Form 3160-3
(September 2001)

RCVD NOV 15'06
OIL CONS. DIV.
DIST. 3

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 SEP 6 PM 2 49

RECEIVED
070 FARMINGTON NM

1a. Type of Work: ☒ DRILL ☐ REENTER	5. Lease Serial No. NOG-0103-1459
1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other ☒ Single Zone ☐ Multiple Zone	6. If Indian, Allottee or Tribe Name Allottee No. 01031459
2. Name of Operator SG Interests I, LTD c/o NIKA Energy Operating	7. If Unit or CA Agreement, Name and No. Navajo 20-6-6
3a. Address P.O. Box 2677 Durango, CO 81302	3b. Phone No. *(include area code)* (970) 259-2701
4. Location of Well *(Report location clearly and in accordance with any State requirements. *)* At surface 1156' FNL & 1200' FEL At proposed prod. zone	8. Lease Name and Well No. 1
	9. API Well No. 30-031-21096
	10. Field and Pool, or Exploratory Basin Fruitland Coal
	11. Sec., T., R., M., or Blk. and Survey or Area H Section 6, 20N, 6W
14. Distance in miles and direction from nearest town or post office* approximately 23 miles southeast of Counselors, New Mexico	12. County or Parish McKinley
	13. State NM
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 1156'	16. No. of Acres in lease 120.00
	17. Spacing Unit dedicated to this well E/2 294.93
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. See attached map	19. Proposed Depth 945'
	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 map	Name *(Printed/Typed)* William Schwab III	Date 9/6/06
Title President NIKA Energy Operating/ Agent for SG Interests I, LTD		
Approved by *(Signature)* /s/ Manuel Montoya	Name *(Printed/Typed)*	Date 11/13/06
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 Navajo Allotted under jurisdiction of the Bureau of Indian Affairs (BIA) and the Federal Indian Minerals Office (FIMO).

This location has been archaeologically surveyed by Aztec Archaeological Consultants. Copies of their report have been submitted directly to the BIA, FIMO as well as the Farmington Field Office of the Bureau of Land Management (FFO/BLM).

An approximate 1,320.24-foot gas and produced water pipeline ties would be constructed, connecting into the existing SG Interests I LTD, pipeline systems.

B 11/15/06

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".

RCVD NOV 15'06
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

2006 SEP 22 PM 2 49
RECEIVED
070 FARMINGTON NM

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
30-031-21096	71629	Basin FRUITLAND Coal

4 Property Code	5 Property Name	6 Well Number
36132	NAVAJO 20-6-6	1

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
H	6	20N	6W		1156	North	1200	East	McKinley

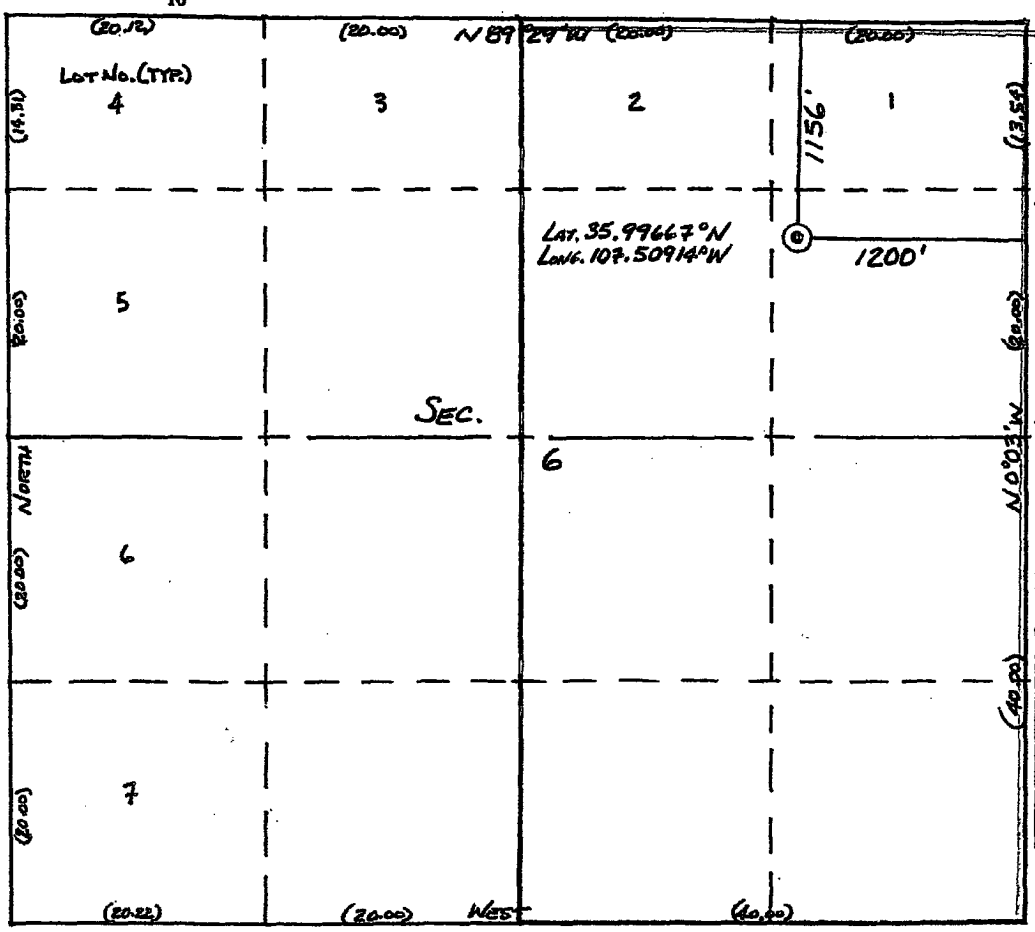
11 Bottom Hole Location If Different From Surface

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.
294.93	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

William Schwabe

Printed Name

Agent tipp@nikenergy.com

Title and E-mail Address

2/23/06

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.

09 Feb 2006

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. 30-031-21096

5. Indicate Type of Lease STATE ☐ FEE ☐ Navajo Allotted

6. State Oil & Gas Lease No.

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 20-6-6

1. Type of Well: Oil Well ☐ Gas Well ☒ Other

8. Well Number #1

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 B: 1156 feet from the North line and 1200 feet from the East line
Section 6 Township 20N Range 6W NMPM County McKinley

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 >300 Distance from nearest fresh water well >1000 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 William Schwab III for mgs TITLE Agent for SG Interests, Ltd. DATE 9/6/06

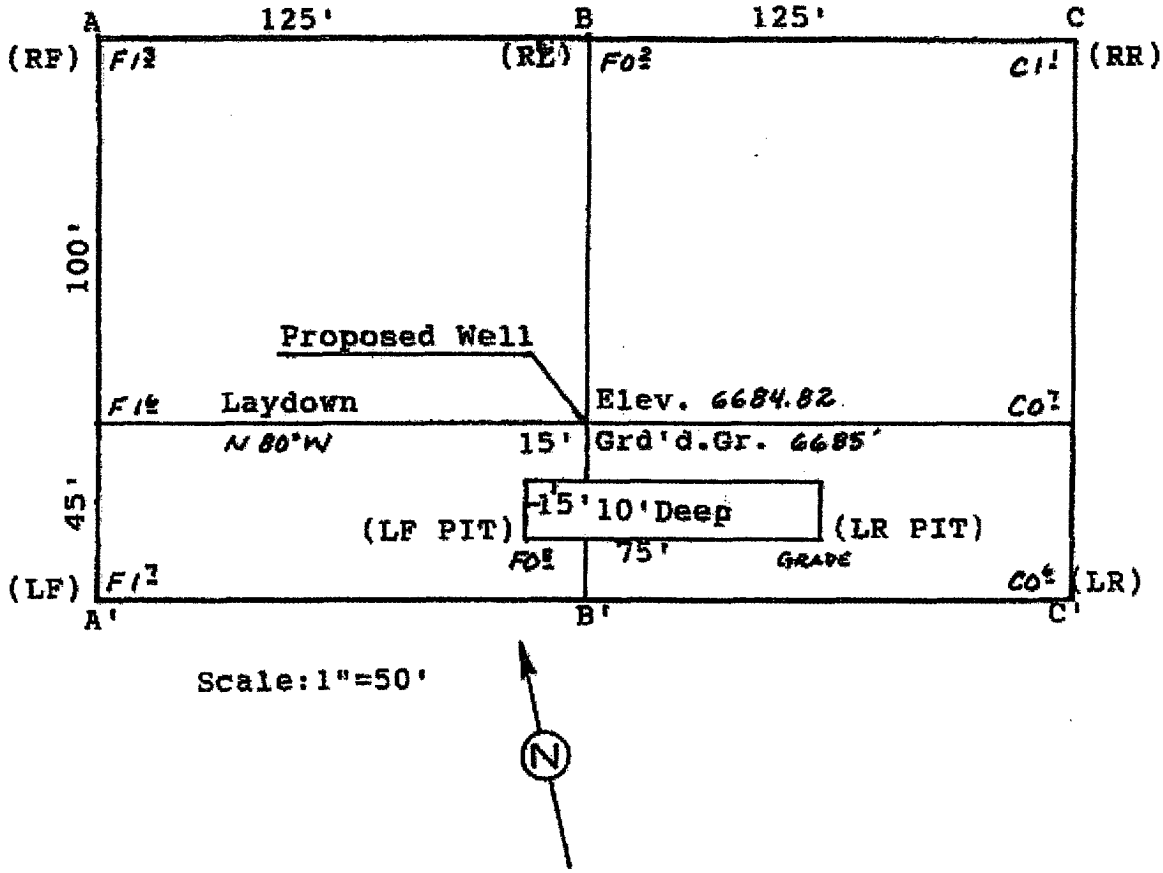
Type or print name William Schwab III E-mail address: tripp@nikaenergy.com Telephone No. 970-259-2701

For State Use Only

APPROVED BY: TITLE DEPUTY OIL & GAS INSPECTOR, DIST. #3 DATE NOV 15 2006

Conditions of Approval (if any):

SG INTERESTS I, LTD.
NAVAJO 20-6-6 #1
1156'FNL & 1200'FEL
Sec.6,T20N,R6W,NMPM
McKinley Co., NM



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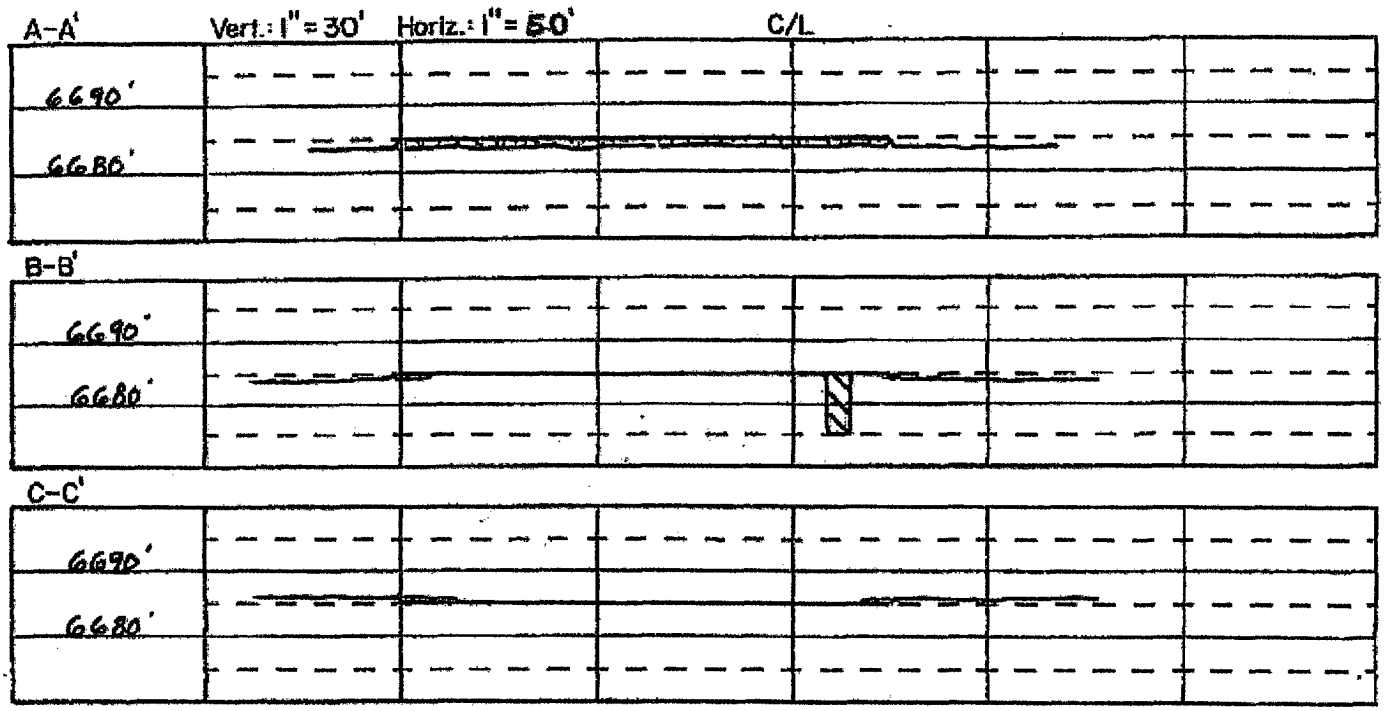


SG Interests I, Ltd.
(Agent: Nika Energy Operating, LLC)
PO Box 2677
Durango, CO 81302
(970) 259-2701

Navajo 20-6-6 #1
SENE Sec 6-20N-R6W
1156' FNL & 1200' FEL
McKinley County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	235'
Kirtland	405'
Fruitland	575'
PC	795'
Total Depth	945'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	770'

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'	8-5/8"	24#, J-55, ST&C
7-7/8"	0-945'	4-1/2"	10.5#, J-55, ST&C

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~~ 240 sx (~~118~~ 283 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 7 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 September 2006 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.

NIKA ENERGY OPERATING, LLC
SG INTERESTS I, LTD.

WELL NAME: Navajo 20-6-6 #1

FIELD NAME: Basin Fruitland Coal

LOCATION: Sec 6-T20N-R6W
Unit: H 1156' FNL & 1200' FEL
McKinley County, New Mexico

PROPOSED TD: 945'

DRILLING SKELETON:

Interval	Hole Size	Casing Size	Depth
Surface	12-1/4"	8-5/8"	150'
Production	7-7/8"	4-1/2"	945'

MUD PROGRAM:

Interval	Mud Type	Mud Weight	Funnel Viscosity	Water Loss
0 - 150'	Native	8.5 - 9.1	30 - 50	N/C
150' - TD	Native/LSND	8.5 - 9.1	30 - 50	8 - 10 cc

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	150'	150 sx Class B w/2% CaCl + 1/4#/sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	240 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 ~ 6685', KB ~ 6690'

Formation Tops:

Formation	Depth
Ojo Alamo	235'
Kirtland	405'
Fruitland	575'
Coal Top	770'
PC	795'
Total Depth	945'

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 150' 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 150' of rathole. Log of offset well(s) (Federal 20-6-34 #3, Federal 20-6-6 #2) are enclosed for correlation.

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 150' to accommodate tallied 8-8/5" casing plus 3'. Casing tally to be taken on location.
2. Use a landing joint of 8-8/5" 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 8-8/5" guide shoe, a 8-8/5" 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 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

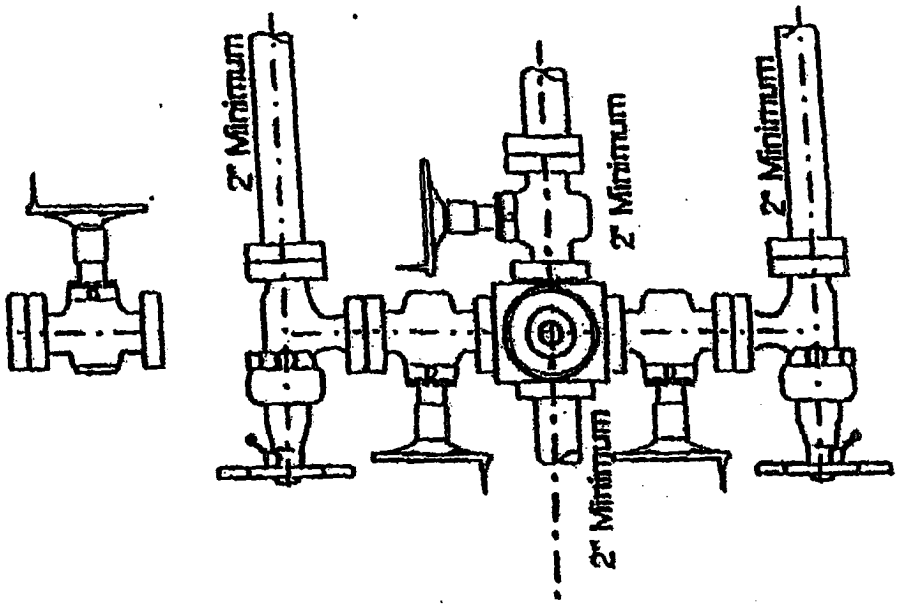
Slurry	Cement & Additives	Water Requirements	Weight	Yield
Surface	Class B + 1/4#/sx celloflake	5.2 gals/sx	15.6 ppg	1.18 cu.ft/sk.
Production	Class B + 1/4#/sx celloflake	5.2 gals/sx	15.6 ppg	1.18 cu.ft/sk.

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