

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

State of New Mexico
Energy Minerals and Natural Resources

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

Form C-141
Revised October 10, 2003

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

Release Notification and Corrective Action

30-045-28619

OPERATOR

Initial Report Final Report

| | | | |
|-----------------|------------------------|---------------|---------------|
| Name of Company | Dugan Production Corp. | Contact | Kurt Fagrelus |
| Address | P.O. Box 420 | Telephone No. | 505-325-1821 |
| Facility Name | McDougall #2 | Facility Type | Permanent Pit |

| | | | | | |
|---------------|---------|---------------|---------|-----------|----------|
| Surface Owner | Federal | Mineral Owner | Federal | Lease No. | NM51,005 |
|---------------|---------|---------------|---------|-----------|----------|

LOCATION OF RELEASE

| Unit Letter | Section | Township | Range | Feet from the | North/South Line | Feet from the | East/West Line | County |
|-------------|---------|----------|-------|---------------|------------------|---------------|----------------|----------|
| I | 9 | 23N | 10W | 1980 | South | 790 | East | San Juan |

Latitude 36.23956 N Longitude 107.89488 W

NATURE OF RELEASE

| | | | | |
|-----------------------------|---|---|----------------------------|------|
| Type of Release | Spill Clean-Up and Pit Closure | Volume of Release ? | Volume Recovered | N.A. |
| Source of Release | Below grade permanent pit release | Date and Hour of Occurrence ? | Date and Hour of Discovery | N.A. |
| Was Immediate Notice Given? | <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Not Required | If YES, To Whom? | N/A | |
| By Whom? | Date and Hour | | | |
| Was a Watercourse Reached? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | If YES, Volume Impacting the Watercourse. | | |

If a Watercourse was Impacted. Describe Fully.*
N/A
RCVD APR 5 '12
OIL CONS. DIV.
DIST. 3

Describe Cause of Problem and Remedial Action Taken.*
During permanent pit closure, chloride and TPH impacts were discovered. A five-point composite sample tested 1630-mg/kg chlorides and 2030-mg/kh TPH which exceed the threshold limits of 19.15.17.13.C. See attached "preliminary" sample results.

Describe Area Affected and Cleanup Action Taken.* Contamination was addressed under the "spill rule" 19.15.30 Following preliminary sample analysis data, 36-yds of contaminated soil was hauled from site of release to Envirotech Landfarm. Pit was then re-sampled and "confirmation" sample analysis data tested 288-mg/kg chloride and <10-mg/kg TPH (8015 mthd). The Chloride and TPH releases do not pose a threat to groundwater contamination. See attachment to "Final" C-141 and invoice #30480. C-144 ranking =0.

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: <i>Kurt Fagrelus</i> | OIL CONSERVATION DIVISION | |
| Printed Name: Kurt Fagrelus | Approved by District Supervisor: <i>Jonathan D. Kelly</i> | |
| Title: VP-Land & Exploration | Approval Date: 4/19/2012 | Expiration Date: |
| E-mail Address: kfagrelus@duganproduction.com | Conditions of Approval: | Attached <input type="checkbox"/> |
| Date: 4-3-2012 | Phone: 505-325-1821 | |

* Attach Additional Sheets If Necessary

NJK1211048710

McSewell #2

Preliminary Sample Analysis



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

February 16, 2012

MIKE SANDOVAL

DUGAN PRODUCTION

P. O. BOX 420

FARMINGTON, NM 87499

RE: EARTHEN PIT

Enclosed are the results of analyses for samples received by the laboratory on 02/14/12 13:00.

Cardinal Laboratories is accredited through Texas NELAP under certificate number T104704398-11-3. Accreditation applies to drinking water, non-potable water and solid and chemical materials. All accredited analytes are denoted by an asterisk (*). For a complete list of accredited analytes and matrices visit the TCEQ website at www.tceq.texas.gov/field/qa/lab_accred_certif.html.

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

| | |
|------------------|------------------------------|
| Method EPA 552.2 | Haloacetic Acids (HAA-5) |
| Method EPA 524.2 | Total Trihalomethanes (TTHM) |
| Method EPA 524.4 | Regulated VOCs (V1, 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,

A handwritten signature in black ink that reads "Celey D. Keene".

Celey D. Keene

Lab Director/Quality Manager

Analytical Results For:

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

| | | | |
|-------------------|---------------|---------------------|---------------|
| Received: | 02/14/2012 | Sampling Date: | 02/10/2012 |
| Reported: | 02/16/2012 | Sampling Type: | Soil |
| Project Name: | EARTHEN PIT | Sampling Condition: | Cool & Intact |
| Project Number: | MC DOUGALL #2 | Sample Received By: | Jodi Henson |
| Project Location: | NOT GIVEN | | |

Sample ID: MC DOUGALL #2 (H200384-01)

| BTEX 8021B | | mg/kg | | Analyzed By: AP | | | | | | |
|----------------|--------|-----------------|------------|-----------------|------|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| Benzene* | <0.050 | 0.050 | 02/16/2012 | ND | 1.93 | 96.5 | 2.00 | 16.0 | | |
| Toluene* | <0.050 | 0.050 | 02/16/2012 | ND | 2.09 | 105 | 2.00 | 15.8 | | |
| Ethylbenzene* | <0.050 | 0.050 | 02/16/2012 | ND | 2.15 | 107 | 2.00 | 15.0 | | |
| Total Xylenes* | <0.150 | 0.150 | 02/16/2012 | ND | 6.65 | 111 | 6.00 | 15.5 | | |

Surrogate 4-Bromofluorobenzene (PIL) 115 % 64 4-134

| Chloride, SM4500Cl-B | | mg/kg | | Analyzed By: AP | | | | | | |
|----------------------|-------------|-----------------|------------|-----------------|-----|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| Chloride | 1630 | 16.0 | 02/15/2012 | ND | 416 | 104 | 400 | 0.00 | | |

| TPH 418.1 | | mg/kg | | Analyzed By: CK | | | | | | |
|------------------|-------------|-----------------|------------|-----------------|------|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| TPH 418.1 | 2030 | 100 | 02/16/2012 | ND | 2620 | 105 | 2500 | 3.49 | | |

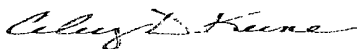
| TPH 8015M | | mg/kg | | Analyzed By: MS | | | | | | |
|-------------------------|-------------|-----------------|------------|-----------------|-----|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| GRO C6-C10 | 28.8 | 10.0 | 02/14/2012 | ND | 190 | 95.2 | 200 | 3.43 | | |
| DRO >C10-C28 | 441 | 10.0 | 02/14/2012 | ND | 181 | 90.3 | 200 | 5.09 | | |
| Total TPH C6-C28 | 470 | 10.0 | 02/14/2012 | ND | 371 | 92.8 | 400 | 4.24 | | |

Surrogate 1-Chlorooctane 98.5 % 55 5-154
Surrogate 1-Chlorooctadecane 101 % 57 6-158

Cardinal Laboratories

*=Accredited Analyte

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



Celey D. Keene, Lab Director/Quality Manager

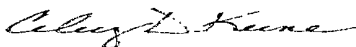
Notes and Definitions

- 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

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Celest D. Keene, Lab Director/Quality Manager



CHAIN OF CUSTODY RECORD

Page ____ of ____

Client: Nuyen Production

Contact: Mike Sandoval

Address: _____

Phone Number: 330-0929

FAX Number: 325-4873

Mike Sandoval@NuyenProduction.com

NOTES:

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

PO# Earthen Pit

Project Name: MC Douyall #2

| 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 [Signature]

| Lab Name. Green Analytical Laboratories | | (970) 247-4220 FAX (970) 247-4227 | | Analyses Required | | | | | | | | | | Comments | | | |
|--|------------|-----------------------------------|-----------------------|--------------------------|---------------------------------|-----------------------|------------------------|----------------------|--------------------|-------|------|-----------|----------|----------|-----|-----------------|---|
| Address: 75 Suttle Street, Durango, CO 81303 | | | | | | | | | | | | | | | | | |
| Sample ID | Collection | | Miscellaneous | | | | Preservative(s) | | | | | TPH 416.1 | TPH 8015 | BTEX | CL- | | |
| | Date | Time | Collected by: (Init.) | Matrix Type From Table 1 | No. of Containers | Sample Filtered ? Y/N | Unpreserved (Ice Only) | HNO3 | HCL | H2SO4 | NAOH | | | | | Other (Specify) | |
| H200384 | 2-10-12 | 1:10 | | | | | | | | | | | | | | | Results by Thursday no extra charge talked to [Name] Chris |
| 1- MC Douyall #2 | | | | | | | | | | | | | | | | | |
| 2. | | | | | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | | | | | |
| 5. | | | | | | | | | | | | | | | | | |
| 6. | | | | | | | | | | | | | | | | | |
| 7. | | | | | | | | | | | | | | | | | |
| 8. | | | | | | | | | | | | | | | | | |
| 9. | | | | | | | | | | | | | | | | | |
| 10. | | | | | | | | | | | | | | | | | |
| Relinquished by: <u>[Signature]</u> | | | Date: <u>2-10-12</u> | Time: <u>5:35</u> | Received by: <u>[Signature]</u> | | | Date: <u>2/10/12</u> | Time: <u>11:35</u> | | | | | | | | |
| Relinquished by: _____ | | | Date: _____ | Time: _____ | Received by: <u>[Signature]</u> | | | Date: <u>2/14/12</u> | Time: <u>13:00</u> | | | | | | | | |

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

40 #26

McDougal #2 - Perm Pit Confirmation
Sampl. Anal.



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

February 28, 2012

MIKE SANDOVAL

DUGAN PRODUCTION

P. O. BOX 420

FARMINGTON, NM 87499

RE: EARTHEN PIT

Enclosed are the results of analyses for samples received by the laboratory on 02/24/12 10:30.

Cardinal Laboratories is accredited through Texas NELAP under certificate number T104704398-11-3. Accreditation applies to drinking water, non-potable water and solid and chemical materials. All accredited analytes are denoted by an asterisk (*). For a complete list of accredited analytes and matrices visit the TCEQ website at www.tceq.texas.gov/field/qa/lab_accred_certif.html.

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

| | |
|------------------|------------------------------|
| Method EPA 552.2 | Haloacetic Acids (HAA-5) |
| Method EPA 524.2 | Total Trihalomethanes (TTHM) |
| Method EPA 524.4 | Regulated VOCs (V1, 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,

A handwritten signature in cursive script that reads "Celey D. Keene".

Celey D. Keene

Lab Director/Quality Manager

Analytical Results For:

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

| | | | |
|-------------------|-------------|---------------------|---------------|
| Received: | 02/24/2012 | Sampling Date: | 02/23/2012 |
| Reported: | 02/28/2012 | Sampling Type: | Soil |
| Project Name: | EARTHEN PIT | Sampling Condition: | Cool & Intact |
| Project Number: | MCDUGALL #2 | Sample Received By: | Jodi Henson |
| Project Location: | NOT GIVEN | | |

Sample ID: MC DOUGALL #2 (H200486-01)

| BTEX 8021B | | mg/kg | | Analyzed By: AP | | | | | | |
|----------------|--------|-----------------|------------|-----------------|------|------------|---------------|-------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| Benzene* | <0.050 | 0.050 | 02/24/2012 | ND | 1.94 | 97.0 | 2.00 | 0.668 | | |
| Toluene* | <0.050 | 0.050 | 02/24/2012 | ND | 2.10 | 105 | 2.00 | 1.86 | | |
| Ethylbenzene* | <0.050 | 0.050 | 02/24/2012 | ND | 2.14 | 107 | 2.00 | 2.71 | | |
| Total Xylenes* | <0.150 | 0.150 | 02/24/2012 | ND | 6.67 | 111 | 6.00 | 2.13 | | |

Surrogate 4-Bromofluorobenzene (PIL) 113 % 64 4-134

| Chloride, SM4500Cl-B | | mg/kg | | Analyzed By: HM | | | | | | |
|----------------------|------------|-----------------|------------|-----------------|-----|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| Chloride | 288 | 16.0 | 02/27/2012 | ND | 416 | 104 | 400 | 3.77 | | |

| TPH 418.1 | | mg/kg | | Analyzed By: CK | | | | | | |
|-----------|--------|-----------------|------------|-----------------|------|------------|---------------|--------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| TPH 418.1 | <100 | 100 | 02/24/2012 | ND | 2470 | 98.7 | 2500 | 0.0810 | | |

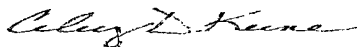
| TPH 8015M | | mg/kg | | Analyzed By: MS | | | | | | |
|------------------|--------|-----------------|------------|-----------------|-----|------------|---------------|------|-----------|--|
| Analyte | Result | Reporting Limit | Analyzed | Method Blank | BS | % Recovery | True Value QC | RPD | Qualifier | |
| GRO C6-C10 | <10.0 | 10.0 | 02/24/2012 | ND | 192 | 96.0 | 200 | 3.91 | | |
| DRO >C10-C28 | <10.0 | 10.0 | 02/24/2012 | ND | 158 | 79.2 | 200 | 8.16 | | |
| Total TPH C6-C28 | <10.0 | 10.0 | 02/24/2012 | ND | 350 | 87.6 | 400 | 5.81 | | |

Surrogate 1-Chlorooctane 99.8 % 55 5-154
Surrogate 1-Chlorooctadecane 105 % 57 6-158

Cardinal Laboratories

* = Accredited Analyte

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Celey D. Keene, Lab Director/Quality Manager

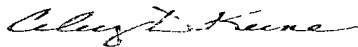
Notes and Definitions

- 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

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Celestine D. Keene, Lab Director/Quality Manager



CHAIN OF CUSTODY RECORD

Page ____ of ____

Client: Dugan Production
 Contact: Mike Sandoval
 Address: _____
 Phone Number: 330-0729
 FAX Number: 337-4043

NOTES:

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

| 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 # _____ |

PO# Earth Pit
 Project Name: Mc Dougall #2

Samplers Signature: [Signature]

| Lab Name. Green Analytical Laboratories (970) 247-4220 FAX (970) 247-4227 | | Analyses Required | | | | | | | | | | Comments | | | | | | | | | | | |
|---|----------------|-------------------|-----------------------|--------------------------|---------------------------------|----------------------|------------------------|----------------------|-------------------|-------------------------------------|------|------------------|----------------------|--------------------|-------------|-----------------|-------------|-------------|-------------|------------|--|--|--|
| Address: 75 Suttle Street, Durango, CO 81303 | | | | | | | | | | | | | | | | | | | | | | | |
| Sample ID | Collection | | Miscellaneous | | | | Preservative(s) | | | | | | | | | | | | | | | | |
| | Date | Time | Collected by: (Init.) | Matrix Type From Table 1 | No. of Containers | Sample Filtered? Y/N | Unpreserved (Ice Only) | HNO3 | HCL | H2SO4 | NAOH | | | Other (Specify) | | | | | | | | | |
| 1. <u>Mc Dougall #2</u> | <u>2-23-12</u> | <u>1:42</u> | | | | | | | | | | <u>Earth Pit</u> | <u><</u> | <u>TPH 416.1</u> | <u><</u> | <u>TPH 8015</u> | <u><</u> | <u>BTEX</u> | <u><</u> | <u>CL-</u> | | | |
| 2. | | | | | | | | | | | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | | | | | | | | | | | |
| 5. | | | | | | | | | | | | | | | | | | | | | | | |
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| 7. | | | | | | | | | | | | | | | | | | | | | | | |
| 8. | | | | | | | | | | | | | | | | | | | | | | | |
| 9. | | | | | | | | | | | | | | | | | | | | | | | |
| 10. | | | | | | | | | | | | | | | | | | | | | | | |
| Relinquished by: <u>[Signature]</u> | | | Date: <u>2-23-12</u> | Time: <u>3:17</u> | Received by: <u>[Signature]</u> | | | Date: <u>2/23/12</u> | Time: <u>7:17</u> | Relinquished by: <u>[Signature]</u> | | | Date: <u>2/24/12</u> | Time: <u>10:30</u> | | | | | | | | | |

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

30

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: 30480
 Job: 06094-0105
 DATE: February 20, 2012

McDougall #2 - Accept exempt
 contaminated soil from earthen pit

Ordered by: Mike Sandoval

Project Manager: Kendra Runung

| <u>Employee</u> | <u>Staff Type</u> | <u>Description</u> | <u>Units</u> | <u>Rate</u> | <u>Total</u> |
|----------------------------|-------------------|--------------------|--------------|-------------|-----------------|
| 02/09/2012 | | | | | |
| Landfarm | | | | | |
| | | BOL# 40766 | 1.00 EA | 10.00 | 10.00 |
| Paint Filter Test (LF) | | BOL# 40766 | 1.00 EA | 15.00 | 15.00 |
| Chloride (LF) | | BOL# 40766 | 36.00 CY | 18.00 | 648.00 |
| Contaminated Soil Receival | | | | | |
| Landfarm Total: | | | 38.00 | | 673.00 |
| 02/09/2012 Total: | | | 38.00 | | 673.00 |
| Invoice Sub-total | | | | | 673.00 |
| Sales Tax | | | | | 42.48 |
| Amount due this Invoice | | | | | \$715.48 |

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



Bill of Lading

PHONE: (505) 632-0615 • 5796 U.S. HIGHWAY 64 • FARMINGTON, NEW MEXICO 87401

MANIFEST # 40766
 DATE 2-9-12 JOB# 06094-0105

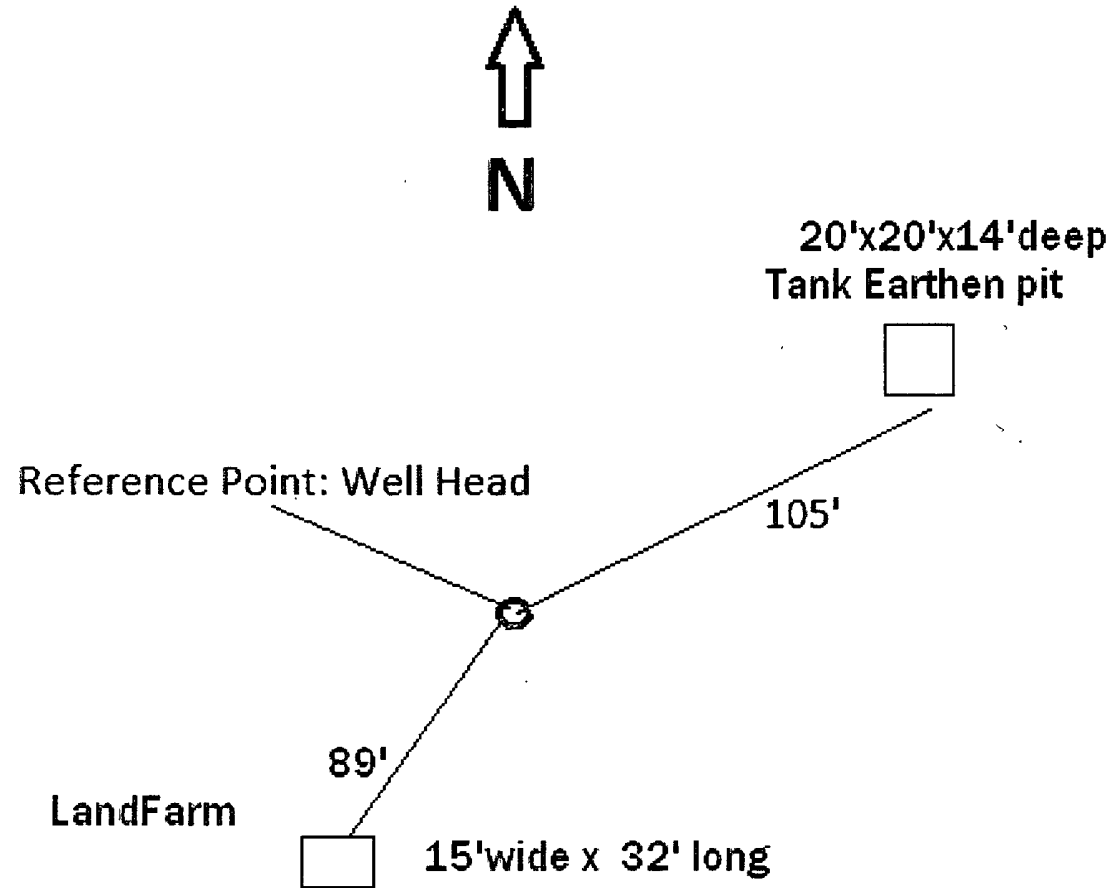
| LOAD NO. | COMPLETE DESCRIPTION OF SHIPMENT | | | | | | TRANSPORTING COMPANY | | | |
|----------|----------------------------------|--------------------|--|--------|-----|---------------|----------------------|------|-------|------------------|
| | POINT OF ORIGIN | DESTINATION | MATERIAL | GRID | YDS | BBLs | COMPANY | TRK# | TIME | DRIVER SIGNATURE |
| 1 | Dugan Pro | LFII-5 | CON'T SOIL | P-19 | 12 | 36 | Ralph Miller | Do7 | 13:20 | Jackson Silas |
| 2 | McDongall | " | " | P-18 | 12 | - | " | Do7 | 15:00 | Jackson Silas |
| 3 | #2 | " | " | P-18 | 12 | - | " | Do7 | 4:19 | Jackson Silas |
| 36 | | | | | | | | | | |
| RESULTS: | | LANDFARM EMPLOYEE: | | NOTES: | | | | | | |
| 1280 | CHLORIDE TEST | 1 | GARY ROBINSON # | | | | | | | |
| | PAINT FILTER TEST | 1 | Certification of above receipt & placement | | | | | | | |

"I certify the material hauled from the above location has not been added to or mixed with, and is the same material received from the above mentioned Generator, and that no additional materials have been added."

TRANSPORTER CO. Ralph W Miller NAME Jackson Silas SIGNATURE Jackson Silas
 COMPANY CONTACT Mike Senouel PHONE 505-330-0929 DATE 2-9-12

Signatures required prior to distribution of this legal document.

**Dugan Production
Mc Dougall #2
Production Tank Pit
and
LandFarm**



**LandFarm
From Reference Point Go S.15 Degrees
SE, For a Distance of 89' to center of LandFarm**

**Tank Earthen Pit
From Reference Point Go N. 45 Degrees NE. For
a Distance of 105' to Center of Pit.**

Permanent pit: McDougall #2
API number: 30-045-28619

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

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

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

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

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

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

| | | | | | | |
|--|---------------|--------------------------------|----------------|---|------------------------|---------------------|
| Lease Name: McDougall #2 | | | | | | |
| API No.: 30-045-28619 | | | | | | |
| Site Specific Information | | | | | | |
| Depth to Groundwater | 175-ft | Distance to Surface | 1200-ft | Wellhead Protection Area | > 1000-ft | |
| | | Water Body | | Distance from Water Source | | |
| Total Ranking Score | | | | | | |
| Depth to Groundwater | Ranking Score | Distance to Surface Water Body | Ranking Score | Wellhead Protection Area Distance from Water Source | Ranking Score | Total Ranking Score |
| <50-feet | 20 | <200-feet | 20 | <1000-feet from water source | Yes =20, No=0 | Score |
| 50 - 99 | 10 | 200 - 1000 | 10 | <200-feet domestic water | 0 | |
| >100-feet | 0 | >1000-feet | 0 | | | 0 |
| Total Ranking Score | | | | | Sample Analysis | |
| | | >19 | 10 - 19 | 0 - 9 | | |
| Benzene (mg/kg) | | 10 | 10 | 10 | <0.050 | |
| BTEX (mg/kg) | | 50 | 50 | 50 | <0.150 | |
| TPH (mg/kg) | | 100 | 1000 | 5000 | <10 | |
| Chlorides (mg/kg) | | N.A. | N.A. | N.A. | 288 | |
| Note: Analytical methods used for Benzene SW-846, BTEX SW-846, TPH 8015 and Chlorides 4500-C1-B. | | | | | | |
| C-144 ranking =0. Chloride release does not pose a threat to groundwater contamination. | | | | | | |

McDougall #2 Hydrogeologic Report

The McDougall #2 is located on Federal land (checkerboard area) on the Chaco Slope in San Juan County, New Mexico. The region is characterized as a high arid mesa broken by numerous, deep cutting arroyos.

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

The main source of stock water in the region is encountered in valley-fill deposits in existing arroyos at shallow depths of approximately 15 – 50 feet below the surface. The permanent pit is not located in an arroyo, the closest arroyo is over 1200-feet to the south (Exhibit 2).

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

The underlying Ojo Alamo Sandstone ranges from approximately 110-feet down to a depth of approximately 190-feet and is comprised of a coarse grained alluvial sandstone inter-bedded with lenses of mudstone and occasional conglomeratic sandstone. The Ojo Alamo may yield marginal quantities of water for livestock, however, the water quality is typically greater than 1,000-ppm total dissolved solids and high in sulfate.

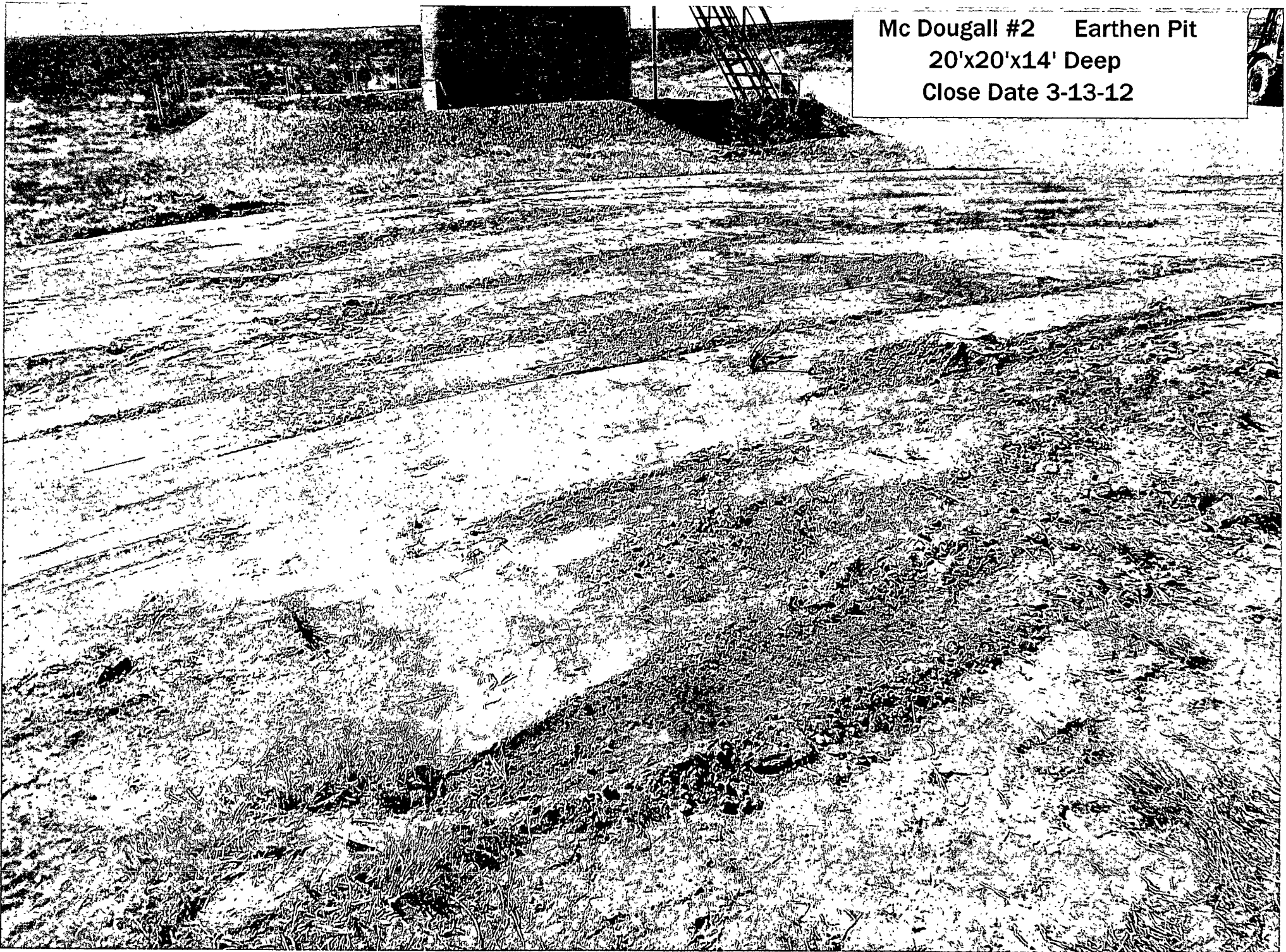
The Nacimiento and Ojo Alamo are potential sources of water in the area, however, nearby arroyos have breached the surface down to a depth of approximately 100-feet, there are no springs in the area, the Ojo Alamo outcrops approximately 1-mile away and the zones are not expected to contain water in the area.

Based on electric open hole logs, the iWATERS database and literature reviewed, a very small amount of poor quality ground water might be found at a depth of approximately 175-feet from the basal, Ojo Alamo Sandstone; however, the Fruitland Coal and Pictured Cliffs interval at 930-1050 should contain a larger quantity of very poor quality water.

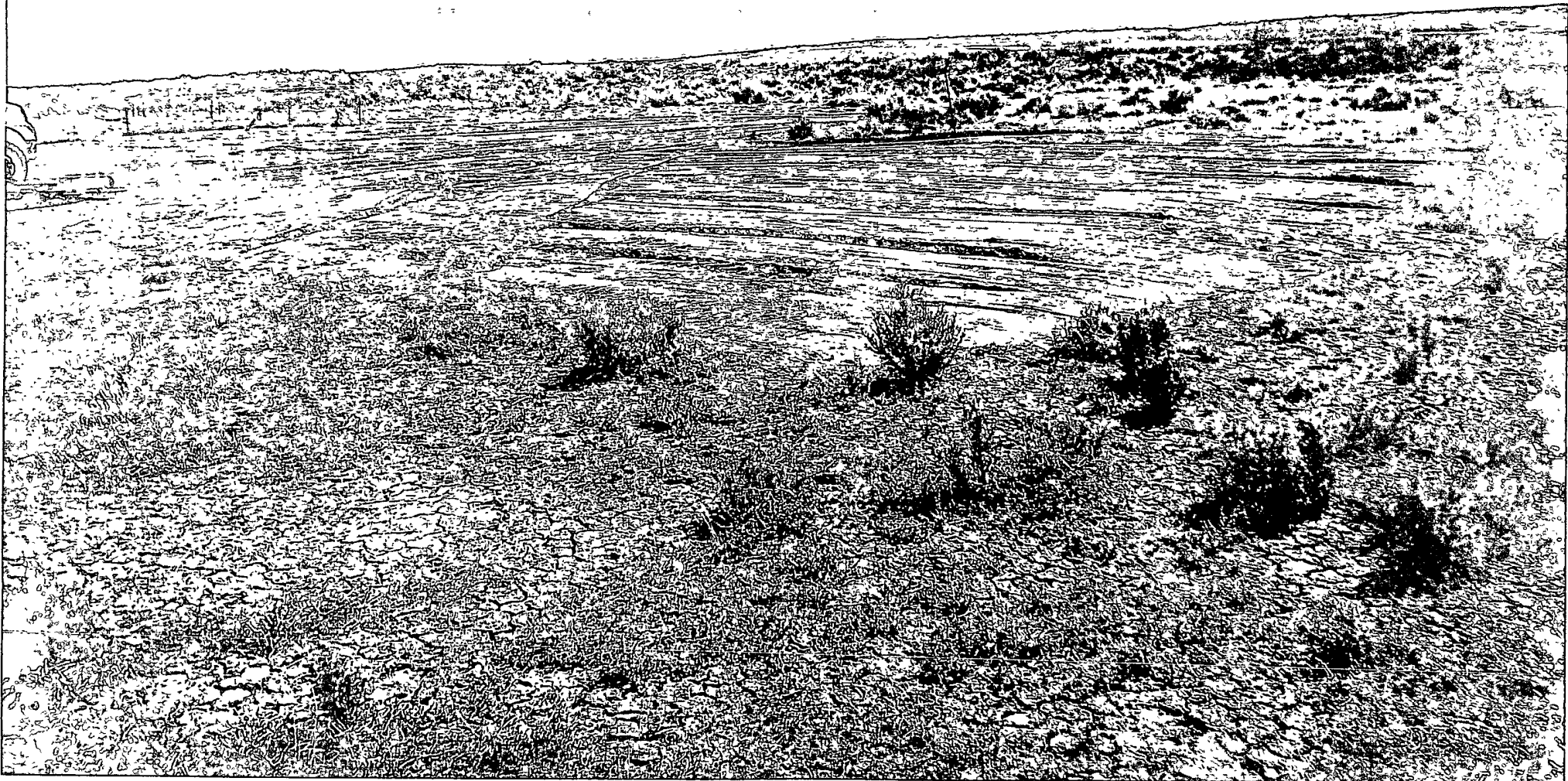
This Hydrogeologic Report was prepared by Mr. Kurt Fagrelus, Geologist for Dugan Production. Mr. Fagrelus has been employed as a geologist for Dugan for the past 31-years, received a MS in Geology from NMIMT in Socorro, NM and a BS in Geology from FLC in Durango, CO.

- Stone, W.J., Lyford, F.P., Frenzel, P.F., Mizell, N.H., and Padgett, E.T., 1983, Hydrogeology and water resources of San Juan Basin, New Mexico: New Mexico Bureau of Mines and Mineral Resources Hydrologic Report 6, 70 p.
- Brown, D.R., and Stone, W.J., 1979, Hydrogeology of Aztec quadrangle, San Juan County, New Mexico: New Mexico Bureau of Mines and Mineral Resources Hydrogeologic Sheet 1.
- Levings, G.W., 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.

Mc Dougall #2 Earthen Pit
20'x20'x14' Deep
Close Date 3-13-12



Mc Dougall #2 LandFarm
15' Wide x 32' Long
Close Date 3-13-12



Kurt Fagrelus

From: Kurt Fagrelus
Sent: Tuesday, February 21, 2012 8 09 AM
To: 'dmankiew@blm.gov'
Subject: FW McDougall #2 permanent pit

From: Kurt Fagrelus
Sent: Saturday, February 18, 2012 10:19 AM
To: 'dave_mankiewicz@nm.blm.gov'; 'mkelly@blm.gov'; 'lucas_vargo@blm.gov'
Subject: McDougall #2 permanent pit

Dear Dave Mankiewicz, Mark Kelly and Lucas Vargo,

As per requirements of the NMOCD "pit rule" you are hereby being notified of Dugan Production Corp 's intent to close the permanent pit on the McDougal #2 (UL-I, Sec 9, T23N, R10W) Once the pit is ready for final closure operations, you will be given 72-hours advance notice of the closure date. If you have any questions or require additional information, please contact me
Sincerely,

Kurt Fagrelus
Dugan Production Corp
505 325 1821 office
505 320 8248 cell
505 327 4613 fax

*72-hour notice was given to Mr. Brandon Powell by
phone 3-9-2012 and permanent pit was closed on
3-13-2012.
Kurt Fagrelus*

Kurt Fagrelius

From: Kelly, Mark C [mkelly@blm.gov]
To: Kurt Fagrelius
Sent: Wednesday, February 22, 2012 6:42 AM
Subject: Read McDougall #2 permanent pit

Your message

To: mkelly@blm.gov
Subject:

was read on 2/22/2012 6:42 AM

Kurt Fagrelus

From: Vargo, Lucas D [lvargo@blm.gov]
To: Kurt Fagrelus
Sent: Wednesday, February 22, 2012 9:42 AM
Subject: Read McDougall #2 permanent pit

Your message

To: lvargo@blm.gov
Subject:

was read on 2/22/2012 9:42 AM.