Form 3160-3
(September 2001)

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

2006 APR 6 AM 8 16

RECEIVED
070 FARMINGTON NM

5. Lease Serial No.: NMNM-099739

6. If Indian, Allottee or Tribe Name:

1a. Type of Work: ☒ DRILL ☐ REENTER

7. If Unit or CA Agreement, Name and No.: Federal 21-7-25

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

8. Lease Name and Well No.: 3

2. Name of Operator: SG Interests I, LTD c/o NIKA Energy Operating

9. API Well No.: 30-043-21017

3a. Address: P.O. Box 2677 Durango, CO 81302

3b. Phone No. *(include area code)*: (970) 259-2701

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

4. Location of Well *(Report location clearly and in accordance with any State requirements. *)*

At surface: Lot L: 1740' FSL & 980' FWL

At proposed prod. zone:

11. Sec., T., R., M., or Blk. and Survey or Area: L Section 25, T21N, R7W

14. Distance in miles and direction from nearest town or post office*: approximately 15 miles southeast of Lybrook, New Mexico

12. County or Parish: Sandoval

13. State: NM

15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any): 1942'

16. No. of Acres in lease: 1,440.00

17. Spacing Unit dedicated to this well: W/2 320.00 acres

18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.: See attached map

19. Proposed Depth: approx. 760'

20. BLM/BIA Bond No. on file: PIB0003277

21. Elevations (Show whether DF, KDB, RT, GL, etc.): 6,685 GR

22. Approximate date work will start*: as soon as permitted

23. Estimated duration: 1 month

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.

25. Signature: William Schwab III mgr — Name *(Printed/Typed)*: William Schwab III — Date: 04/3/06

Title: President NIKA Energy Operating/ Agent for SG Interests I, LTD

Approved by *(Signature)*: /Manken/ — Name *(Printed/Typed)*: — Date: 5/31/06

Title: AFM — Office: FFO

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, are attached.

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make 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.

**(Instructions on reverse)*

SG Interests I, LTD. proposes to drill a well to develop the Basin Fruitland Coal formation at the above described location in accordance with the attached drilling and surface use plans.

The surface is under jurisdiction of the Bureau of Land Management, Farmington Field Office.

This location has been archaeologically surveyed by Aztec Archaeological Consultants. Copies of their report have been submitted directly to the BLM.

A new access road approximately 3,656.12 feet in length would be required for this location. Approximately 1,711.74 feet of access road would be off-lease and approximately 1,944.38 feet of access road would be on-lease. An EA is being prepared for the entire project.

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

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

NMOCD

JUN 2006
OIL CONS. DIV.
DIST. 3

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

RECEIVED
OTO FARMINGTON NM

WELL LOCATION AND ACREAGE DEDICATION PLAT

[1] API Number	[2] Pool Code	[3] Pool Name
30-043-21017	71629	Basin Fruitland Coal

[4] Property Code	[5] Property Name	[6] Well Number
35742	FEDERAL 21-7-25	3

[7] OGRID No.	[8] Operator Name	[9] Elevation
20572	SG INTERESTS I, LTD.	6685

[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
L	25	21N	7W		1740	South	980	West	Sandoval

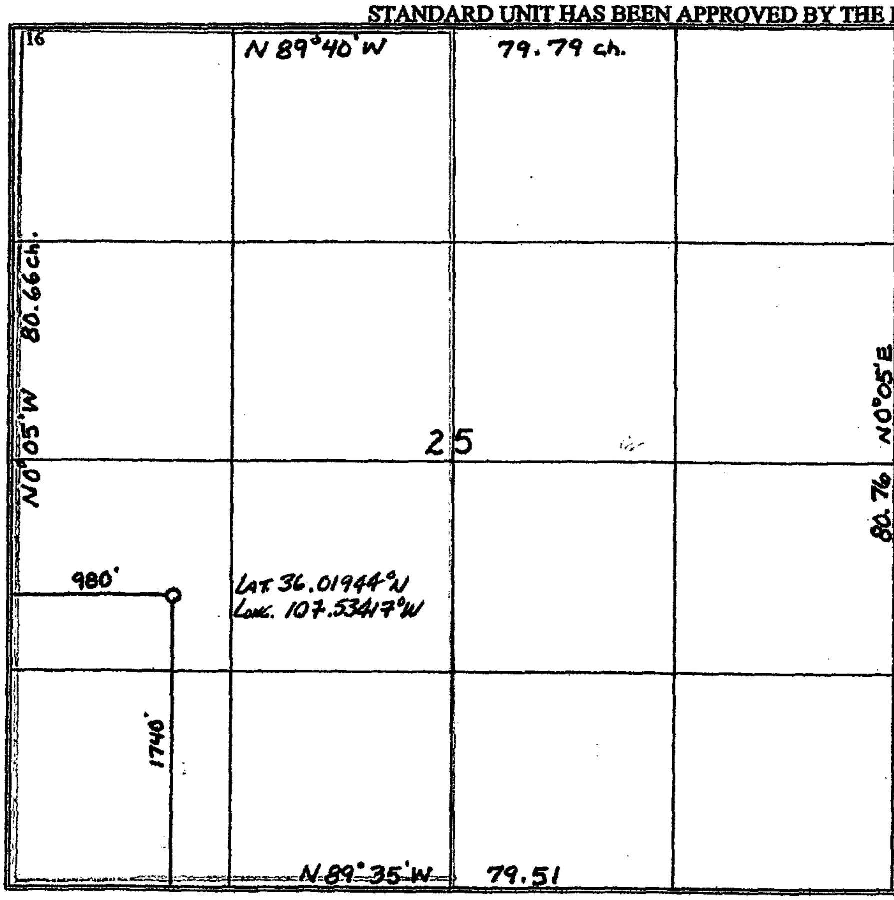
[11] Bottom Hole Location If Different From Surface

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			

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
William Schwab
Printed Name
Agent tripp@rikaenergy.com
Title and E-mail Address
2/22/06.
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.

22 Oct 2005
Date of Survey
Signature and Seal of Professional Surveyor:

William E. Mahnke II
Certificate Number 8466

Submit 3 Copies To Appropriate District Office
District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., 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 and Natural Resources

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-103
May 27, 2004

WELL API NO. 30-043-21017
5. Indicate Type of Lease STATE ☐ FEE ☐ FED X
6. State Oil & Gas Lease No. Federal NMNM 099739

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

7. Lease Name or Unit Agreement Name: Federal 21-7-25
1. Type of Well: Oil Well ☐ Gas Well ☒ Other
8. Well Number #3
2. Name of Operator SG Interests I, Ltd
9. OGRID Number
3. Address of Operator C/O Nika Energy Operating, PO Box 2677, Durango, CO, 81303
10. Pool name or Wildcat Basin Fruitland Coal
4. Well Location
Unit Letter_L: 1740 feet from the South line and 980 feet from the West line
Section 25 Township 21N Range 7W NMPM County Sandoval
11. Elevation *(Show whether DR, RKB, RT, GR, etc.)* 6,685'

Pit or Below-grade Tank Application ☒ or Closure ☐

Pit type Drilling Depth to Groundwater ? Distance from nearest fresh water well >1,000 ft Distance from nearest surface water >500 ft

Pit Liner Thickness: 12 mil Below-Grade Tank: Volume 1000 Bbls; Construction Material Synthetic

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:				SUBSEQUENT REPORT OF:			
PERFORM REMEDIAL WORK	☐	PLUG AND ABANDON	☐	REMEDIAL WORK	☐	ALTERING CASING	☐
TEMPORARILY ABANDON	☐	CHANGE PLANS	☐	COMMENCE DRILLING OPNS.	☐	P AND A	☐
PULL OR ALTER CASING	☐	MULTIPLE COMPL	☐	CASING/CEMENT JOB	☐		
OTHER: Pit Application	☒			OTHER:			☐

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

Drilling/Completion pit to be located approximately 15 feet from well head. Pit multi-use drilling and completion to avoid additional site disturbance and pit will be considered out of service once production tubing set. Pit to be 75 feet long by 15 feet wide by 10 feet deep. Pit to be constructed, operated and closed in accordance with NMOCD guidelines and SGI procedures

I hereby certify that the information above is true and complete to the best of my knowledge and belief. **I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☒, a general permit ☐ or an (attached) alternative OCD-approved plan ☐.**

SIGNATURE Wm Schwab III mgr TITLE Agent for SG Interests I, Ltd. DATE 4/4/06

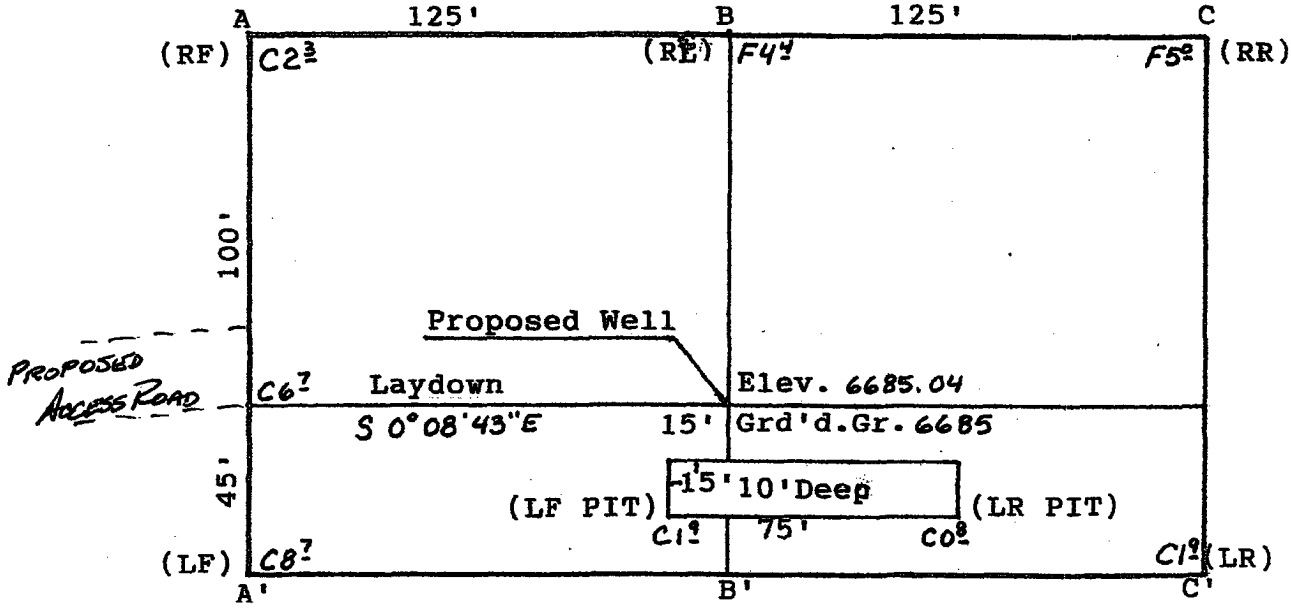
Type or print name William Schwab III E-mail address: tripp@nikaenergy.com Telephone No. 970-259-2701

For State Use Only

APPROVED BY: TITLE DEPUTY OIL & GAS INSPECTOR, DIST. 3 DATE JUN 02 2006

Conditions of Approval (if any):

SG INTERESTS I, LTD.
FEDERAL 21-7-25#2
1740'FSL & 980'FWL
Sec.25,T21N,R7W,NMPM
Sandoval Co., NM



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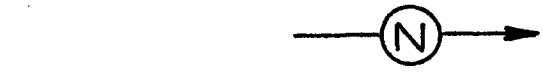
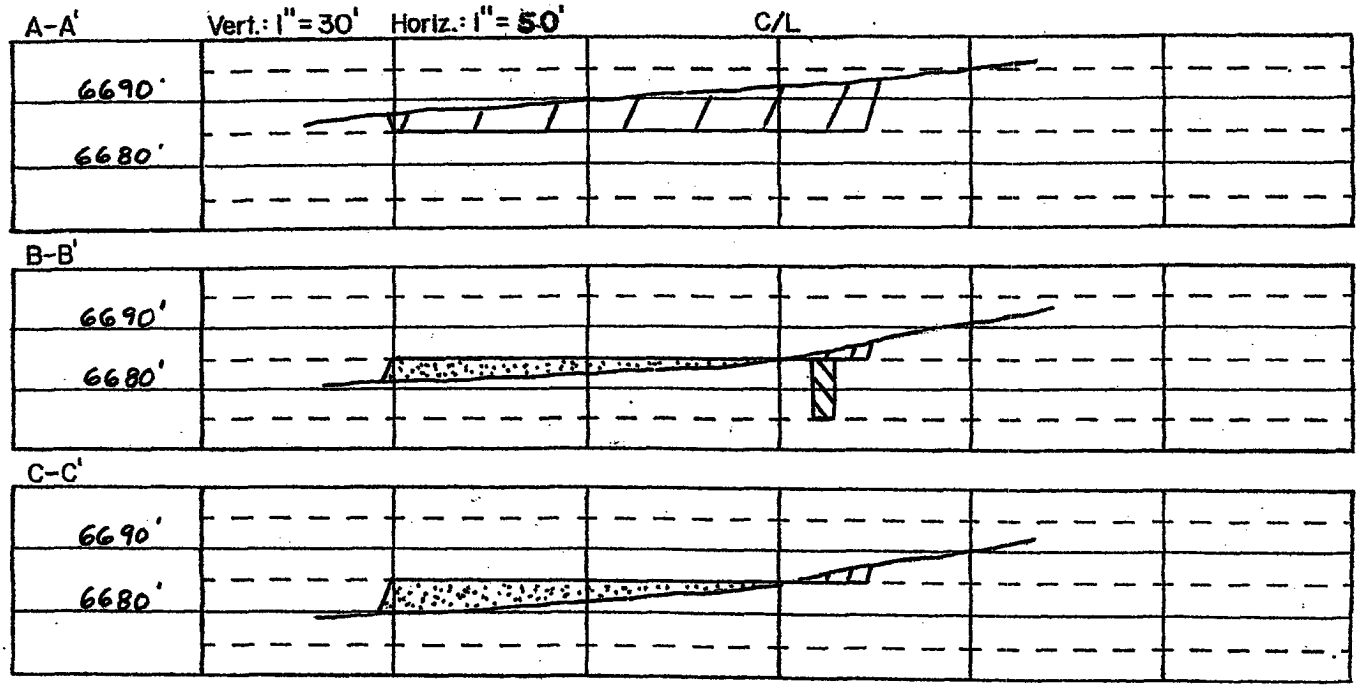




NIKA ENERGY OPERATING, LLC
SG INTERESTS I, INC.
FRUITLAND DRILLING PROGRAM
WS

WELL NAME: Federal 21-7-25 #3

FIELD NAME: Basin Fruitland Coal

LOCATION: SW Section 25-T21N-R7W
Sandoval County, New Mexico

DATE: March 2006

NOTE: Review APD Stipulations before moving on location. Review regulatory notification requirements and notify accordingly. Comply with all safety and environmental requirements.

Notify: BLM Field Office Manager (Inspection and Enforcement Section) 24 hours before SPUD, CEMENTING OR PLUGGING OPERATIONS at (505) 599-8907.

Directions: From Counselor Trading Post on US Hwy 550, travel south on Hwy 550 +/- 0.1 miles, turn right on dirt road with sign: "Star Lake Compressor-26 miles". This is the 0 miles point for this description. Follow dirt road:

AT: 15.7 miles - Turn left (southeast) on pipeline road at sign "Star Lake Compressor Station 10 miles",
" 18.7 miles - Turn left (northeast) onto county road at top of hill (Lone tree ± 100 feet off the right),
" 20.7 miles - Turn right (north) off county road onto flagged two-track trail,
" 22.5 miles - Turn left (west) and follow flagged access road west and north,
" 23.7 miles - Location.

NIKA ENERGY OPERATING, LLC
SG INTERESTS I, LTD.

WELL NAME: Federal 21-7-25 #3

FIELD NAME: Basin Fruitland Coal

LOCATION: Sec 25-T21N-R7W
UL L; 1740' FSL & 980' FWL
Sandoval County, New Mexico

PROPOSED TD: 760'

DRILLING SKELETON:

Interval	Hole Size	Casing Size	Depth
Surface	12-1/4"	8-5/8"	180'
Production	7-7/8"	4-1/2"	760'

MUD PROGRAM:

Interval	Mud Type	Mud Weight	Funnel Viscosity	Water Loss
0 - 180'	Native	8.5 - 9.1	30 - 50	N/C
180' - TD	Native/LSND	8.5 - 9.1	30 - 50	8 - 10

CORE PROGRAM: None

ELECTRICAL LOGGING PROGRAM: Openhole logs will include a GR/Caliper and a DIL/Formation Density log from TD to the surface casing shoe.

CASING AND CEMENTING PROGRAM:

Interval	Size, Wt, Grade, Thread	Depth	Cement
Surface	8-5/8", 24#, J-55, ST&C	180'	126 sx Class B w/2% CaCl + 1/4#/sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	260 sx Class B. Both slurries to contain 1/4#/sx celloflake.

WELLHEAD: 3000# Independent Style

BLOWOUT PREVENTION EQUIPMENT REQUIREMENTS:

Description	Rating
Double Ram Type Preventer	2000 psi
Rotating Head	2000 psi

BOPE testing will be done by third party testers in accordance with Onshore Order No. 2. The test must be performed and recorded using a test pump, calibrated test gauges and properly calibrated strip or chart recorder. The test gauges and recorders must be of the proper range and resolution commensurate with the authorized test pressure. The test must be recorded in the driller's log and will include a low pressure test requirement of 250 psig held for 5 minutes and a high pressure test requirement held for 10 minutes. Casing pressure tests must be held for 30 minutes with no more than 10 percent pressure drop during the test.

GEOLOGIC PROGNOSIS:

Elevations: GL ~ 6885', KB ~ 6690'

Formation Tops:

Formation	Depth
Ojo Alamo	50'
Kirtland	170'
Fruitland	380'
Coal Top	585'
PC	610'
Total Depth	760'

Note: TD will be 200' below the lowest coal. The company man will be on location once coals are penetrated until TD to monitor drilling breaks and to insure that 200' of rathole is drilled. When the hole is logged, if a coal zone is indicated within 150' of bottom, additional hole is to be drilled to provide 200' of rathole.

MUD PROGRAM:

A fresh water native mud (using lime, benex & gel additions) will be used to drill the surface hole. The 7-7/8" hole should be drilled with native mud and a LSND mud as necessary for hole stability just before the top of the Fruitland formation is encountered.

At the top of the Fruitland formation mud weights should be sufficient to control pressures; viscosity should be in the 30 - 50 sec range with a water loss of 8 - 10 cc, as needed.

The Fruitland Coals are expected to be under-pressured to normal-pressured and may encounter lost circulation. LCM should be stored on location and used as needed in the event of lost circulation. Barite should also be on location in the event an over-pressured zone is encountered and a kick is taken.

CASING AND CEMENTING PROCEDURE:

Note: Notify BLM 24 hours prior to spud and testing of BOP's and cementing. 505-599-8907. **Note the new (June 1, 2005) Federal (BLM) requirements for the testing and test recording of the Blow-out Preventer Equipment.** A copy is attached to the approved APD.

Surface Casing:

1. Drill to a minimum of 180' to accommodate tallied 8 5/8" casing plus 3'. Casing tally to be taken on location.
2. Use a landing joint of 8 5/8" casing to set casing at ground level. Guide shoe on casing should be not more than 2 feet off bottom. Casing head flange to be set at ground level.
3. Displace hole with casing volume of fresh water ahead of cement.
4. Pump Class B cement with 2% CaCl at 5-7 barrel per minute.
5. Drop top plug and displace with fresh water when preflush returns are observed at the surface. Do not over-displace.
6. If plug does not bump, hold pressure for a minimum of three hours.

   a. Wait on cement a minimum of 8 hours or until surface samples are hard *, whichever is longer **before** nippling up the BOP. Install test plug in casing head and pressure test stack to 2000 psig for 30 minutes.

      1. * Note: The BLM requirement is a minimum of 250 psi @ 60degrees F compressive strength **before** BOP may be nippled up.

      2. Notes: Use a standard 8 5/8" guide shoe, an 8 5/8" insert float, 3 centralizers and 1 stop ring. Set insert on top of first joint. Bakerlok shoe, float collar and bottom two joints of casing.

Production Casing:

1. Roll casing off truck with thread protectors in place.
2. Visually inspect, rabbit, number, and tally casing on racks. Remove thread protectors and clean threads. Use quick release protectors while running casing. Do not move or roll casing without thread protectors in place.
3. Change out pipe rams to accommodate 4-1/2" casing.
4. Bakerlok 4-1/2" float shoe to bottom of first joint of casing.
5. Bakerlok 4-1/2" differential float collar to top of first joint of casing. Bakerlok second joint of casing into top of float collar. Run "marker joint" 100' above top coal as per openhole logs.
6. Casing should be made up to proper torque (1320 ft-lb for 10.5# or 1540 ft-lb for 11.6#) using an API thread compound.
7. Casing should be run no faster than 2 feet per second (20 seconds per 40 foot joint). At the first indication of mud loss, the running time should be doubled to 40 seconds per joint (1 foot per second).
8. Break circulation at 200 feet and 500 feet and circulate a minimum of 15 minutes. Make sure that the hole is not flowing. Adjust mud properties as necessary. Circulate the last joint of casing to TD. Kick pumps in slowly to minimize surge pressures.
9. Turbolizing centralizers should be run on each of the first 7 joints. A stop-ring should be used to hold the first centralizer in place. Place the remaining centralizers on collars.
10. After casing is landed at TD, circulate hole until mud properties measured at the flowline are within the ranges given in the "Mud Program" of this drilling prognosis.
11. Rig up rotational cementing head and return lines. Chixson should be long enough to allow 25'-30' reciprocation.
12. Pump 10 barrels of fresh water. Pump 20 barrel chemical wash. Pump cement slurry. Wash lines.
13. Drop top plug and displace with water. Do <u>not</u> over-displace. Pipe should be rotated at 10-20 RPM or reciprocated at least 20 feet every two to three minutes throughout displacement.
14. Bump plug with 500 psi over final displacement pressure. Hold pressure for 5 minutes. If plug does not bump, hold initial shut down pressure on casing for 5 minutes. Then check to see that float is holding (flow back into cement pump tank).

Production Casing cont.

15. Set slips, cut off casing and nipple down BOP. A thread protector or some other appropriate obstruction should be place on the top of the casing stub to prevent loss of material downhole.

Cement Slurry Designs and Notes

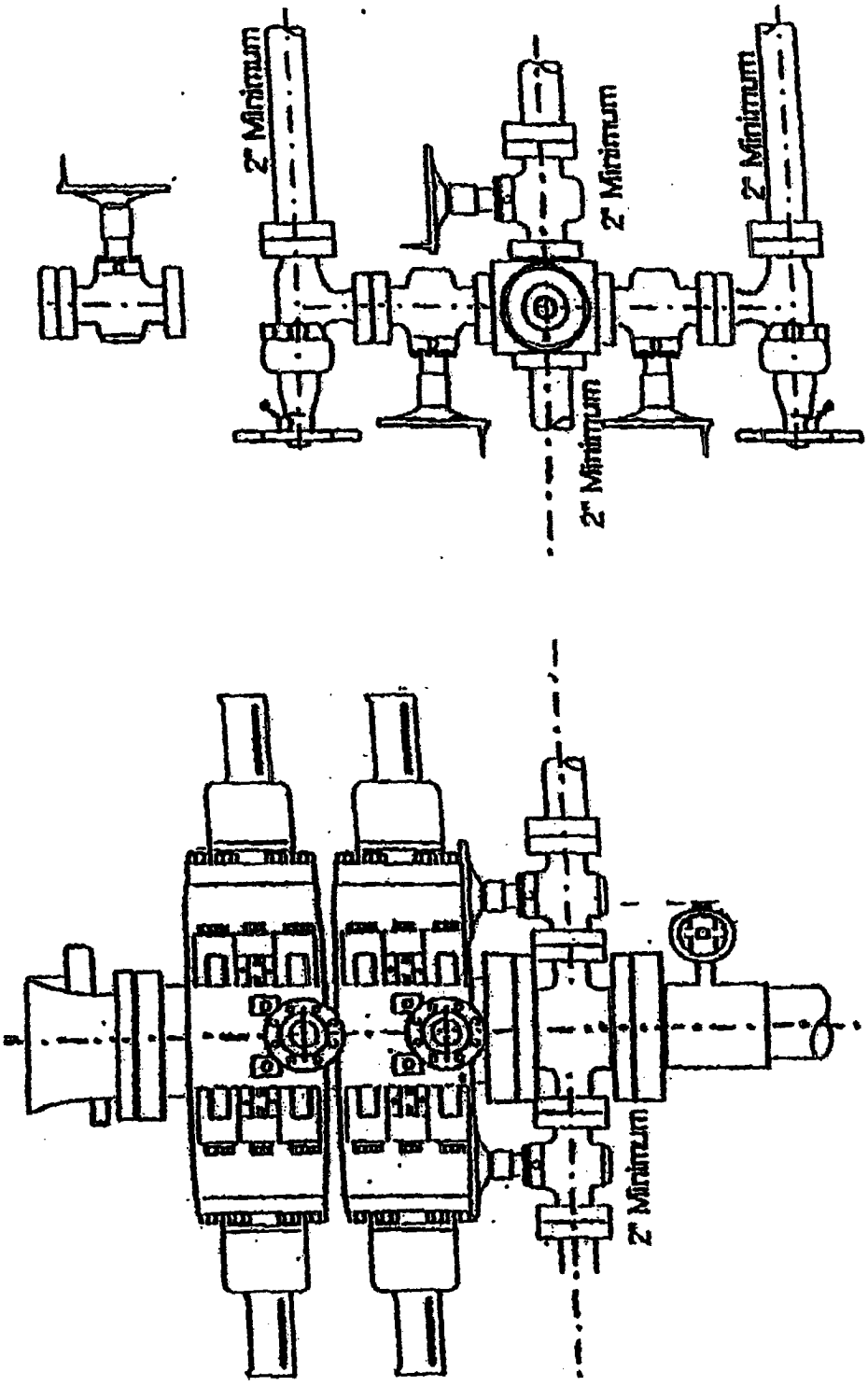
Slurry	Cement & Additives	Water Requirements	Weight	Yield
Production	Class B + 1/4#/sx celloflake	5.2 gals/sx	15.6 ppg	1.18 cu. ft / sk

Figure slurry volume as follows: Calculate slurry using caliper volume + 50% excess. Cement volume shown in this prognosis is based on hole and casing size and surface/long string annular volumes plus percentage excess shown above.

NOTES:

1. Pump rates should be a minimum of 4 BPM through displacement.
2. Slurry weights should be measured using a mud balance at least every 10 minutes during mixing.
3. At least two samples of the tail should be caught and monitored at room temperature for thickening time.
4. Run Temperature Log if cement does not circulate.

Blow Out Preventer (BOP) Exhibit #1



2-M SYSTEM