

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
Department
Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
July 21, 2008

For temporary pits, closed-loop systems, and below-grade tanks, submit to the appropriate NMOCD District Office.
For permanent pits and exceptions submit to the Santa Fe Environmental Bureau office and provide a copy to the appropriate NMOCD District Office.

9554

Pit, Closed-Loop System, Below-Grade Tank, or
Proposed Alternative Method Permit or Closure Plan Application

Type of action: Permit of a pit, closed-loop system, below-grade tank, or proposed alternative method
 Closure of a pit, closed-loop system, below-grade tank, or proposed alternative method
 Modification to an existing permit
 Closure plan only submitted for an existing permitted or non-permitted pit, closed-loop system, below-grade tank, or proposed alternative method

Instructions: Please submit one application (Form C-144) per individual pit, closed-loop system, below-grade tank or alternative request

Please be advised that approval of this request does not relieve the operator of liability should operations result in pollution of surface water, ground water or the environment. Nor does approval relieve the operator of its responsibility to comply with any other applicable governmental authority's rules, regulations or ordinances.

1.
Operator: Dugan Production Corp. OGRID #: 006515
Address: 709 East Murray Drive, Farmington, New Mexico 87401
Facility or well name Morrison SWD #2
API Number: 30-045-33684 OCD Permit Number: _____
U/L or Qtr/Qtr A Section 13 Township 22N Range 9W County San Juan
Center of Proposed Design: Latitude 36.14335 N Longitude 107.73297 W NAD. 1927 1983
Surface Owner: Federal State Private Tribal Trust or Indian Allotment

2.
 Pit: Subsection F or G of 19.15.17.11 NMAC
Temporary: Drilling Workover
 Permanent Emergency Cavitation P&A
 Lined Unlined Liner type: Thickness 20 mil LLDPE HDPE PVC Other _____
 String-Reinforced
Liner Seams: Welded Factory Other _____ Volume: _____ bbl Dimensions: L 90' x W 50' x D 10'

3.
 Closed-loop System: Subsection H of 19.15.17.11 NMAC
Type of Operation P&A Drilling a new well Workover or Drilling (Applies to activities which require prior approval of a permit or notice of intent)
 Drying Pad Above Ground Steel Tanks Haul-off Bins Other _____
 Lined Unlined Liner type: Thickness _____ mil LLDPE HDPE PVC Other _____
Liner Seams: Welded Factory Other _____

4.
 Below-grade tank: Subsection I of 19.15.17.11 NMAC
Volume: _____ bbl Type of fluid: _____
Tank Construction material: _____
 Secondary containment with leak detection Visible sidewalls, liner, 6-inch lift and automatic overflow shut-off
 Visible sidewalls and liner Visible sidewalls only Other _____
Liner type: Thickness _____ mil HDPE PVC Other _____

5.
 Alternative Method:
Submittal of an exception request is required. Exceptions must be submitted to the Santa Fe Environmental Bureau office for consideration of approval.

6.
Fencing: Subsection D of 19.15.17.11 NMAC (*Applies to permanent pits, temporary pits, and below-grade tanks*)
 Chain link, six feet in height, two strands of barbed wire at top (*Required if located within 1000 feet of a permanent residence, school, hospital, institution or church*)
 Four foot height, four strands of barbed wire evenly spaced between one and four feet
 Alternate. Please specify 4-foot hogwire

7.
Netting: Subsection E of 19.15.17.11 NMAC (*Applies to permanent pits and permanent open top tanks*)
 Screen Netting Other _____
 Monthly inspections (If netting or screening is not physically feasible)

8.
Signs: Subsection C of 19.15.17.11 NMAC
 12"x 24", 2" lettering, providing Operator's name, site location, and emergency telephone numbers
 Signed in compliance with 19.15.3.103 NMAC

9.
Administrative Approvals and Exceptions:
 Justifications and/or demonstrations of equivalency are required. Please refer to 19.15.17 NMAC for guidance.
Please check a box if one or more of the following is requested, if not leave blank:
 Administrative approval(s): Requests must be submitted to the appropriate division district or the Santa Fe Environmental Bureau office for consideration of approval.
 Exception(s): Requests must be submitted to the Santa Fe Environmental Bureau office for consideration of approval

10.
Siting Criteria (regarding permitting): 19.15.17.10 NMAC
Instructions: The applicant must demonstrate compliance for each siting criteria below in the application. Recommendations of acceptable source material are provided below. Requests regarding changes to certain siting criteria may require administrative approval from the appropriate district office or may be considered an exception which must be submitted to the Santa Fe Environmental Bureau office for consideration of approval. Applicant must attach justification for request. Please refer to 19.15.17.10 NMAC for guidance. Siting criteria does not apply to drying pads or above-grade tanks associated with a closed-loop system.

| | |
|--|--|
| Ground water is less than 50 feet below the bottom of the temporary pit, permanent pit, or below-grade tank. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 300 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse or lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application (<i>Applies to temporary, emergency, or cavitation pits and below-grade tanks</i>) - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA |
| Within 1000 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application (<i>Applies to permanent pits</i>) - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA |
| Within 500 horizontal feet of a private, domestic fresh water well or spring that less than five households use for domestic or stock watering purposes, or within 1000 horizontal feet of any other fresh water well or spring, in existence at the time of initial application. - NM Office of the State Engineer - iWATERS database search; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance adopted pursuant to NMSA 1978, Section 3-27-3, as amended - Written confirmation or verification from the municipality; Written approval obtained from the municipality | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 500 feet of a wetland. - US Fish and Wildlife Wetland Identification map; Topographic map; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within the area overlying a subsurface mine - Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within an unstable area - Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within a 100-year floodplain. - FEMA map | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

11.

Temporary Pits, Emergency Pits, and Below-grade Tanks Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- Hydrogeologic Report (Below-grade Tanks) - based upon the requirements of Paragraph (4) of Subsection B of 19.15.17.9 NMAC
- Hydrogeologic Data (Temporary and Emergency Pits) - based upon the requirements of Paragraph (2) of Subsection B of 19.15.17.9 NMAC
- Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC
- Previously Approved Design (attach copy of design) API Number: 30-045-33684 or Permit Number: _____

12.

Closed-loop Systems Permit Application Attachment Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- Geologic and Hydrogeologic Data (only for on-site closure) - based upon the requirements of Paragraph (3) of Subsection B of 19.15.17.9
- Siting Criteria Compliance Demonstrations (only for on-site closure) - based upon the appropriate requirements of 19.15.17.10 NMAC
- Design Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- Closure Plan (Please complete Boxes 14 through 18, if applicable) - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC
- Previously Approved Design (attach copy of design) API Number: _____
- Previously Approved Operating and Maintenance Plan API Number: _____ *(Applies only to closed-loop system that use above ground steel tanks or haul-off bins and propose to implement waste removal for closure)*

13.

Permanent Pits Permit Application Checklist: Subsection B of 19.15.17.9 NMAC

Instructions: Each of the following items must be attached to the application. Please indicate, by a check mark in the box, that the documents are attached.

- Hydrogeologic Report - based upon the requirements of Paragraph (1) of Subsection B of 19.15.17.9 NMAC
- Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
- Climatological Factors Assessment
- Certified Engineering Design Plans - based upon the appropriate requirements of 19.15.17.11 NMAC
- Dike Protection and Structural Integrity Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- Leak Detection Design - based upon the appropriate requirements of 19.15.17.11 NMAC
- Liner Specifications and Compatibility Assessment - based upon the appropriate requirements of 19.15.17.11 NMAC
- Quality Control/Quality Assurance Construction and Installation Plan
- Operating and Maintenance Plan - based upon the appropriate requirements of 19.15.17.12 NMAC
- Freeboard and Overtopping Prevention Plan - based upon the appropriate requirements of 19.15.17.11 NMAC
- Nuisance or Hazardous Odors, including H₂S, Prevention Plan
- Emergency Response Plan
- Oil Field Waste Stream Characterization
- Monitoring and Inspection Plan
- Erosion Control Plan
- Closure Plan - based upon the appropriate requirements of Subsection C of 19.15.17.9 NMAC and 19.15.17.13 NMAC

14.

Proposed Closure: 19.15.17.13 NMAC

Instructions: Please complete the applicable boxes, Boxes 14 through 18, in regards to the proposed closure plan.

- Type: Drilling Workover Emergency Cavitation P&A Permanent Pit Below-grade Tank Closed-loop System
 Alternative
- Proposed Closure Method: Waste Excavation and Removal
 Waste Removal (Closed-loop systems only)
 On-site Closure Method (Only for temporary pits and closed-loop systems)
 In-place Burial On-site Trench Burial
 Alternative Closure Method (Exceptions must be submitted to the Santa Fe Environmental Bureau for consideration)

15.

Waste Excavation and Removal Closure Plan Checklist: (19.15.17.13 NMAC) *Instructions: Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.*

- Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
- Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of Subsection F of 19.15.17.13 NMAC
- Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings)
- Soil Backfill and Cover Design Specifications - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
- Re-vegetation Plan - based upon the appropriate requirements of Subsection I of 19.15.17.13 NMAC
- Site Reclamation Plan - based upon the appropriate requirements of Subsection G of 19.15.17.13 NMAC

16. **Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only:** (19.15.17.13.D NMAC)
Instructions: Please identify the facility or facilities for the disposal of liquids, drilling fluids and drill cuttings. Use attachment if more than two facilities are required.

Disposal Facility Name _____ Disposal Facility Permit Number _____
 Disposal Facility Name: _____ Disposal Facility Permit Number: _____

Will any of the proposed closed-loop system operations and associated activities occur on or in areas that *will not* be used for future service and operations?
 Yes (If yes, please provide the information below) No

Required for impacted areas which will not be used for future service and operations:

Soil Backfill and Cover Design Specifications - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
 Re-vegetation Plan - based upon the appropriate requirements of Subsection I of 19.15.17.13 NMAC
 Site Reclamation Plan - based upon the appropriate requirements of Subsection G of 19.15.17.13 NMAC

17. **Siting Criteria (regarding on-site closure methods only):** 19.15.17.10 NMAC
Instructions: Each siting criteria requires a demonstration of compliance in the closure plan. Recommendations of acceptable source material are provided below. Requests regarding changes to certain siting criteria may require administrative approval from the appropriate district office or may be considered an exception which must be submitted to the Santa Fe Environmental Bureau office for consideration of approval. Justifications and/or demonstrations of equivalency are required. Please refer to 19.15.17.10 NMAC for guidance.

| | |
|---|--|
| Ground water is less than 50 feet below the bottom of the buried waste. - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells | <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> NA |
| Ground water is between 50 and 100 feet below the bottom of the buried waste - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells | <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> NA |
| Ground water is more than 100 feet below the bottom of the buried waste - NM Office of the State Engineer - iWATERS database search; USGS; Data obtained from nearby wells | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA |
| Within 300 feet of a continuously flowing watercourse, or 200 feet of any other significant watercourse or lakebed, sinkhole, or playa lake (measured from the ordinary high-water mark). - Topographic map; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 300 feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application - Visual inspection (certification) of the proposed site; Aerial photo; Satellite image | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 500 horizontal feet of a private, domestic fresh water well or spring that less than five households use for domestic or stock watering purposes, or within 1000 horizontal feet of any other fresh water well or spring, in existence at the time of initial application. - NM Office of the State Engineer - iWATERS database; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance adopted pursuant to NMSA 1978, Section 3-27-3, as amended. - Written confirmation or verification from the municipality; Written approval obtained from the municipality | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within 500 feet of a wetland. - US Fish and Wildlife Wetland Identification map, Topographic map; Visual inspection (certification) of the proposed site | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within the area overlying a subsurface mine. - Written confirmation or verification or map from the NM EMNRD-Mining and Mineral Division | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within an unstable area - Engineering measures incorporated into the design; NM Bureau of Geology & Mineral Resources; USGS; NM Geological Society; Topographic map | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Within a 100-year floodplain. - FEMA map | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

18. **On-Site Closure Plan Checklist:** (19.15.17.13 NMAC) **Instructions:** Each of the following items must be attached to the closure plan. Please indicate, by a check mark in the box, that the documents are attached.

Siting Criteria Compliance Demonstrations - based upon the appropriate requirements of 19.15.17.10 NMAC
 Proof of Surface Owner Notice - based upon the appropriate requirements of Subsection F of 19.15.17.13 NMAC
 Construction/Design Plan of Burial Trench (if applicable) based upon the appropriate requirements of 19.15.17.11 NMAC
 Construction/Design Plan of Temporary Pit (for in-place burial of a drying pad) - based upon the appropriate requirements of 19.15.17.11 NMAC
 Protocols and Procedures - based upon the appropriate requirements of 19.15.17.13 NMAC
 Confirmation Sampling Plan (if applicable) - based upon the appropriate requirements of Subsection F of 19.15.17.13 NMAC
 Waste Material Sampling Plan - based upon the appropriate requirements of Subsection F of 19.15.17.13 NMAC
 Disposal Facility Name and Permit Number (for liquids, drilling fluids and drill cuttings or in case on-site closure standards cannot be achieved)
 Soil Cover Design - based upon the appropriate requirements of Subsection H of 19.15.17.13 NMAC
 Re-vegetation Plan - based upon the appropriate requirements of Subsection I of 19.15.17.13 NMAC
 Site Reclamation Plan - based upon the appropriate requirements of Subsection G of 19.15.17.13 NMAC

19.
Operator Application Certification:
 I hereby certify that the information submitted with this application is true, accurate and complete to the best of my knowledge and belief.
 Name (Print): Kurt Fagrelius Title: VP Land and Exploration
 Signature: Kurt Fagrelius Date: February 03, 2012
 e-mail address: kfagrelius@duganproduction.com Telephone: 505-325-1821

20.
OCD Approval: Permit Application (including closure plan) Closure Plan (only) OCD Conditions (see attachment)
 OCD Representative Signature: Jonathan D. Kelly Approval Date: 2/06/2012
 Title: Compliance Officer OCD Permit Number: _____

21.
Closure Report (required within 60 days of closure completion): Subsection K of 19.15.17.13 NMAC
Instructions: Operators are required to obtain an approved closure plan prior to implementing any closure activities and submitting the closure report. The closure report is required to be submitted to the division within 60 days of the completion of the closure activities. Please do not complete this section of the form until an approved closure plan has been obtained and the closure activities have been completed.
 Closure Completion Date: _____

22.
Closure Method:
 Waste Excavation and Removal On-Site Closure Method Alternative Closure Method Waste Removal (Closed-loop systems only)
 If different from approved plan, please explain

23.
Closure Report Regarding Waste Removal Closure For Closed-loop Systems That Utilize Above Ground Steel Tanks or Haul-off Bins Only:
Instructions: Please indentify the facility or facilities for where the liquids, drilling fluids and drill cuttings were disposed. Use attachment if more than two facilities were utilized.
 Disposal Facility Name: _____ Disposal Facility Permit Number: _____
 Disposal Facility Name: _____ Disposal Facility Permit Number: _____
 Were the closed-loop system operations and associated activities performed on or in areas that *will not* be used for future service and operations?
 Yes (If yes, please demonstrate compliance to the items below) No
Required for impacted areas which will not be used for future service and operations.
 Site Reclamation (Photo Documentation)
 Soil Backfilling and Cover Installation
 Re-vegetation Application Rates and Seeding Technique

24.
Closure Report Attachment Checklist: *Instructions: Each of the following items must be attached to the closure report. Please indicate, by a check mark in the box, that the documents are attached.*
 Proof of Closure Notice (surface owner and division)
 Proof of Deed Notice (required for on-site closure)
 Plot Plan (for on-site closures and temporary pits)
 Confirmation Sampling Analytical Results (if applicable)
 Waste Material Sampling Analytical Results (required for on-site closure)
 Disposal Facility Name and Permit Number
 Soil Backfilling and Cover Installation
 Re-vegetation Application Rates and Seeding Technique
 Site Reclamation (Photo Documentation)
 On-site Closure Location: Latitude _____ Longitude _____ NAD: 1927 1983

25.
Operator Closure Certification:
 I hereby certify that the information and attachments submitted with this closure report is true, accurate and complete to the best of my knowledge and belief. I also certify that the closure complies with all applicable closure requirements and conditions specified in the approved closure plan.
 Name (Print): _____ Title: _____
 Signature: _____ Date: _____
 e-mail address: _____ Telephone: _____

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

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

District III
1000 Rio Brazos Rd, Aztec, NM 87410

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

State of New Mexico
Energy, Minerals & Natural Resources Department

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

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

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | | |
|--------------------|--|------------|---------------------------|
| *API Number | | *Pool Code | *Pool Name ENTRADA SWD |
| *Property Code | *Property Name MORRISON SWD | | *Well Number 2 |
| *GRID No 006515 | *Operator Name DUGAN PRODUCTION CORPORATION | | *Elevation 6598' |


¹⁰ Surface Location

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|----------|
| H | 13 | 22N | 9W | - | 1350 | NORTH | 365 | EAST | SAN JUAN |

¹¹ Bottom Hole Location If Different From Surface

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|-------------------------------|---------|----------|-------|---------|-------------------------------|----------------------------------|------------------------|----------------|--------|
| ¹² Dedicated Acres | | | | | ¹³ Joint or Infill | ¹⁴ Consolidation Code | ¹⁵ Order No | | |

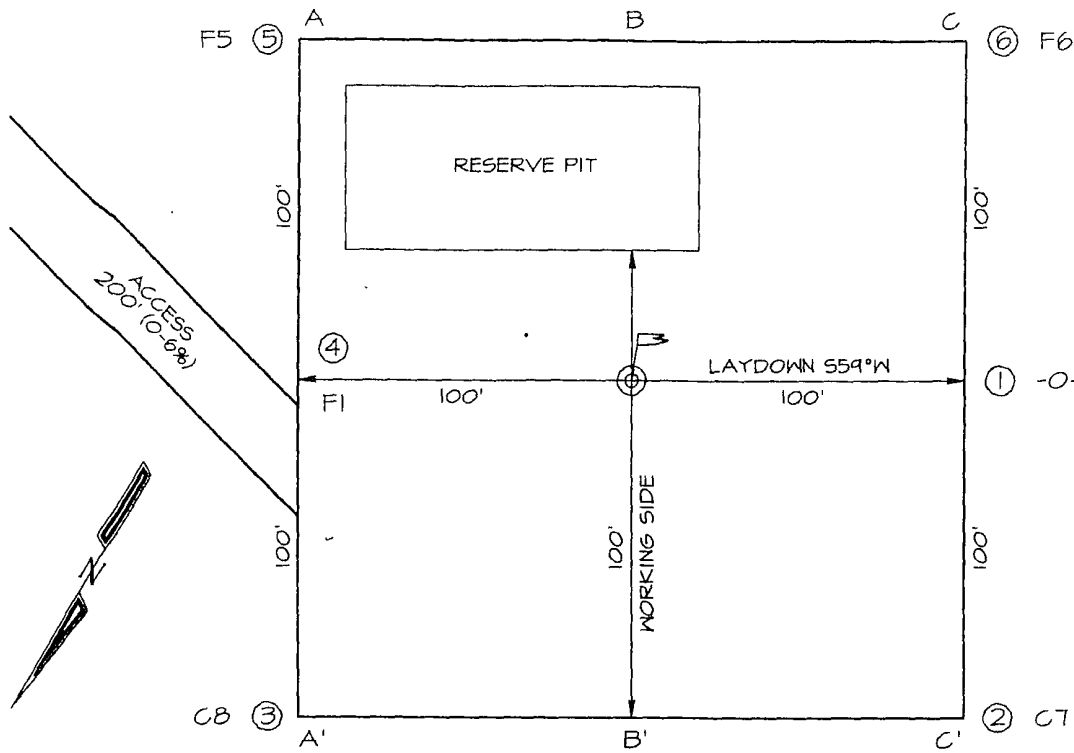
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

| | | |
|---|--------------------------|--|
| <p>16</p> <p>5264.82'</p> <p>5281.32'</p> <p>13</p> <p>5295.18'</p> <p>LAT: 36.14335° N LONG: 107.73297° W DATUM: NAD1983</p> | <p>1350'</p> <p>365'</p> | <p>17 OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>Kurt Fagrelius</i> Signature</p> <p>Kurt Fagrelius Printed Name</p> <p>Geology Title</p> <p>July 27, 2006 Date</p> |
| | | <p>18 SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief</p> <p>Date of Survey: JUNE 5, 2006</p> <p>Signature and Seal of Professional Surveyor</p>  <p>JASON C. EDWARDS Certificate Number 15269</p> |

DUGAN PRODUCTION CORPORATION MORRISON SWD #2
1350' FNL, 365' FEL, SECTION 13, T22N, R9W, NMPM
SAN JUAN COUNTY, NEW MEXICO GROUND ELEVATION: 6598'

LATITUDE: 36.14335° N
LONGITUDE: 107.73297° W
 DATUM: NAD1983

PLAT 3.



PLAT NOTE:
 SURFACE OWNER
 Bureau of Land
 Management

| | | | | | | |
|-------|--|--|--|--|--|--|
| A-A' | | | | | | |
| 6608' | | | | | | |
| 6598' | | | | | | |
| 6588' | | | | | | |

| | | | | | | |
|-------|--|--|--|--|--|--|
| B-B' | | | | | | |
| 6608' | | | | | | |
| 6598' | | | | | | |
| 6588' | | | | | | |

| | | | | | | |
|-------|--|--|--|--|--|--|
| C-C' | | | | | | |
| 6608' | | | | | | |
| 6598' | | | | | | |
| 6588' | | | | | | |

Morrison SWD #2 Hydrogeologic Data

The Morrison SWD #2 temporary pit is located on Federal land on the Chaco Slope area in San Juan County, New Mexico. The region is characterized by broad, gentle, arid mesas that are dissected by numerous, small, arroyos and larger, south-westerly trending valleys drained by large washes. Vegetative cover includes areas and sparse grass, sage and isolated stands of pinon and juniper on the mesa tops.

A records search of the NM Office of the State Engineer –iWATERS database was conducted on a three square mile area centered on the Morrison SWD #2 location (Exhibit 2). One water well is located 2,200-feet to the northwest. Total depth of the well is 762-feet and the depth to water is 362-feet below the surface. Water from this well is used for livestock purposes. 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 at the confluences and upper reaches of arroyos. The temporary pit is not located in an arroyo; the closest arroyo is 400-feet southeast and the nearest stock tank is 4,600-feet to the southeast (Exhibit 2) (See Visual Inspection Certification).

The Kirtland Shale extends from the surface down to approximately 360-feet and is comprised of an upper shale member, middle sandstone member (Farmington Ss.) and a lower shale member. The middle sandstone interval is either absent or not developed in the area. There are no reservoir rocks in the section, no springs in the area and the interval is not expected to contain groundwater.

The underlying Fruitland Formation ranges from approximately 360-feet down to 662-feet and is comprised of Two poorly developed silty-sands (6-8 feet thick) near the top. These silty-sands produce marginal amounts of water for livestock use in the water well cited above. Below the silty-sands the section becomes predominantly shale with an increase in carbonaceous shale and coal near the base.

The Fruitland coal and Pictured Cliffs Sandstone from 630-680 feet contains groundwater and natural gas in the area. The water quality is very poor (>10,000 ppm TDS). Water that 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, literature reviewed, depth to ground water ranges from 15 – 50 feet below the surface in major arroyos. Moving away from the arroyos, ground water depth drops rapidly to greater than 300-feet below the surface. At the location of the subject pit, lesser amounts of poor quality ground water might be found at depths of approximately 360-feet in silty sands of the uppermost Fruitland Formation. Another source of poor quality ground water would be the Fruitland Coal and Pictured Cliffs Sandstone interval at a depth of approximately 630-680 feet below surface.

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 35-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.



New Mexico Office of the State Engineer Water Column/Average Depth to Water

EXHIBIT 1.

(A CLW##### in the
POD suffix indicates the
POD has been replaced
& no longer serves a
water right file)

(R=POD has
been replaced,
O=orphaned,
C=the file is (quarters are 1=NW 2=NE 3=SW 4=SE)
closed) (quarters are smallest to largest) (NAD83 UTM in meters)

(In feet)

| POD Number | POD Code | Subbasin | County | Q 64 | Q 16 | Q 4 | Sec | Tws | Rng | X | Y | Depth Well | Depth Water | Water Column |
|-----------------|----------|----------|--------|------|------|-----|-----|-----|-----|--------|----------|------------|-------------|--------------|
| <u>SJ 01706</u> | | | SJ | 3 | 4 | 12 | | 22N | 09W | 253627 | 4003944* | 762 | 362 | 400 |

Average Depth to Water: **362 feet**

Minimum Depth: **362 feet**

Maximum Depth: **362 feet**

Record Count: 1

PLSS Search:

Section(s): 11, 12, 13, 14, 23, 24, **Township:** 22N **Range:** 09W

*UTM location was derived from PLSS - see Help

The data is furnished by the NMOSE/ISC and is accepted by the recipient with the expressed understanding that the OSE/ISC make no warranties, expressed or implied, concerning the accuracy, completeness, reliability, usability, or suitability for any particular purpose of the data



New Mexico Office of the State Engineer

Water Column/Average Depth to Water

No records found.

PLSS Search:

Section(s): 7, 18, 19

Township: 22N

Range: 08W

The data is furnished by the NMOSE/ISC and is accepted by the recipient with the expressed understanding that the OSE/ISC make no warranties, expressed or implied, concerning the accuracy, completeness, reliability, usability, or suitability for any particular purpose of the data

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WATER COLUMN/ AVERAGE
DEPTH TO WATER

Siting Criteria for the Morrison SWD #2

1. Ground water is not less than 50-feet below the bottom of the temporary pit. Ground water is greater than 100-feet below the bottom of the temporary pit.
2. The temporary pit is not within 300-feet of a continuously flowing water course, or 200 feet of any other watercourse, lakebed, sinkhole, or playa lake (measured from ordinary high water mark). See the attached Topographic map (Exhibit 2) and Visual Inspection Certification of the location and area around the subject temporary pit.
3. The temporary pit is not within 300-feet from a permanent residence, school, hospital, institution, or church in existence at the time of initial application. See the attached Satellite Image (Exhibit 3) and Visual Inspection certification of the location and area around the subject temporary pit.
4. The temporary pit is not within 500-feet of a private, domestic fresh water well or spring that less than five households use for domestic or stock watering purposes, or within 1000 horizontal feet of any other fresh water well or spring, in existence at the time of initial application. See the attached NM Office of the State Engineer iWATERS database search (Exhibit 4) and Visual Inspection certification of the location and area around the subject temporary pit.
5. The temporary pit is not located within the incorporated municipal boundaries or within a defined municipal fresh water well field covered under a municipal ordinance adopted pursuant to NMSA 1978 Section 3-27-3, as amended. See the attached Topographic map of the location and area around the subject temporary pit.
6. The temporary pit is not located within 500-feet of a wetland. See the attached Topographic map and Visual Inspection Certification of the location and area around the subject temporary pit.
7. The temporary pit is not located within the area overlying a subsurface mine. See the attached Mine, Mills and Quarry Map of New Mexico (New Mexico, EMND 2008) (Exhibit 5) showing the location and area around the subject pit.
8. The temporary pit is not located within an unstable area. See the attached Topographic map of the location and area around the subject temporary pit.
9. The temporary pit is not located within a 100-year floodplain area. See the attached FEMA map (Exhibit 6) of the 100 year floodplain showing the location and area around the subject pit.

Morrison SWD #2 Visual Inspection Certification

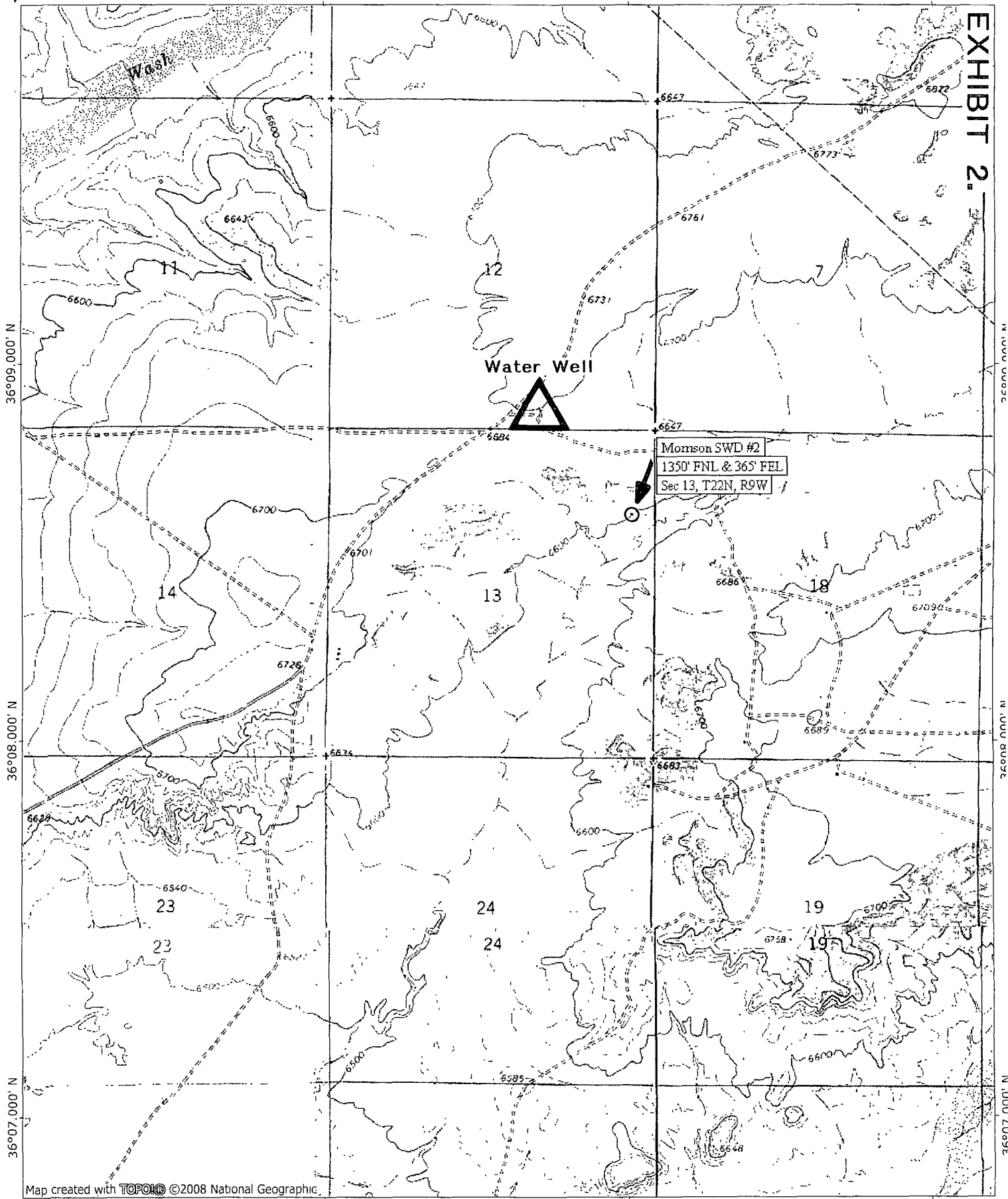
I, Kurt Fagrelius, Vice President of Exploration for Dugan Production Corp. 709 East Murray Drive, Farmington, New Mexico hereby certify that I or persons under my direct supervision, prepared the attached exhibits and conducted a Visual Inspection of the location and area around the Morrison SWD #2 temporary pit (August 16, 2011) and that this application is in full compliance with all siting criteria and standards for temporary pits established by the State of New Mexico, Energy Minerals and Natural Resources Department 19.15.17.10 NMAC.



Kurt Fagrelius

February 2, 2012

Date



Map created with TOPO! ©2008 National Geographic

EXHIBIT 3.



Google earth





New Mexico Office of the State Engineer Water Column/Average Depth to Water

EXHIBIT 4.

No records found.

PLSS Search:

Section(s): 13

Township: 22N

Range: 09W

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WATER COLUMN/ AVERAGE
DEPTH TO WATER



New Mexico Office of the State Engineer
Water Column/Average Depth to Water

No records found.

PLSS Search:

Section(s): 18

Township: 22N

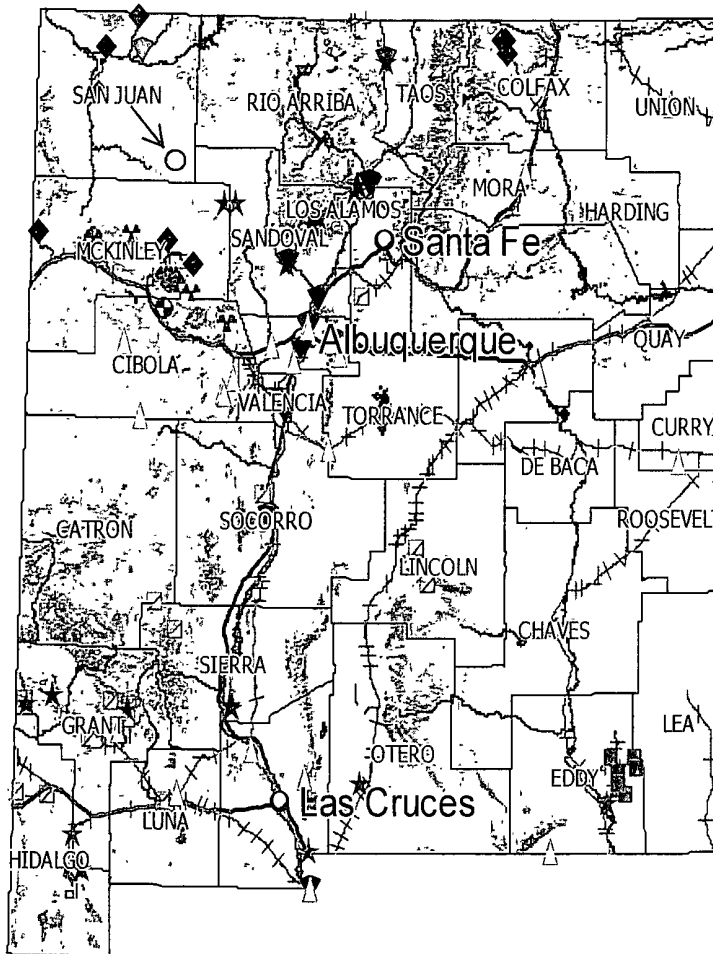
Range: 08W

The data is furnished by the NMOSE/ISC and is accepted by the recipient with the expressed understanding that the OSE/ISC make no warranties, expressed or implied, concerning the accuracy, completeness, reliability, usability, or suitability for any particular purpose of the data

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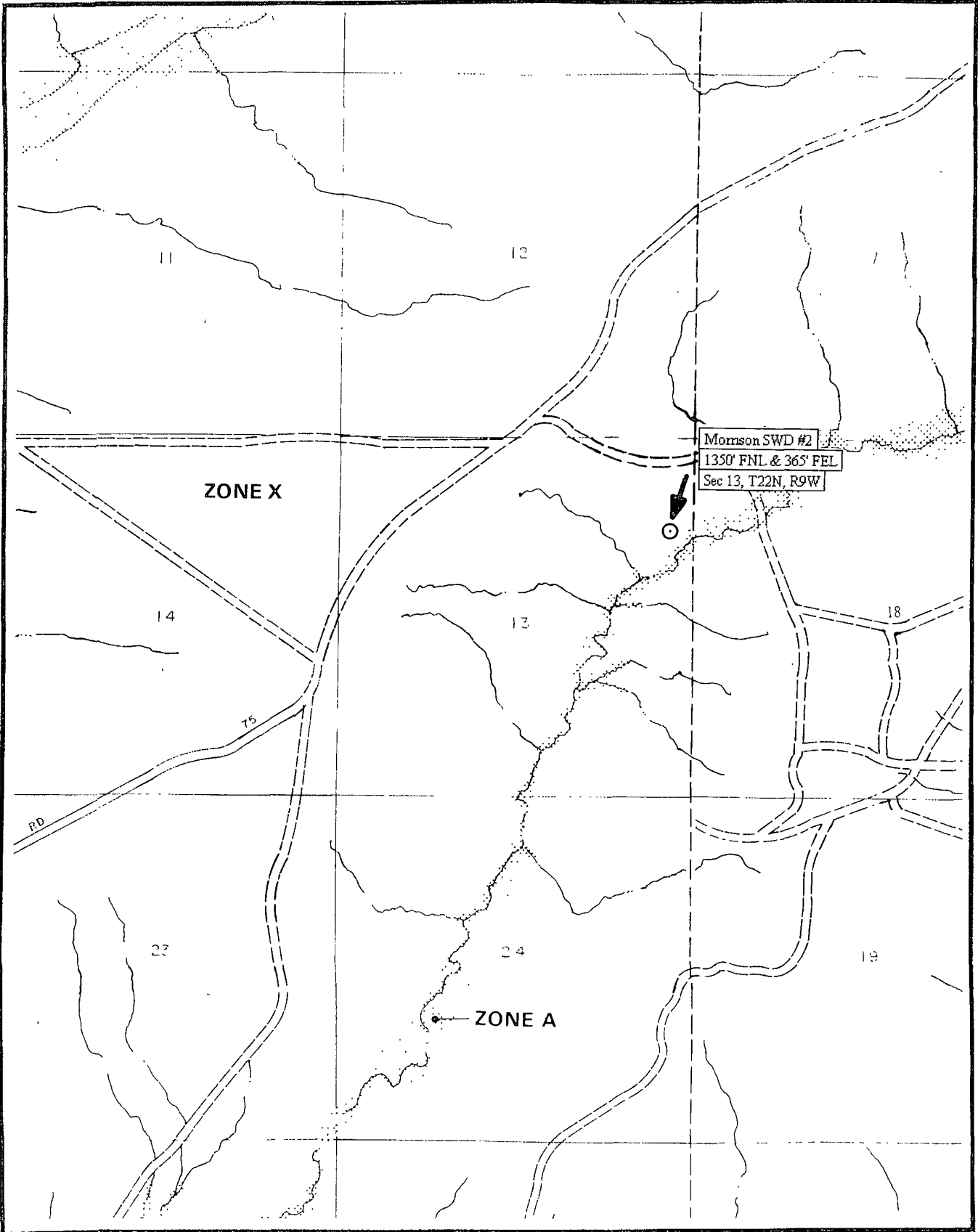
WATER COLUMN/ AVERAGE
DEPTH TO WATER



Mine, Mills and Quarry Map of New Mexico

Dugan Production Corp.
Morrson SWD #2

Taken from the New Mexico Energy, Minerals and Natural Resources Department.
Mining and Minerals Division.



FEMA 100-Year Floodplain Map
Morrison SWD #2

Morrison SWD #2 Design and Construction Plan

1. The Morrison SWD #2 temporary pit will be designed and constructed in accordance with the following requirements:
2. Temporary pit will be designed and constructed to contain liquids and solids and prevent contamination of fresh water and protect public health and the environment.
3. Stockpile topsoil prior to digging pit, keep separate from subsoil and use as final cover and fill when closing pit.
4. Sign-12" by 24" with operator name, lease name, well #, location (unit letter, qtr/qtr, Sect., Twp., and Rge.) and emergency phone #'s will be posted on location. Sign will be posted in a location where it can be easily read.
5. Fencing around the Morrison SWD #2 temporary pit will be constructed and operated in a manner that prevents unauthorized access and shall be maintained in good condition to protect the public and wildlife. Morrison SWD #2 temporary pit is not located within 1000 feet of house, school, hospital or church. Administrative Approval is requested for alternative design (4'-hogwire). See attachment.
6. Morrison SWD #2 temporary pit will be designed and constructed to ensure the confinement of liquids and prevent unauthorized releases. Pit will be constructed with a firm foundation and interior slopes, smooth and free of rocks or sharp edges. Administrative Approval is requested for alternative design (2H: 1V slopes on 2-sides, vertical on 2-sides). See attachment.
7. Liner will be 20-mil string reinforced LLDPE, impervious material, resistant to UV light, hydrocarbons, salt, acidic or basic liquids. Liner seams will be minimized, oriented up and down, not across slopes, will have factory seam welds. Construction methods to avoid excessive stress-strain on the liner will be used. Geo-textile will be used under the liner as needed to reduce localized stress-strain on the liner in order to prevent punctures or tears in the liner.
8. Anchor trenches for the liner will be at least 18-inches deep.
9. A header, diverter, smooth flanged fittings or other devices that prevent damage to the liner by fluid force or mechanical damage at any point of discharge into or suction from the pit will be used.
10. Diversionary berms, ditches or sloping will be constructed as necessary to prevent surface run-off from flowing into pit.

Morrison SWD #2 Operational Requirements

1. The Morrison SWD #2 temporary pit will be maintained and operated in accordance with the following requirements:
2. Recycle, re-use, reclaim or dispose of fluids in a manner approved by the NMOCD rules.
3. Drilling fluids will be transferred to the next temporary (drilling reserve) pit to be used again in drilling the next well. Free fluid that shakes out of mud will be transferred to the Dugan operated Sanchez O'Brien SWD #1 disposal well.
4. Do not dispose of solid waste, trash, debris or hazardous material into the pit.
5. If the pit liner becomes torn or damaged, notify the appropriate NMOCD district office within 48-hours and repair or replace and remove all liquid above leak (505) 334-6178. If a hole or tear occurs below the fluid level, call the NMOCD office within 24-hours.
6. All injection or withdrawal of liquids from a pit using a water truck will be done through a header, diverter or other device that prevents damage to the liner by erosion, fluid jets or impact from installation and removal of hoses or pipes.
7. Discharge line from pit and suction lines to mud pumps will be equipped with smooth flanged fittings and hoses to prevent damage to the pit liner.
8. BOP manifolds will be constructed, installed and staked down in a manner that prevents damage to the pit liner.
9. Temporary pit will be constructed and operated in a manner that prevents surface water from entering the pit. Diversion berms will be constructed along the upslope sides of pit.
10. Oil absorbent booms or other devices to contain and remove oil from pit's surface will be kept onsite until final pit closure.
11. Discharge only fluids generated during drilling or work-over operations into the pit.
12. Immediately following drilling or work-over operations, remove any oil from pit surface.
13. Maintain at least 2-feet of freeboard in pit at all times.
14. Keep log book of daily inspections during drilling and work-over operations.
15. Keep log book of weekly inspections after rig is moved off, until final pit closure.
16. Note date of drilling or work-over rig release on form C-105 or C-103.

Morrison SWD #2 Closure Plan–Methods, Procedures and Protocols

1. Comply with siting criteria for temporary pits established by the State of New Mexico, Energy Minerals and Natural Resources Department 19.15.17.10 NMAC.
2. Provide the NMOCD district office at least 72-hours notice but no greater than 1 week prior to any closure operations. Notice will include operator name, well name and number, API number, and location (unit letter, section, township and range).
3. Provide the surface owner notice of the operator’s proposal of an on-site closure method. Proof of notice will be attached to the permit application. Also, proof of closure notice will be provided by certified mail to surface owner after closure. Proof of notice will be attached to final closure report.
4. Remove all liquid from pit and reclaim, re-use or dispose of at an NMOCD approved facility. Upon completion of drilling operations, drilling mud will be vacuumed from pit and transported to the next reserve pit for re-use at another drilling location. After the remaining mud settles, the free water that shakes out and any free water left over from completion operations will be hauled to the Dugan Production operated Sanchez O’Brien #1 SWD located 1650 feet from the South line and 990 feet from the West line (Unit L) of Section 6, Township 24 North, Range 9 West NMPM, San Juan County, New Mexico. The disposal facility was permitted by the NMOCD with Administrative Order SWD-694.
5. Remove all fluids from temporary pit within 30-days and close within 6-months following release of drilling rig.
6. Air dry pit contents and stabilize or solidify to a load bearing capacity sufficient to support the temporary pit’s final cover.
7. Collect a five point, composite sample of the pit contents to demonstrate that Benzene, BTEX, the GRO and DRO combined fraction, TPH. and chlorides (depth to groundwater from bottom of pit is greater than 100-feet), do not exceed the standards as specified in 19.15.17.9.B or the background concentration, whichever is greater.

| Components | Test Method | Limit (mg/kg) |
|-------------------|---------------------------|----------------------|
| Benzene | EPA SW-846 8021B or 8260B | 0.2 |
| BTEX | EPA SW-846 8021B or 8260B | 50 |
| TPH | EPA SW-846 418.1 | 2500 |
| GRO/DRO | EPA SW-846 8015M | 500 |
| Chlorides | EPA 300.1 | (1000) 500 |

8. Other methods if the standards in 19.15.17.9.B can not be met will include:
The pit contents may be mixed to a ratio not to exceed 3:1, un-contaminated soil or other material to pit contents. A second five point, composite sample of the contents after treatment or stabilization will be taken to demonstrate that the contents do not exceed the standards. If the second soil analyses do no satisfy the closure standards, the operator will close the temporary pit using the waste excavation and removal method.
9. Cut pit liner off at the mud line (solids level); remove liner and apron and transport to a NMOCD approved facility for disposal.

10. Stockpiled sub-surface soil will be used to backfill pit and re-contour well pad (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.
11. Stockpiled surface soil will be used as a cover over the backfilled pit and disturbed areas of the well pad 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.
12. The area will be re-seeded as per BLM guidelines. Re-seeding will be repeated until 70% of the native natural cover is achieved and maintained for two successive growing seasons. The first growing season after the pit is closed the disturbed area will be re-seeded. The seeding method will be to drill on contour whenever possible.
13. The NMOCD will be notified once successful re-vegetation has been achieved.
14. A steel marker will be set at the center of the on-site burial following onsite-pit closure (see application for administrative approval). The marker will be (24" X 24") and will have the operator name, lease name, well number, location (UL, Sec., Twp. and Rge.) and that it designates an "on-site burial location" lettering welded on the top side with a 4" threaded collar welded to the bottom side. The marker will be set at ground level and attached to a 4" diameter pipe that is cemented in a hole three feet deep. When the well is abandoned, a steel riser that is 4" in diameter, extending 4' above the ground will be welded to the pipe anchored in cement below the surface. The riser will have lettering welded on side showing operator name, well number, location (UL, Sec., Twp., and Rge.) and that it designates an on-site burial location.
15. Closure Report will be submitted 60-days after re-seeding.

Morrison SWD #2 Request for Administrative Approval

1. The proposed alternative fencing design will include T-posts spaced 10-feet apart with corner braces at each corner. T-posts will be located outside of the liner apron and burial trench. Hog-wire / field fence 4-feet in height will be strung tightly and anchored to the top and bottom of each T-post. Small holes (3" high X 6" wide) in the hog-wire will be located at ground level with increasing larger holes (up to 7" high X 6" wide) located at the top of the fence. Anchor braces will be put at all four corners to strengthen and tighten the fence. During drilling or work-over operations, there will be no fence adjacent to the rig. However, the ends of fence will be attached to the front and rear of rig when responsible personnel are not on-site. Once the rig is moved off, the third side of fence will be constructed in the same manner. This fence design (developed over the last 30-years) has proven to be very effective controlling unauthorized access to temporary drilling pits.

The existing rule (19.15.17.11.D.3) would require the operator to fence the temporary pit with a four foot fence that has at least four strands of barbed wire evenly spaced in the interval between on foot and four feet above the ground level. The proposed fencing alternative would provide better security against unauthorized access to temporary drilling pits. The smaller holes in hog-wire (3" X 6" up to 7" X 6") is more effective at controlling unauthorized access by the public and wildlife than 4-strands of barbed wire spaced 12" apart.

The proposed fence around the temporary pit will be constructed and operated in a manner that prevents unauthorized access and shall maintain the fence in good condition to protect the public and wildlife.

3. The proposed alternative steel marker set at the center of the on-site burial following onsite-pit closure will be a flat steel marker. The marker will be (24" X 24") and will have the operator name, lease name, well number, location (UL, Sec., Twp., Rge.) and that it designates an "on-site burial location" lettering welded on the top side with a 4" threaded collar welded to the bottom side. The marker will be set at ground level and attached to a 4" diameter pipe that is cemented in a hole three feet deep. When the well is abandoned, a steel riser that is 4" in diameter; extending 4' above the ground will be welded to the pipe anchored in cement below the surface. The riser will have lettering welded on side showing operator name, well number, location (UL, Sec., Twp., and Rge.) and that it designates an on-site burial location.

The existing rule (19.15.17.13.F.1.d) would require the operator to install a 4" diameter steel marker a minimum 3' deep in cement and extending at least 4' above ground. The proposed steel marker alternative would be much safer than the existing rule. The steel marker will be located approximately 50-feet from the well head. A marker that stands 4' tall would present a safety hazard for personnel and vehicle traffic working around the well-head.

The requests for administrative approval cited above are needed to help minimize environmental impact, increase safety and protect wildlife and public health. The alternatives proposed will protect fresh water, public health, safety and the environment more effectively than the design and construction specifications established by the State of New Mexico, Energy Minerals and Natural Resources Department do in rule 19.15.17.11 NMAC.