Form 3160-3
(April 2004)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0137
Expires March 31, 2007

2006 APR 14 AM 10 23
RECEIVED
070 FARMINGTON NM

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Designation and Serial No.: NMNM-99735
6. If Indian, Allottee or Tribe Name:
7. If Unit or CA, Agreement, Name and No.:

1a. Type of Work: ☒ DRILL ☐ REENTER

1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☒ Single Zone ☐ Multiple Zone

8. Lease Name and Well No.: Synergy 21-7-7 # 136

2. Name of Operator: Synergy Operating, LLC — NM OGRID # 163458

9. API Well No.: 30-043-21022

3a. Address: PO Box 5513, Farmington, NM 87499

3b. Phone Number: (505) 325-5449

10. Field and Pool, or Exploratory: Basin Fruitland Coal

11. Sec., T., R., M., or Blk. and Survey or Area: J Sec 07, T-21-N, R-07-W

4. Location of Well (Footage, Sec, T. R., M, or Survey Description)
At surface: Unit Letter J, 1835' FSL, 1970' FEL, Sec 7, T21N-R7W
At proposed prod. Zone: Same

14. Distance in miles and direction from nearest town or post office*: 11 Miles South of Lybrook, New Mexico. Turn South US Hwy 550 MM - 113.25

12. County or Parish: Sandoval

13. State: New Mexico

15. Distance from proposed* location to nearest propety or lease line, ft. (Also to nearest drlg. Unit line, if any): 1835 Feet from South Line

16. No of Acres in lease: 1,921.60 Acres

17. Spacing Unit dedicated to this well: 320.00 ~~322.00~~ Acres - East Half

18. Distance from proposed* location to nearest propety or lease line, ft.: 1970 Feet from East Line

19. Proposed Depth: 850'

20. BLM/BIA Bond No. on file: NM-2559

21. Elevation (Show whether DF, KDB, RT, GL, etc.): 6606' Ground Level

22. Approximate date work will start*: May 15, 2006

23. Estimated duration: 30 days

MAY 2006 RECEIVED OIL CONS. DIV. DIST. 3

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

1. Well plat certified by a registered surveyor.
2. A Drilling Plan
3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office.
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification.
6. Such other site specific information and/or plans as may be required by the authorized officer

Size of Hole	Grade, Size of Casing	Weight per Foot	Setting Depth	Quantity of Cement
12-1/4"	8-5/8" K-55	24 #	~~90~~ 120'	~~52~~ 50 sxs, ~~74~~ 71 ft3 - 100% Excess
7-7/8"	5-1/2" K-55	15.5#	850'	211 sxs, 294 ft3 - 100% OH Excess

SEE ATTACHED APD INFORMATION

Latitude: 36.06402 Deg N
Longitude: 107.61515 Deg W

25. Signature: [signature] — Name(Printed/Typed): Thomas E. Mullins — Date: 4-14-06

Title: Engineering Manager

Approved by (Signature): [signature] — Name(Printed/Typed): — Date: 5/24/06

Title: AFM — Office: FFO

Application approval does not warrant or certify 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, are attached.

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowlingly and willfully to make to any department or agency of the United States any false, ficticious, or fraudulent statements or representations as to any matter within its jurisdiction.

*(Instructions on reverse)

NMOCD

DISTRICT I
1625 N. French Dr., Hobbs, N.M. 88240

DISTRICT II
811 South First, Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

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Form C-102
Revised August 15, 2000

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
30-043-21022	71629	FRUITLAND COAL

[4] Property Code	[5] Property Name	[6] Well Number
35723	SYNERGY 21-7-7	136

[7] OGRID No.	[8] Operator Name	[9] Elevation
163458	SYNERGY OPERATING, L.L.C.	6606'

[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
J	7	21N	7W		1835'	SOUTH	1970'	EAST	SANDOVAL

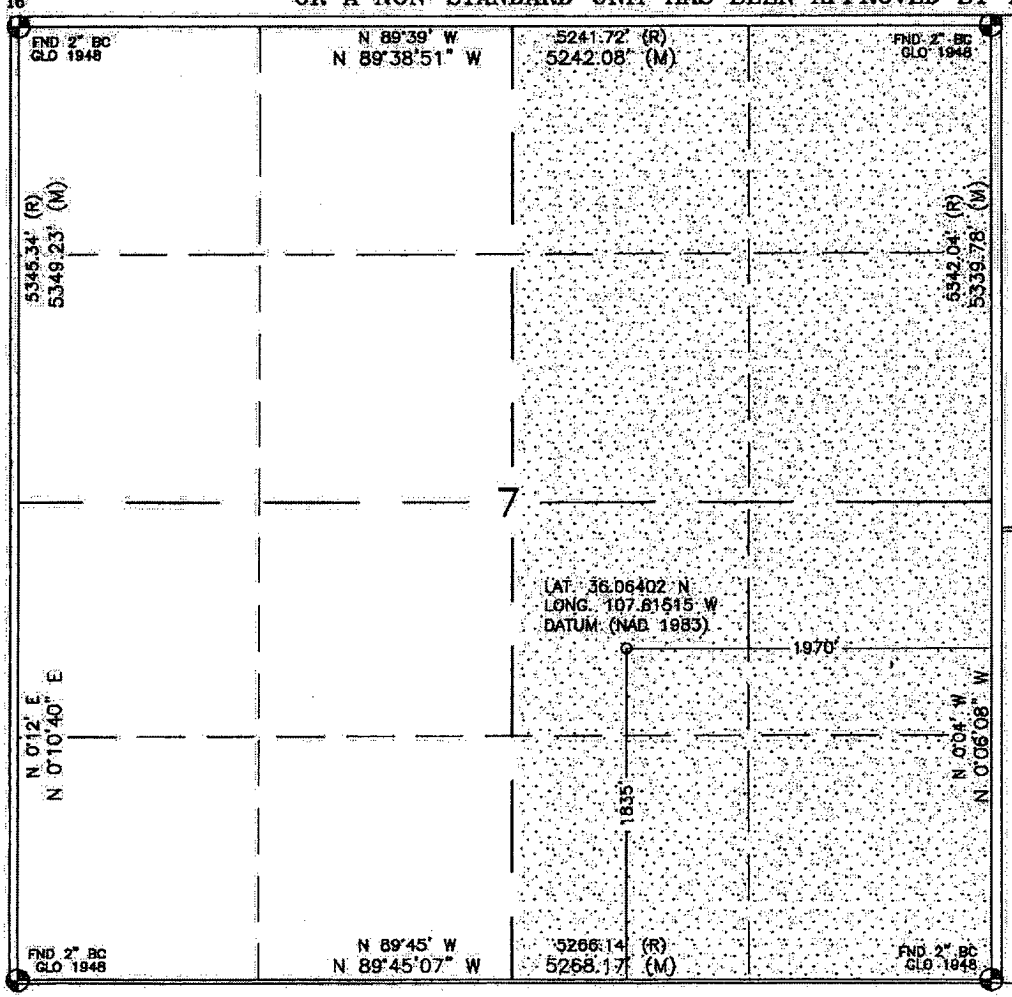
[11] Bottom Hole Location If Different From Surface

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.
320.00 ~~322.00~~ Acres – (E/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

16



17 OPERATOR CERTIFICATION

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

Signature

THOMAS E. MULLINS
Printed Name

ENGINEERING MANAGER
Title

3-22-06
Date

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.

MARCH 16, 2006
Date of Survey

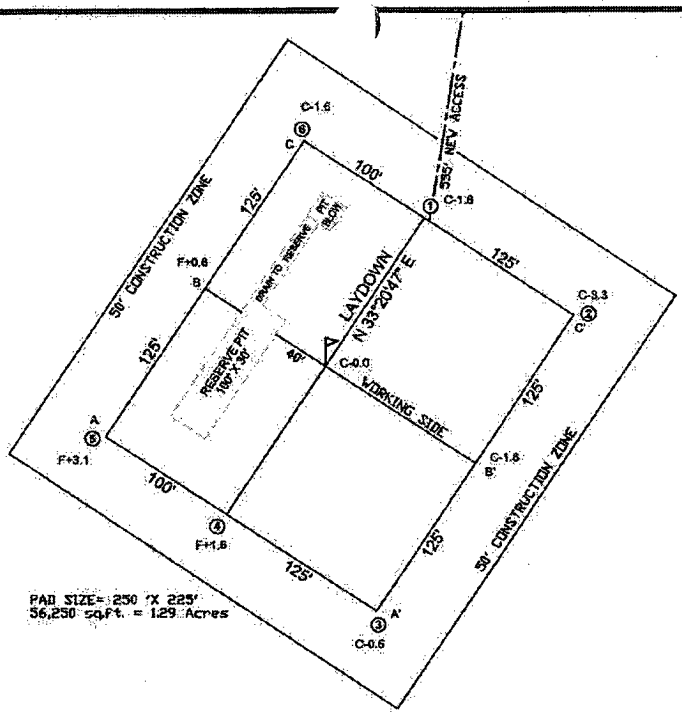
Signature and Seal of Professional Surveyor:

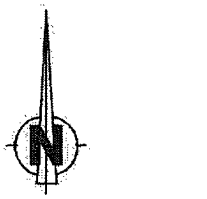
DAVID R. RUSSELL
NEW MEXICO
10201
REGISTERED PROFESSIONAL LAND SURVEYOR

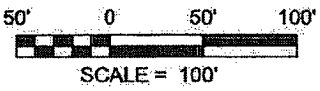
DAVID R. RUSSELL
Certificate Number 10201

SYNERGY OPERATING, L.L.C.

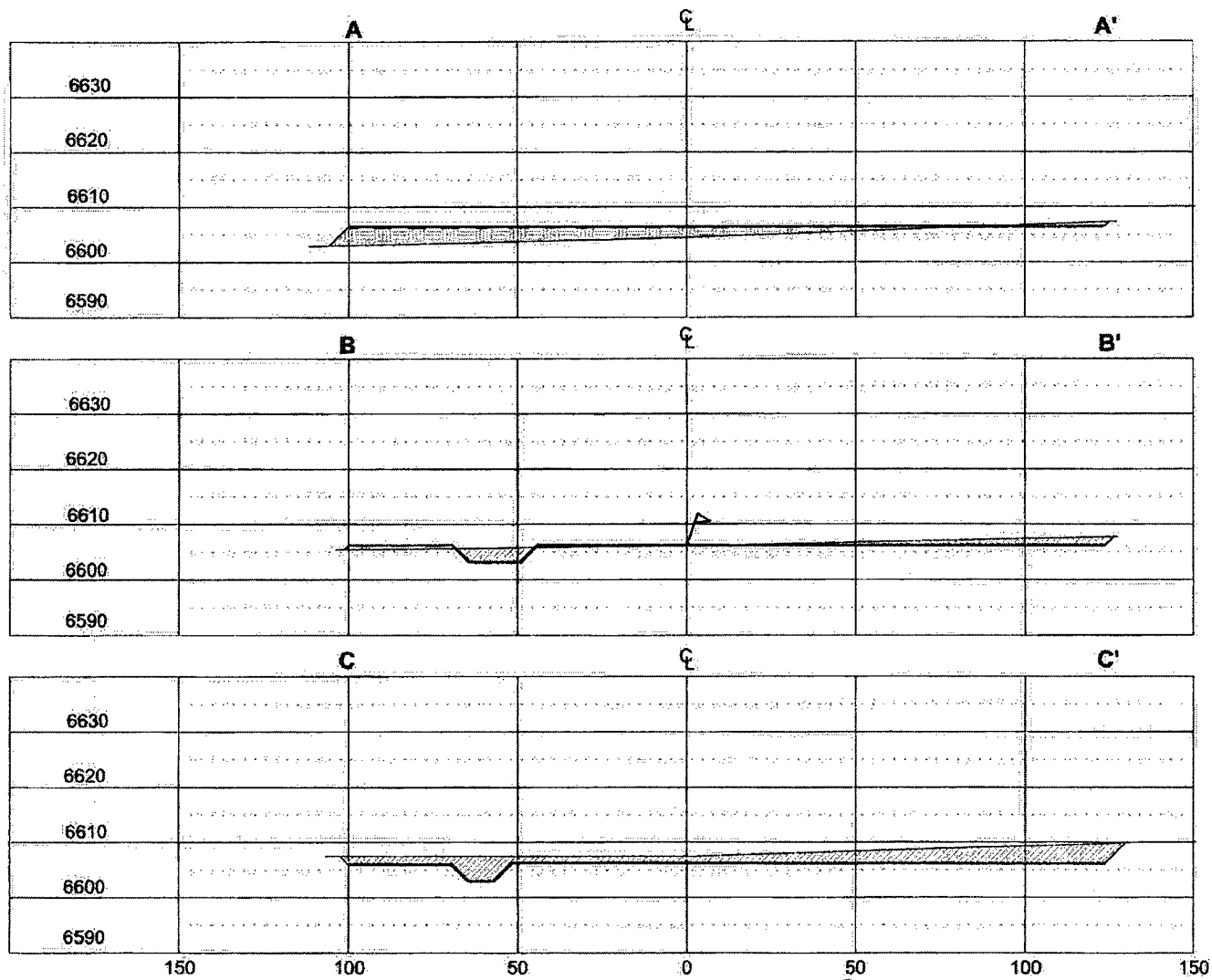
SYNERGY 21-7-7 #136
1835' FSL & 1970' FEL
LOCATED IN THE NW/4 SE/4 OF SEC. 7,
T21N, R7W, N.M.P.M.,
SANDOVAL COUNTY, NEW MEXICO
ELEVATION: 6606', NAVD 88







LATITUDE: 36.06402 N
LONGITUDE: 107.61515 W
DATUM: NAD 83



HORIZ. SCALE: 1"=50'
VERT. SCALE: 1"=30'

Russell Surveying
1409 W. Aztec Blvd. #5
Aztec, New Mexico 87410
Office Ph. 505-334-8637

Synergy Operating LLC
Operations Plan

Well Name: Synergy 21-7-7 # 136

Location: Unit J - 1835' FSL, 1970' FEL, Sec. 7, T-21-N, R-7-W, Sandoval Co. NM
Latitude 36.06402° N, Longitude 107.61515° W (NAD 83)

Field: Basin Fruitland Coal

Elevation: 6606' GL

GEOLOGIC PROGRAM

Formations:	**Tops/Depth**	**Fluids**
Base Ojo/Top Kirtland	Surface	None
Fruitland	193'	Natural gas & produced water
Lower Fruitland Coal	531'	Natural gas & produced water
Pictured Cliffs	557'	Natural gas & produced water
TOTAL Depth	850'	

Logging Program:

A) Open Hole: Density/Neutron & Gamma Ray: TD to Surface Csg Shoe
B) Cased Hole: GR-CCL

Mudlogs, Cores, DST's:

No mudlogs, coring or drill-stem testing (DST's) are scheduled.

Anticipated Downhole Conditions:

It is not anticipated that any abnormal temperatures, abnormal pressures or hydrogen sulfide gas will be encountered. The maximum anticipated formation pressures are expected to be less than 500-PSIG. A minimum of MMS Class 2 BOP equipment will be used.

DRILLING PROGRAM

Contractor: A local rotary drilling company is yet to be determined.

Mud Program: Freshwater based mud system will be utilized. Water sourced from commercial suppliers.

Depth	Type	Viscosity	#'s/Gal
0-~~90'~~ 120'	Spud	40-50	8.4-8.9
120' ~~90'~~-TD	Low Solids, Non-dispersed	30-60	8.4-9.5*

* Barite will be used as a weighting material if needed

Pressure Control / Blow Out Preventers (BOP's):

All BOP systems will be in accordance with MMS Onshore Oil & gas Order No2. Until the drilling contract has been let, the exact make, model and pressure rating of BOP's is unknown. A typical double gate BOP with a rotating head is shown in the attached Exhibit #1. A typical Choke & Kill manifold is also shown in the attached Exhibit #1.

The minimum requirements necessary to drill this well comply with a Class 2 Well Control Equipment rated to 1000 psi operating conditions.

An upper kelly cock valve with handle and drill string safety valves for each size of drill pipe will be available on the rig floor.

BOP Testing:
Surface – TD: An 11" 1000#, 2000#, or 3000# double gate BOP Stack & choke manifold will be utilized. Prior to drilling out the surface casing, the rams will be tested to 500#.

Pipe rams will be hydraulically actuated at least once a day. The blind rams will be function tested on each pipe trip. All ram function testing and BOP pressure testing will be recorded on the daily IADC drilling logs.

Casing & Tubing Program:
All casing shall be new and constructed to API standards.

Hole Size	OD	Weight	Grade	GL Set Depth	Clearance Hole/Collar
12-1/4"	8.625"	24#/ft	J-55	0' – ~~90'~~ 120'	1.3125"
7-7/8"	5.500"	15.5#/ft	J-55	0' – TD(850'+/-)	0.9125"
2-3/8"	2.375"	4.7#/ft	J-55	Unknown	

Float Equipment & Centralizers:

8-5/8" Surface Casing: Cement Guide Shoe, 1-Jt 8-5/8" casing as shoe joint, float collar and 8-5/8" casing to surface. A centralizer will be run 10' above the shoe, secured with a stop ring, around each of the collars of the planned two (2) casing joints. Surface casing will be run to a minimum depth of ~~90'~~ 120' to ensure protection of surface waters. No wiper plug will be run, cement will be just be displaced to within 20' of the shoe.

5-1/2" Production Casing: Cement guide shoe w/ auto-fill, 1-Jt 5-1/2" casing as shoe joint, float collar, and 5-1/2" casing to surface. A centralizer will be run 10' above the shoe, secured with a stop ring, and three more centralizers will be applied around the collars of the bottom most five (5) casing joints. Additional centralizers will be deployed every other joint from the fifth most bottom joint to surface. Estimated total of twelve (12) centralizers. No turbolizers are planned to be run, as there are no indications of any problems to be encountered with the cementing of such shallow wells.

All strings of casing and all cement will be circulated to the surface and topped off if necessary.

Wellhead Equipment:

A 8-5/8" x 5-1/2" 1000# or 1500# wellhead will be screwed on to the top joint of the 8-5/8" surface casing.

Cementing Program:

8-5/8" Surface Casing: Pump ~~52~~-sxs (~~74~~-ft^3) Type III Cement w/ 3% $CaCl_2$ + ¼-#/sx Celloflake. Yield = 1.42 ft^3/sx, Slurry Weight = 14.5 PPG. Cement volume is 100% of annular excess to ensure circulation to surface. Wait on Cement (WOC) for 8-Hours. Pressure test surface casing to 1000# for 30-Minutes.

5-1/2" Production Casing: Pump 211-sxs (294-ft^3) Type III Cement w/ 1% $CaCl_2$ + ¼-#/sx Celloflake + 0.2% FL-52 + 2-#/sx Pheno-Seal. Yield = 1.39 ft^3/sx, Slurry Weight = 14.6 PPG. Total slurry volume is 294 ft3.

The projected annular hole volume from 850' to surface is: 147 ft3. Cement volume is 100% excess of annular openhole volume to ensure circulation to surface. Cement will be brought to surface on all strings of casing.

Estimated Drilling Time:

Spud date will occur after the APD has been approved, the location built and a drilling contractor selected. Once drilling operations commence, it is anticipated that the drilling phase should be completed within three (3) days.

Estimated Completion Time:

Rig completion activities are estimated to take approximately five (5) days. Surface facilities anticipated will include a rod pumping unit, a small separator, and one four hundred (400) bbl water production tank. No oil production is anticipated from this well. A gas meter will be utilized temporarily for 30 days to measure the anticipated gas production.

Synergy will be installing a 4" Gas Sales Line and a 3" water gathering line to gather all produced waters to a central facility should the well be deemed commercial.

Reserve Pit Construction/Closure:

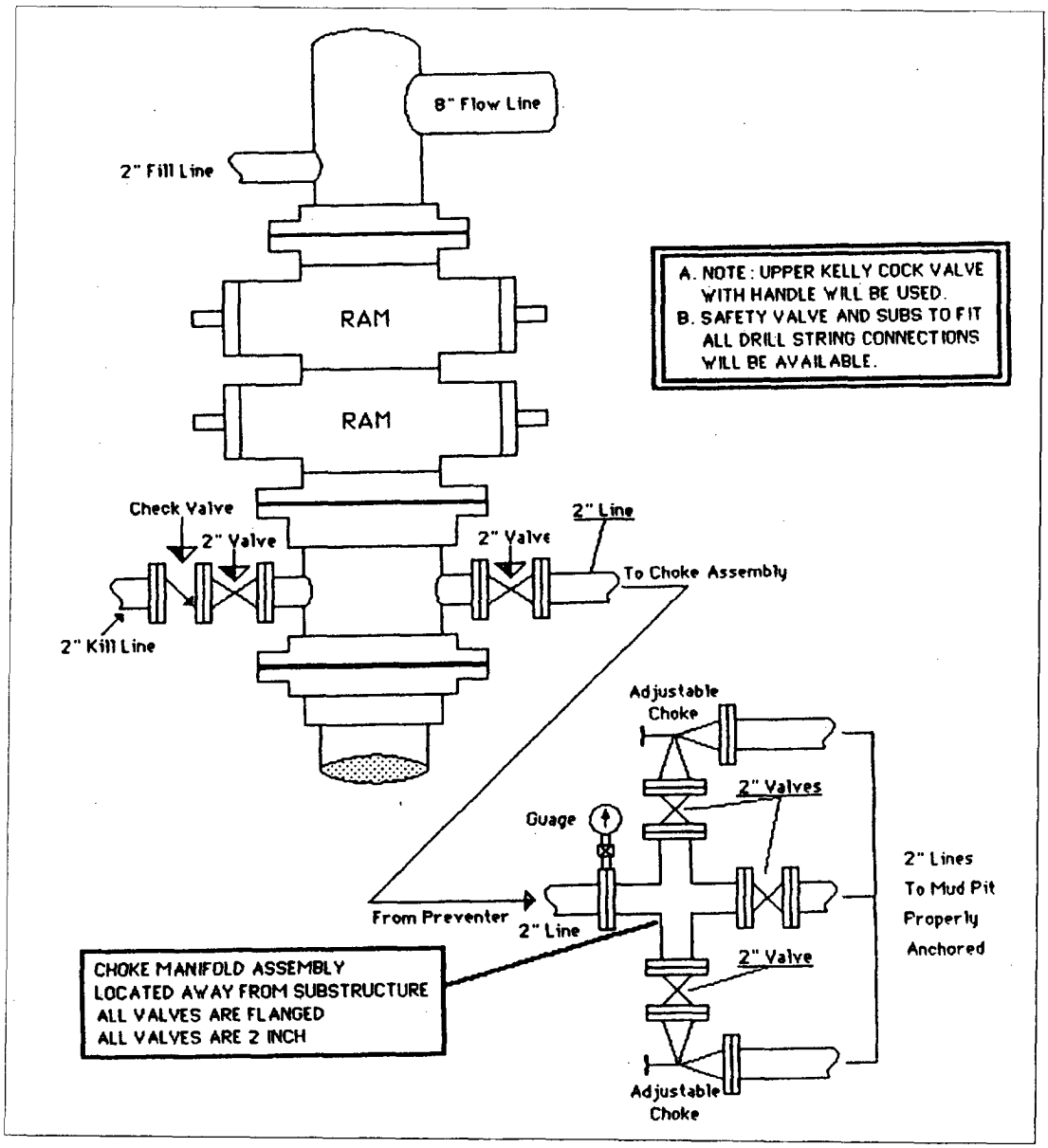
The planned reserve pit is located on the attached plat. The pit dimensions are projected to be 65 feet by 15 feet. The pit will be lined with an approved lining material, a minimum of a 12 mils in thickness. The pit will be constructed and closed per the November 1, 2004 NMOCD pit guideline information. A form C-144 will be prepared and submitted for the reserve pit in conjunction with this APD submittal.

Synergy Operating, LLC

San Juan Basin

2M BOPE - Class 2 BOPE — as shown

Minimum of 1000 psi Working Pressure



A BOP Stack consisting of either a manual two(2) ram preventer, (double or 2 singles) or a single Hydraulic annular preventer with a minimum of 1000 psi working pressure. The upper ram cavity Shall contain pipe rams to fit the drill pipe in use. The lower cavity shall contain blind rams.

The choke and kill manifold shall be minimum 2" in diameter and rated to minimum of 1000#.

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