0924
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: EARTH Pit Closure
Samplers Signature: Fred Cornish

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 ID #

Lab Name: Green Analytical Laboratories (970) 247-4220 FAX (970) 247-4227
Address: 75 Suttle Street, Durango, CO 81303

	Sample ID	Collection: Date	Collection: Time	Misc: Collected by (Init.)	Misc: Matrix Type From Table 1	Misc: No. of Containers	Misc: Sample Filtered ? Y/N	Preservative(s): Unpreserved (Ice Only)	Preservative(s): HNO3	Preservative(s): HCL	Preservative(s): H2SO4	Preservative(s): NAOH	Preservative(s): Other (Specify)	Analyses Required: Benzene	Analyses Required: TPH-BTEX	Analyses Required: 418.1	Analyses Required: Chlorides	Comments
	H18942 – 31 Mortez #1																	
1	31 Mortez #1	12-21-09	9:35 AM		3									/	/	/	/	
2	August #1 Sep	12-21-09	10:15 AM											/	/	/	/	
3	Gold Medal #1	12-21-09	10:35 AM											/	/	/	/	
4	Gold Medal #1 Sep.	12-21-09	10:50 A.M											/	/	/	/	
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 #1 TB Prod T.	12-21-09	12:00 PM											/	/	/	/	
9	Champ #1 TB Sep	12-21-09	12:10 PM											/	/	/	/	
10	Mc Lovit Bot. #1	12-21-09	1.05 P.M.											/	/	/	/	

Relinquished by: Fred Cornish	Date: 12-21-09	Time: 4:45 PM	Received by: Angela Yazzie	Date: 12/22/09	Time: 1614
Relinquished by: FedEx	Date	Time	Received by: Celia Greene	Date: 12/23/09	Time: 11:15

3.5°C

CAJ 6°C

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

CHAIN OF CUSTODY RECORD

Page 2 of 2

Green Analytical Laboratories

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:

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
Address: 75 Suttle Street, Durango, CO 81303

	Sample ID	Collection: Date	Collection: Time	Misc: Collected by. (Init.)	Misc: Matrix Type From Table 1	Misc: No. of Containers	Misc: Sample Filtered ? Y/N	Preservative(s): Unpreserved (Ice Only)	Preservative(s): HNO3	Preservative(s): HCL	Preservative(s): H2SO4	Preservative(s): NAOH	Preservative(s): Other (Specify)	Analyses Required: Benzene	Analyses Required: TPH 8015	Analyses Required: 418.1	Analyses Required: Chlorides	Comments
	H18942 –																	
11	1 Calgary #88 T.B.P.T	12-21-09	12:25 PM		3									✓	✓	✓	✓	
12	2 Calgary #88 T.B. Sep.	12-21-09	12:35 PM											✓	✓	✓	✓	
13	3. Gold Medal #5 T.B.P.T.	12-21-09	1:25 PM											✓	✓	✓	✓	
14	4 Gold Medal #5 T.B. Sep	12-21-09	1:35 PM											✓	✓	✓	✓	
15	5 [redacted]													[redacted]				
	6 Flo Jo #1 Prod. T	12-21-09												✓	✓	✓	–	
	7																	
	8																	
	9																	
	10.																	

Relinquished by: Fred Cornish	Date: 12-21-09	Time: 7:14 PM	Received by: Heather Clark	Date: 12/21/09	Time: 1619
Relinquished by: FedEx	Date:	Time:	Received by: Clay Tenn	Date: 12/23/09	Time: 1115

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

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

envirotech

To
Dugan Production Corp
PO Box 420
Farmington, NM 87401

Invoice

Invoice Number 22651
Job 06094-0048
DATE January 22,2009

Champ #7- accept exempt contaminated soil and oil from production stream

Ordered by Fred Cornish

Project Manager April Pohl

Employee	Staff Type	Description	Units		Rate	Total
01/15/2009						
Landfarm						
Paint Filter Test		BOL# 32374	2 00	ea	10 00	20 00
Chloride Analysis-Water		BOL# 32374	2 00	ea	15 00	30 00
Contaminated Soil Receival		BOL# 32374	20 00	cy	18 00	360 00
Paint Filter Test		BOL# 32378	2 00	ea	10 00	20 00
Chloride Analysis-Water		BOL# 32378	2 00	ea	15 00	30 00
Contaminated Soil Receival		BOL# 32378	20 00	cy	18 00	360 00
		Landfarm Total:	**48.00**			**820.00**
		01/15/2009 Total:	**48.00**			**820.00**
01/19/2009						
Landfarm						
Paint Filter Test		BOL# 32401	2 00	ea	10 00	20 00
Chloride Analysis-Water		BOL# 32401	2 00	ea	15 00	30 00
Contaminated Soil Receival		BOL# 32401	20 00	cy	18 00	360 00
		Landfarm Total:	**24.00**			**410.00**
		01/19/2009 Total:	**24.00**			**410.00**

Invoice # 22651 Job # 06094-0048

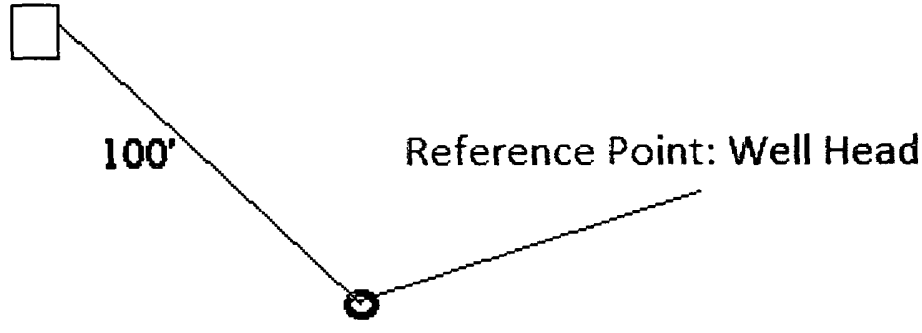
Employee	Staff Type	Description	Units	Rate	Total
		Invoice Sub-total			1,230.00
		Sales Tax			76 11
Amount due this Invoice					$1,306.11

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 #7
Seperator Pit

13'W X10'L X8'D



From Reference Point Go N 40 degrees N.W. For a Distance of 100' to Center of Pit.

Permanent pit: Champ #7 TB (Separator)
API number: 30-045-28241

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 #7 (Separator)						
API No 30-045-28241						
Site Specific Infromation						
Depth to	**95-ft**	Distance to Surface	**1500-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**			**10**
			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	**<100**	
Chorides (mg/kg)		N.A.	**N.A.**	N A.	**608**	
Note Analytical methods used for Benzene SW-846, BTEX SW-846, TPH 418.1 and Chlorides 4500-C1-B.						
C-144 ranking =10. Chloride release does not pose a threat to groundwater contamination						

Champ #7 Hydrogeologic Report

The Champ #7 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 #7 location (Exhibit 2). One water well was located 9,000 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 shale layers at the confluence and upper reaches of arroyos. The below grade tank is not located in an arroyo; the closest arroyo is 1,500 feet to the southeast (Exhibit 2).

The Nacimiento extends from the surface down to a depth of approximately 85 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 80 feet by an arroyo 1/4-mile to the southeast.

The Ojo Alamo Sandstone extends from 85-165 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 165-600 feet in depth and is comprised entirely of mudstone / shale with a few thin siltstone layers inter-bedded with shale from 290-370 feet. These thin stringers of siltstone might contain very minimal amounts of ground water.

The Fruitland Formation and Pictured Cliffs Sandstone from 910-1020 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 95 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 910-1020 feet.

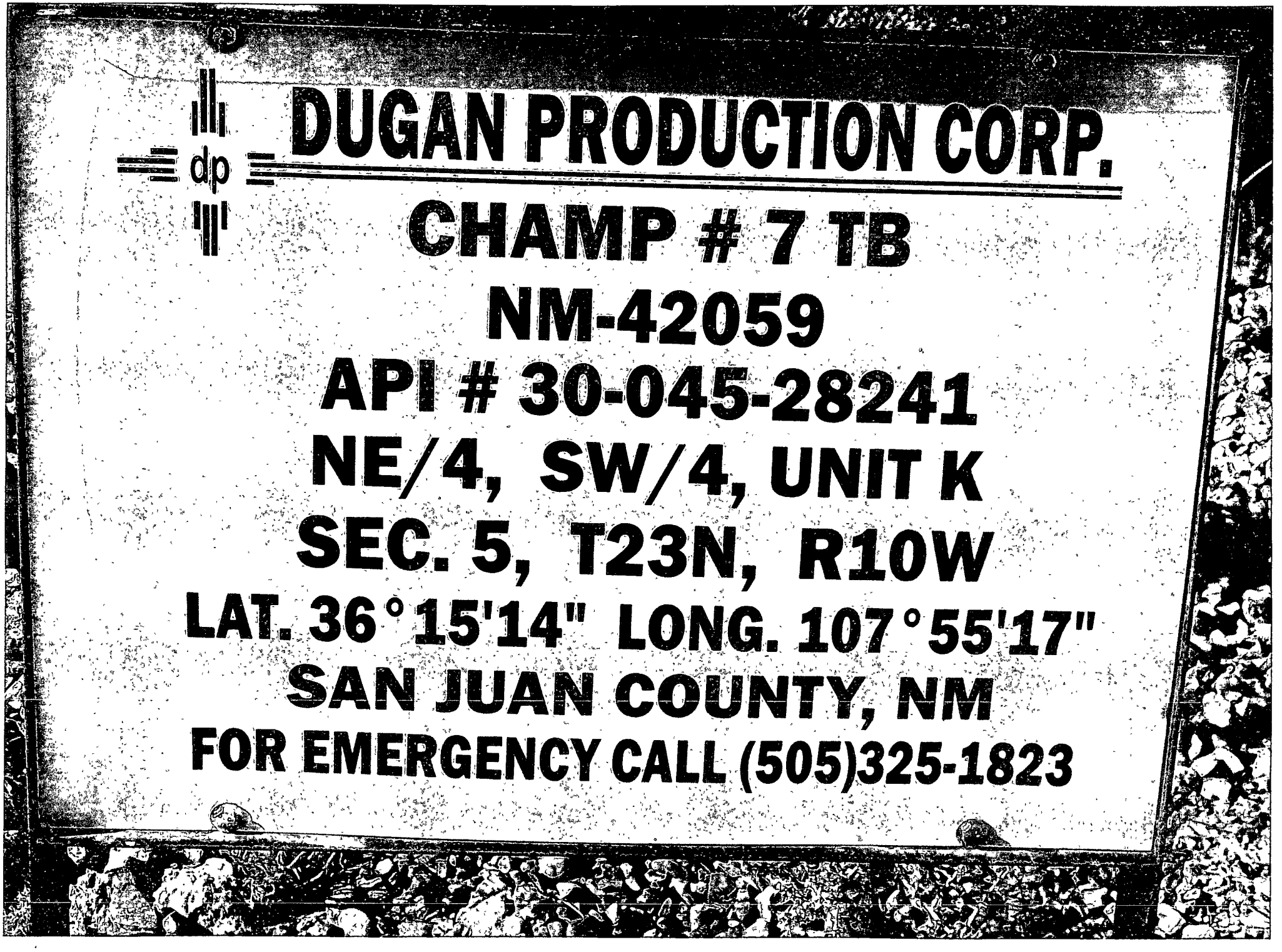
This Hydrogeologic Report was prepared by Mr. Kurt Fagrelius, Geologist for Dugan Production. Mr. Fagrelius has been employed as a geologist for Dugan for the past 31-years, received a MS in Geology from NMIMT in Socorro, NM and a BS in Geology from FLC in Durango, CO.

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.

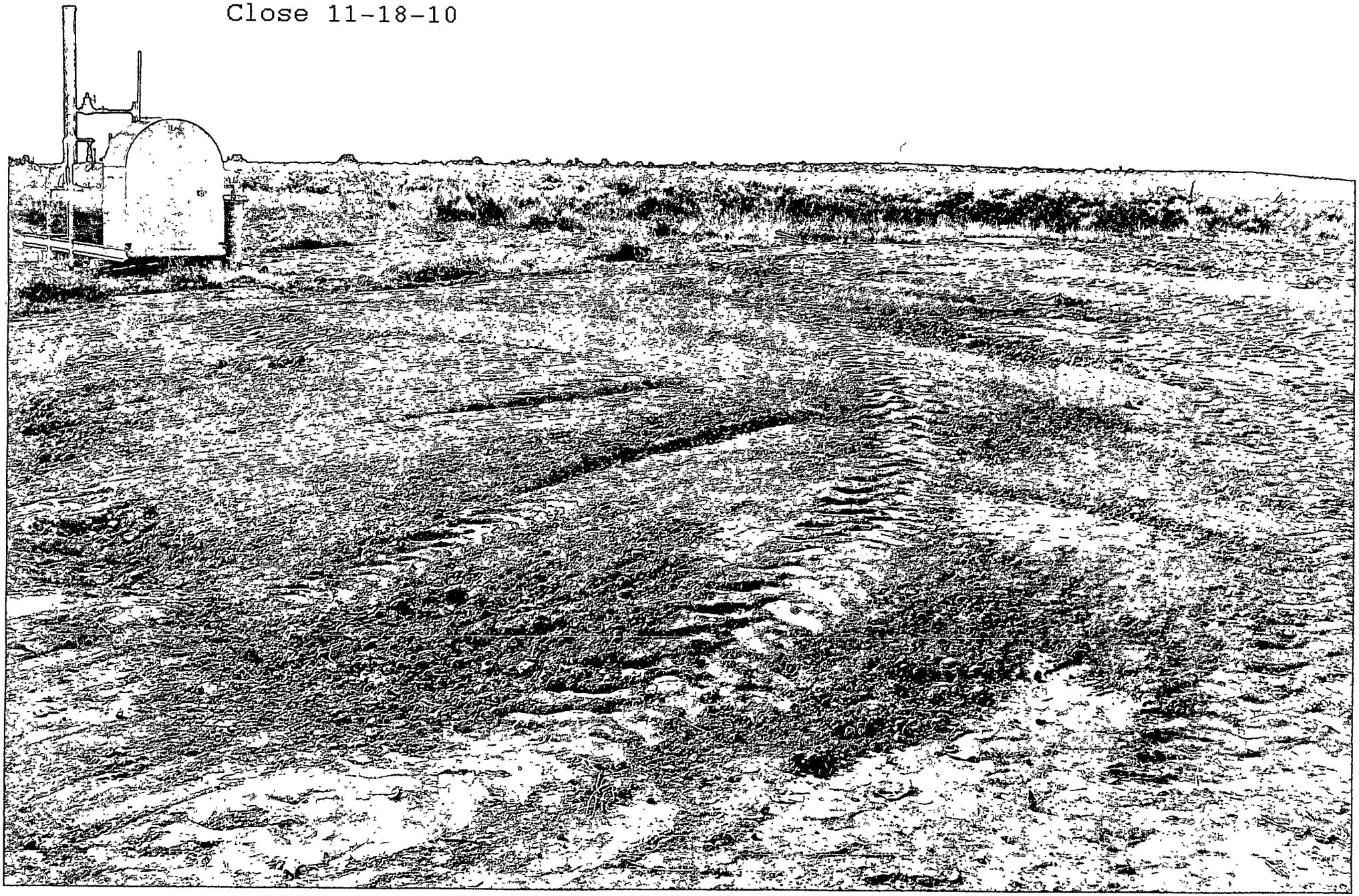
Brown, D.R , and Stone, W.J., 1979, Hydrogeology of Aztec quadrangle, San Juan County, New Mexico: New Mexico Bureau of Mines and Mineral Resources Hydrogeologic Sheet 1.

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


dp
DUGAN PRODUCTION CORP.
CHAMP # 7 TB
NM-42059
API # 30-045-28241
NE/4, SW/4, UNIT K
SEC. 5, T23N, R10W
LAT. 36°15'14" LONG. 107°55'17"
SAN JUAN COUNTY, NM
FOR EMERGENCY CALL (505)325-1823

Champ #7
Seperator Pit
Close 11-18-10



Kurt Fagrelius

From: Kurt Fagrelius
Sent: Thursday, November 11, 2010 3 49 PM
To: Kurt Fagrelius, Powell, Brandon, EMNRD, Evan Rowland (erowland@slo state nm us), dave_mankiewicz@nm blm gov, Mark_Kelly@nm blm gov, lucas_vargo@blm gov
Cc: Johnny Lane, Mike Sandoval
Subject: RE 72-Hour Notice to Close Permanent Pits
Attachments: 72-Hour Notice to Close 11-16-2010 xls

I am sorry everyone, I failed to include the attachment on the previous mailing

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

From: Kurt Fagrelius
Sent: Thursday, November 11, 2010 11:59 AM
To: 'Powell, Brandon, EMNRD'; Evan Rowland (erowland@slo.state.nm.us); 'dave_mankiewicz@nm.blm.gov'; 'Mark_Kelly@nm.blm.gov'; 'lucas_vargo@blm.gov'
Cc: Johnny Lane; Mike Sandoval
Subject: 72-Hour Notice to Close Permanent Pits

Mr Brandon Powell, 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) Champ #7 (Separator)
2) Champ #7 (Production)
3) Champ #9
4) Flo Jo #2 (Separator)
5) Flo Jo #4
6) Hoss #1 (Separator)
7) LH #174 (Separator)
8) LH #174 (Production)
9) Luna #3

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

Those highlighted in blue (#'s 1 - 6) are located on Federal Surface, and those highlighted in red (#'s 7-9) are located on NM State surface

Permanent pits will be closed starting Tuesday November 16, 2010 thru Thursday November 18, 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 18, 2010

Lease Name	Champ #7 Separator	Champ #7 Production	Champ #9	Flo Jo #2 Separator	Flo Jo #4
API Number	30-045-28241	30-045-28241	30-045-29287	30-045-27441	30-045-28645
Surface Owner - Notice Sent	Federal	Federal	Federal	Federal	Federal
Location - UL, Sec., Twp, Rge	K-5-23N-10W	K-5-23N-10W	O-1-23N-10W	C-1-23N-11W	I-1-23N-11W
Latitude	36.25383 N	36.25383 N	36.25096 N	36.26100 N	36 25434 N
Longitude	107.92136 W	107.92136 W	107.84501 W	107.95636 W	107.94865 W
C-144 Ranking Score	10	10	10	0	10
Benzene (mg/kg)	<0.050	<0.050	<0 050	<0.050	<0 050
Betex (mg/kg)	<0.300	<0.300	0.473	<0 300	<0 300
TPH (mg/kg) - Analy Mthd	<100 - 418 1	<100 - 418.1	<20 - 8015	<100 - 418 1	<100 - 418 1
Chlorides (mg/kg)	608	864	608	992	800
Total Yards Contaminated Soil Hauled to Landfarm	60-yds	60-yds	N.A.	54-yds	124-yds

Dugan Production Corp. Permanent Pits to be Closed on November 18, 2010

Hoss #1 Separator	LH #174 Separator	LH #174 Production	Luna #3
30-045-29376	30-045-28533	30-045-28533	30-045-29215
Federal	State	State	State
H-11-23N-11W	A-32-23N-8W	A-32-23N-8W	C-16-23N-9W
36.24188 N	36.18909 N	36.18909 N	36 23237 N
107 9649 W	107.69714 W	107.69714 W	107.79659 W
10	10	10	10
<0.025	<0.100	<0.100	0.041
0 485	<0.300	<0.300	<0.075
<10 - 418.1	54 3 - 8015	368 - 8015	286 - 8015
176	976	416	864
90-yds	N A.	N.A.	36-yds

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To: Kurt Fagrelius, 'Powell, Brandon, EMNRD', Evan Rowland (erowland@slo state nm us), 'dave_mankiewicz@nm blm gov', 'Mark_Kelly@nm blm.gov', 'lucas_vargo@blm gov'
Cc: Johnny Lane, Mike Sandoval
Subject: RE 72-Hour Notice to Close Permanent Pits
Attachments: 72-Hour Notice to Close 11-16-2010 xls

Tracking:

Recipient	Delivery	Read
Kurt Fagrelius	Delivered: 11/11/2010 3:49 PM	Read: 11/11/2010 3:49 PM
'Powell, Brandon, EMNRD'		
Evan Rowland (erowland@slo.state.nm us)		
'dave_mankiewicz@nm.blm.gov'		
'Mark_Kelly@nm.blm.gov'		
'lucas_vargo@blm.gov'		
Johnny Lane	Delivered. 11/11/2010 3:49 PM	
Mike Sandoval	Delivered: 11/11/2010 3:49 PM	

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Cc: Johnny Lane; Mike Sandoval
Subject: 72-Hour Notice to Close Permanent Pits

Kurt Fagrelius

From: postmaster@duganproduction com
Sent: Thursday, November 11, 2010 3 49 PM
To: Kurt Fagrelius
Subject: Delivery Status Notification (Relay)

Attachments: ATT14381 txt, RE 72-Hour Notice to Close Permanent Pits


ATT14381.txt (407 B) RE: 72-Hour Notice to Close Pe...

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: Thursday, November 11, 2010 3 49 PM
To: Kurt Fagrelius
Subject: Delivery Status Notification (Relay)

Attachments: ATT14372 txt, RE 72-Hour Notice to Close Permanent Pits


ATT14372.txt (422 B) RE: 72-Hour Notice to Close Pe...

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

Kurt Fagrelius

From: Lucas_Vargo@blm.gov
Sent: Tuesday, November 16, 2010 8 36 AM
To: Kurt Fagrelius
Subject: 72-Hour Notice to Close Permanent Pits

Return Receipt

Your document:	72-Hour Notice to Close Permanent Pits
was received by:	Lucas Vargo/FFO/NM/BLM/DOI
at:	11/16/2010 08:35:53 AM

Kurt Fagrelius

From: System Administrator
To: Kurt Fagrelius, Johnny Lane, Mike Sandoval
Sent: Thursday, November 11, 2010 3 49 PM
Subject: Delivered RE 72-Hour Notice to Close Permanent Pits

Your message

To:	Kurt Fagrelius; Powell, Brandon, EMNRD; Evan Rowland (erowland@slo.state.nm.us); dave_mankiewicz@nm blm.gov; Mark_Kelly@nm.blm.gov, lucas_vargo@blm.gov
Cc:	Johnny Lane; Mike Sandoval
Subject:	RE: 72-Hour Notice to Close Permanent Pits
Sent:	11/11/2010 3:49 PM

was delivered to the following recipient(s):

Kurt Fagrelius on 11/11/2010 3.49 PM
Johnny Lane on 11/11/2010 3:49 PM
Mike Sandoval on 11/11/2010 3:49 PM