Form 3160-3
(July 1992)

SUBMIT IN TRIPLICATE*
(Other instructions on reverse side)

FORM APPROVED
OMB NO. 1004-0136
Expires: February 28, 1995

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

5. LEASE DESIGNATION AND SERIAL NO.: NMNM-53926

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

1a. TYPE OF WORK: DRILL [X] DEEPEN [ ] PLUG BACK [ ]

7. UNIT AGREEMENT NAME:

b. TYPE OF WELL: OIL WELL [ ] GAS WELL [X] OTHER — SINGLE ZONE [X] MULTIPLE ZONE [ ]

8. FARM OR LEASE NAME, WELL NO.: Federal 20-6-3 #3

2. NAME OF OPERATOR: SG Interests I, Ltd.

9. API WELL NO.: 30-031-21069

3. ADDRESS AND TELEPHONE NO.: c/o Nika Energy Operating, LLC, PO Box 2677, Durango, CO 81302-2677

10. FIELD AND POOL, OR WILDCAT: Basin Fruitland Coal

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
At Surface: 660' FSL & 850' FWL, Unit M
At proposed prod. zone: 660' FSL & 850' FWL, Unit M

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA: SWSW Sec 3-T20N-R6W M

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: ~20 miles WSW from Cuba, NM

12. COUNTY OR PARISH: McKinley

13. STATE: NM

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any): 660'

16. NO. OF ACRES IN LEASE: 1565.56

17. NO. OF ACRES ASSIGNED TO THIS WELL: S/2; 320

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.: 1581'

19. PROPOSED DEPTH: 800'

20. ROTARY OR CABLE TOOLS: Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.): 6861'

22. APPROX. DATE WORK WILL START*: June 2005

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12-1/4"	J-55, 7"	20#	150'	140 sx
6-1/4"	J-55, 4-1/2"	10.5#	800'	100 sx

SG Interests I, Ltd. proposes drilling a Fruitland Coal well at the above location to further evaluate and develop methane reserves. SG will set 4-1/2" casing 150' below the Fruitland Coal base and cement to surface. The coals will be perforated and fracture stimulated.

BOP equipment and accessories will meet or exceed BLM requirements as outlined in 43CFR Part 3160. Additional BOP specifications are detailed in the Eight Point Drilling Program (attached).

Attachments:
- BOP diagram
- One mile radius and access
- Drill site layout
- Proposed equipment layout

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM : If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.

SIGNED [signature] TITLE Operations Manager DATE 5/16/2005

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY [signature] TITLE Acting AFM DATE 7/22/05

*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4

NMOCD

DRILLING OPERATIONS AUTHORIZED ARE SUBJECT TO COMPLIANCE WITH ATTACHED "GENERAL REQUIREMENTS".

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

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised June 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number	2 Pool Code	3 Pool Name
30 031 - 21069	71629	FRUITLAND COAL

4 Property Code	5 Property Name	6 Well Number
032735 34980	FEDERAL 20-6-3	3

7 OGRID No.	8 Operator Name	9 Elevation
020572	SG INTERESTS I, LTD.	6861

10 Surface Location

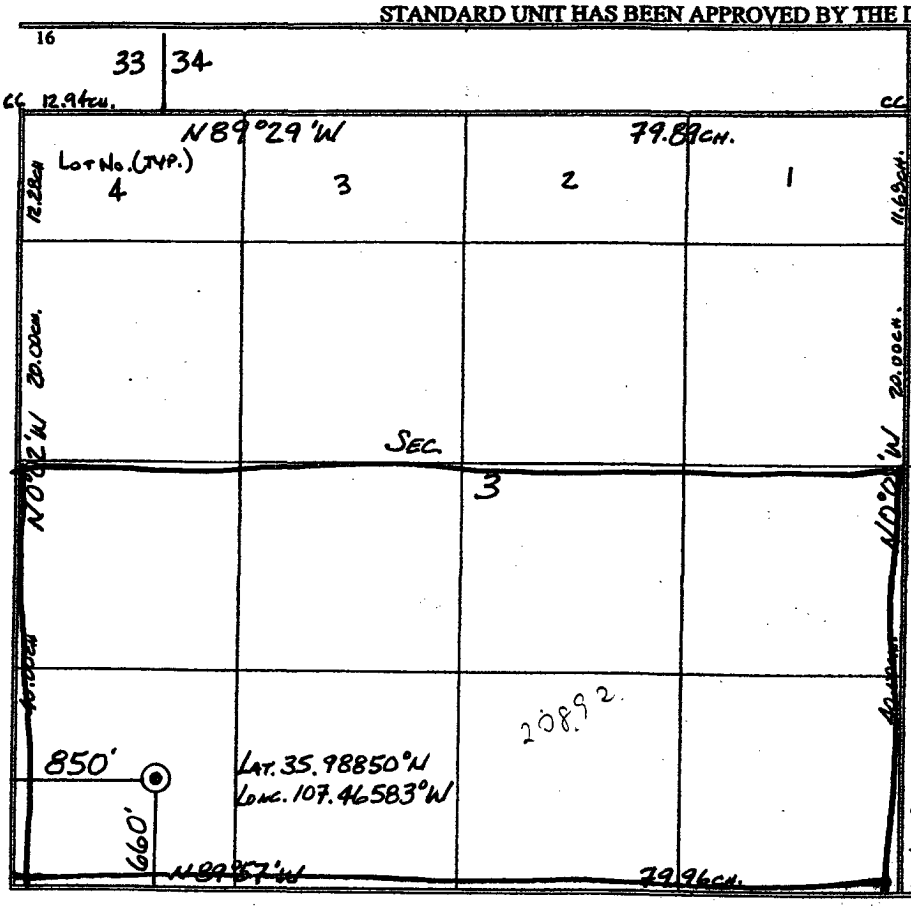
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	3	20N	6W		660	South	850	West	McKinley

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.
S/2			

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



17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: Lynn Garner

Printed Name: Lynn Garner

Title and E-mail Address: Operations Manager
lynn@nikaenergy.com

Date: January 21, 2005

18 SURVEYOR CERTIFICATION

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.

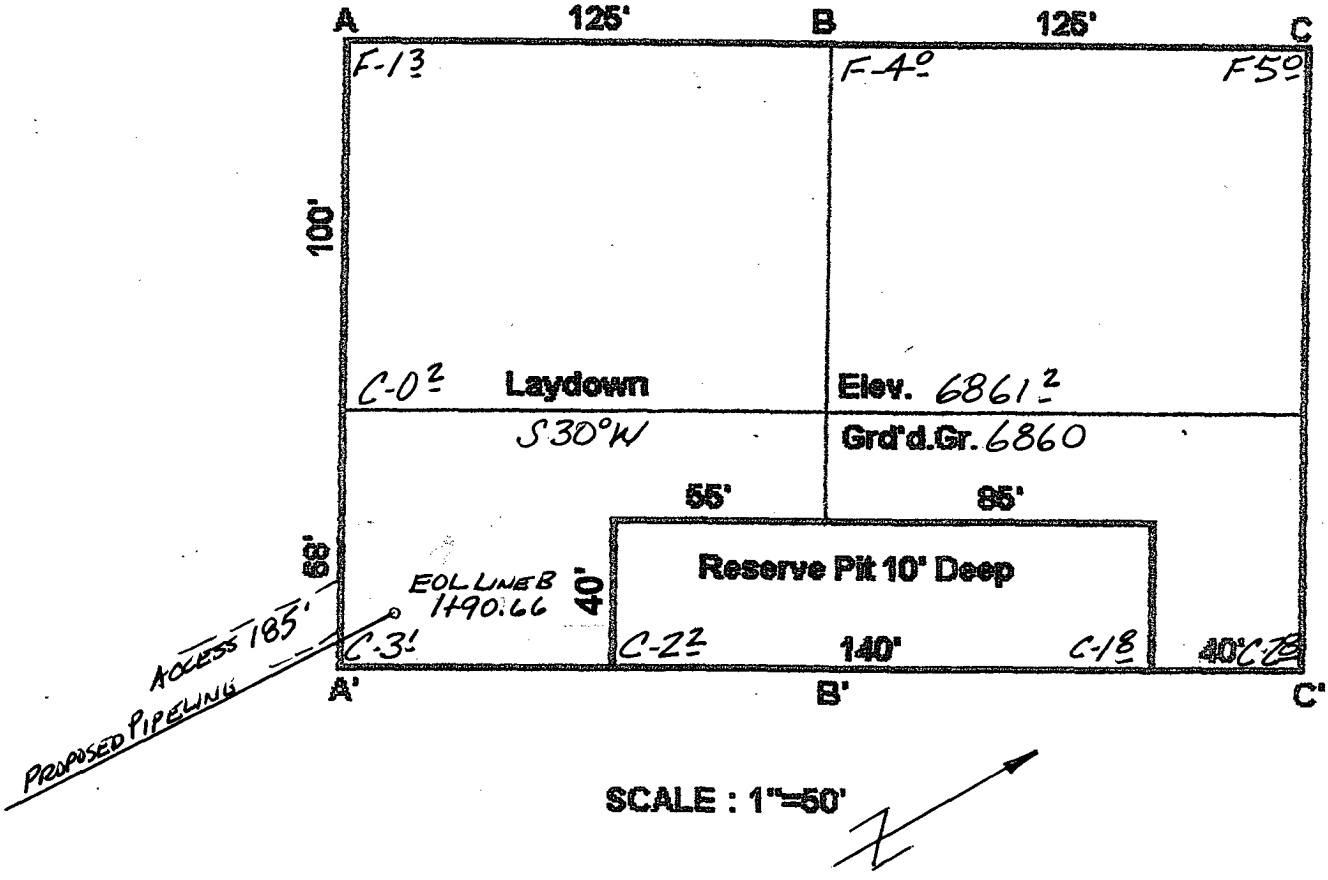
Date of Survey: 18 Jan. 2005

Signature and Seal of Professional Surveyor: #8466

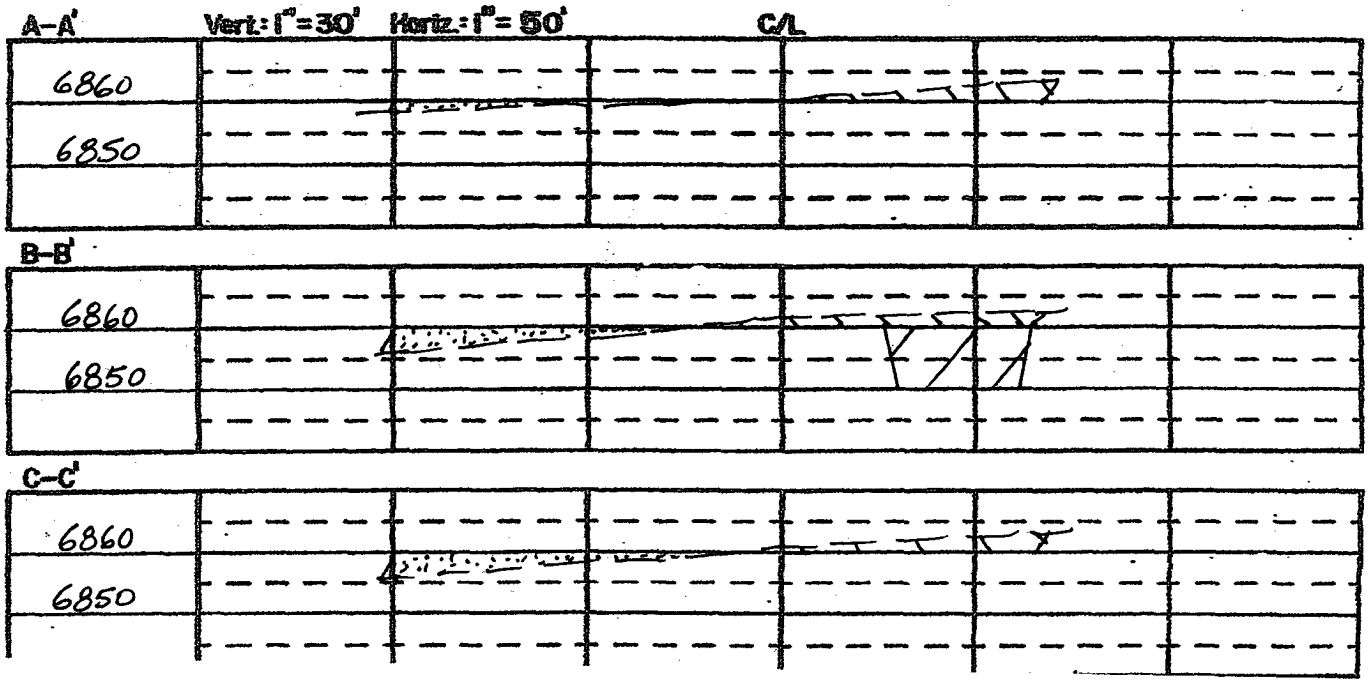
William E. Mahnke II

Certificate Number: 8466

SG INTERESTS I, LTD.
FEDERAL 20-6-3 #3
660'FSL & 850'FWL
Sec.3, T20N, R6W, NMPM
McKinley Co., NM



SCALE : 1"=50'



SG Interests I, Ltd.
(Agent: Nika Energy Operating, LLC)
PO Box 2677
Durango, CO 81302
(970) 259-2701

Federal 20-6-3 #3
SWSW Sec 3-20N-R6W
660' FSL & 850' FWL
McKinley County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	80'
Kirkland	240'
Fruitland	415'
Pictured Cliffs	650'
Total Depth	800'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	610'

3. Minimum Specifications for Pressure Control Equipment:

BOP equipment and accessories will meet or exceed BLM requirements outlined in 43 CFR Part 3160.

A 2000 psig double ram hydraulic BOP will be used (see attached diagram). Accessories to the BOP will meet BLM requirements for a 2000 psig system. The accumulator system capacity will be sufficient to close all BOPE with a 50% safety factor. Fill line, kill line and line to choke manifold will be 2". BOP's will be function tested every 24 hours and will be recorded on IADC log.

Surface casing will be tested to 1500 psig for 30 minutes.

Accessories to BOPE will include upper and lower Kelly cocks with handles, stabbing valve to fit drill pipe on floor at all times, string float at bit, 2000 psig choke manifold with 2" adjustable and 2" positive chokes, and pressure gauge.

4. Casing and Cementing Program:

Hole Size	Interval	Csg Size	Wt, Grd, Jt
12-1/4"	0-150'	7"	20#, J-55, STC
6-1/4"	0-800'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 140 sx (165 cu ft) class B w/2% CaCl and 1/4#/sx of celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volumes include excess to circulate cement to surface. A guide shoe, insert float and three (3) centralizers will be used. WOC time is 8 hours. The casing will be pressure tested to 1500 psig.

Production Casing will be cemented with 100 sx (118 cu ft) class B w/2% CaCl and 1/4#/sx celloflake (Yield = 1.18 cuft/sx, Weight = 15.6 #/gal). Cement volume includes excess to circulate cement to surface. In the event cement is not circulated a temperature survey will be run to determine the actual cement top. Cementing equipment will include a guide shoe, float collar and 10 centralizers. Class G or H cement may be used depending on availability of Class B.

5. Mud Program:

A native water based mud system (FW) will be used initially followed by a low-solids, non-dispersed gel system (LSND) as needed to condition the hole for logs. Adequate amounts of lost circulation and weighting material will be on location if needed as well as sorbitive agents to handle potential spills of fuel or lubricants.

Depth	Type	Wt (ppg)	Vis (sec)	Wtr loss
0-150'	FW	± 8.5	30-33	NC
150'-TD	FW & LSND	± 8.7-9.1	30-50	8-10 cc

6. Testing, Coring and Logging Program:

No DST's or cores are planned. Openhole logs will include GR, Induction, Density and Caliper Logs. The GR-Density logs will be run from TD to the top of the Fruitland formation. GR-Induction-Caliper logs will be run from TD to the bottom of the surface casing.

7. Anticipated Abnormal Pressures and Temperatures:

No abnormal pressures or temperatures are expected in this well. Maximum anticipated Fruitland reservoir pressure is 300 psig with a normal temperature gradient.

8. Operations:

Anticipated spud date is June 2005 or as soon as permits are received and work can be scheduled. Estimated drilling time is 4 - 5 days. The Fruitland will be completed as a cased hole completion, perforated and hydraulically fracture stimulated. Completion operations are expected to take 5 - 7 days and will commence as soon after completion of drilling operations and scheduling allow.

2-M SYSTEM