

RECEIVED

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

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

MAY 06 2008

Bureau of Land Management  
Farmington Field Office

APPLICATION FOR PERMIT TO DRILL OR REENTER

5 Lease Serial No  
NMNM-099739  
6 If Indian, Allottee or Tribe Name

7 If Unit or CA Agreement, Name and No  
Federal 21-7-26

8 Lease Name and Well No  
1

9 API Well No.  
30-043-21062

10. Field and Pool, or Exploratory  
Basin Fruitland Coal

11 Sec, T, R, M., or Blk and Survey of  
Section 26, T21N, R7W

12 County or Parish  
Sandoval

13 State  
New Mexico

14 Distance in miles and direction from nearest town or post office\*  
approximately 23 miles southwest of Counselor, New Mexico

15 Distance from proposed\*  
location to nearest  
property or lease line, ft.  
(Also to nearest drg unit line, if any) 1860'

16 No. of Acres in lease  
1,440.00

17 Spacing Unit dedicated to this well  
E/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 666'

20 BLM/BIA Bond No on file  
PH0003277 NM 2559

21 Elevations (Show whether DF, KDB, RT, GL, etc.)  
6,681 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  
Name (Printed/Typed) William Schwab III  
Date 4/25/2008

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

Approved by (Signature)  
Name (Printed/Typed)  
Date 6/18/08

Title  
Office BLM-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 2,507.21 feet in length would be required for this location

This APD is also serving as an application for an on-lease gas and water pipeline ties of approximately 2,507.21 feet, both to be parallel to the proposed access road

JUN 20 2008

NMOCD

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

BLM'S APPROVAL OR ACCEPTANCE OF THIS  
ACTION DOES NOT RELIEVE THE LESSEE AND  
OPERATOR FROM OBTAINING ANY OTHER  
AUTHORIZATION REQUIRED FOR OPERATIONS  
ON FEDERAL AND INDIAN LANDS

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

PIT, CLOSED LOOP SYSTEM, BELOW GRADE  
TANK, PROPOSED ALTERNATIVE METHOD  
OR CLOSURE PLAN TO BE DESIGNED,  
CONSTRUCTED, OPERATED & CLOSED  
PURSUANT TO NMOCD RULE 19.15.17  
EFFECTIVE 06/16/08

Obtain a pit permit from NMOCD  
prior to constructing location

NOTIFY AZTEC OCD 24 HRS  
PRIOR TO CASING & CEMENT

RCVD JUN 19 '08  
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 October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

☐ AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number <b>30-043-21062</b>	Pool Code <b>71629</b>	Pool Name <b>Basin Fruitland Coal</b>
Property Code <b>37220</b>	Property Name <b>FEDERAL 21-7-26</b>	Well Number <b>1</b>
GRID No. <b>20572</b>	Operator Name <b>SG INTERESTS I, LTD.</b>	Elevation <b>6681</b>

**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
G	26	21N	7W		1860	North	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
Dedicated Acres <b>320 EL</b>	Joint or Infill	Consolidation Code	Order No.						

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 80.65 Ch. N 89°43' W 79.97 Ch. 1860' 80.66 Ch. 1970' N 89°44' W 79.90 Ch.	N 89°43' W 79.97 Ch.	79.97 Ch.	<b>17 OPERATOR CERTIFICATION</b> I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or released mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature: <b>William Schwab</b> Date: <b>4/25/2008</b> Printed Name: <b>William Schwab</b>
	Sec.	Lat. 36.02433° N Long. 107.54419° W	<b>18 SURVEYOR CERTIFICATION</b> 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: <b>05 Dec 2007</b> Signature and Seal of Professional Surveyor: <b>William E. Mahnke</b> Certificate Number: <b>8466</b>
	26		

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

**Federal 21-7-26 #1**  
**NE Sec 26-21N-R7W**  
**1860' FNL & 1970' FEL**  
**Sandoval County, New Mexico**

**EIGHT POINT DRILLING PROGRAM**

**1. Estimated Formation Tops:**

Ojo Alamo	145'
Kirtland	255'
Fruitland	470'
Coal Top	670'
PC	695'
Total Depth	845'

**2. Estimated Depth of Anticipated Minerals:**

Fruitland (Gas)	685'
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**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:**

<u>Hole Size</u>	<u>Interval</u>	<u>Csg Size</u>	<u>Wt, Grd, Jt</u>
12-1/4"	0-180'	8-5/8"	24.0#, J-55, STC
7-7/8"	0-845'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 125 sx (144 cu ft) Class G w/2% CaCl and 1/4#/sx of celloflake (Yield = 1.15 cuft/sx, Weight = 15.8 #/gal). Cement volumes include 100% 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 252 sx (290 cu ft) Class G w/ 3# gilsonite and 1/4#/sx celloflake (Yield = 1.15 cuft/sx, Weight = 15.8 #/gal). Cement volume includes 50% 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. Type 5 cement may be used depending on availability of Class G.

**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.

<u>Depth</u>	<u>Type</u>	<u>Wt (ppg)</u>	<u>Vis (sec)</u>	<u>Wtr loss</u>
0-180'	FW	± 8.5	30-33	NC
180'-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, if run, 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.

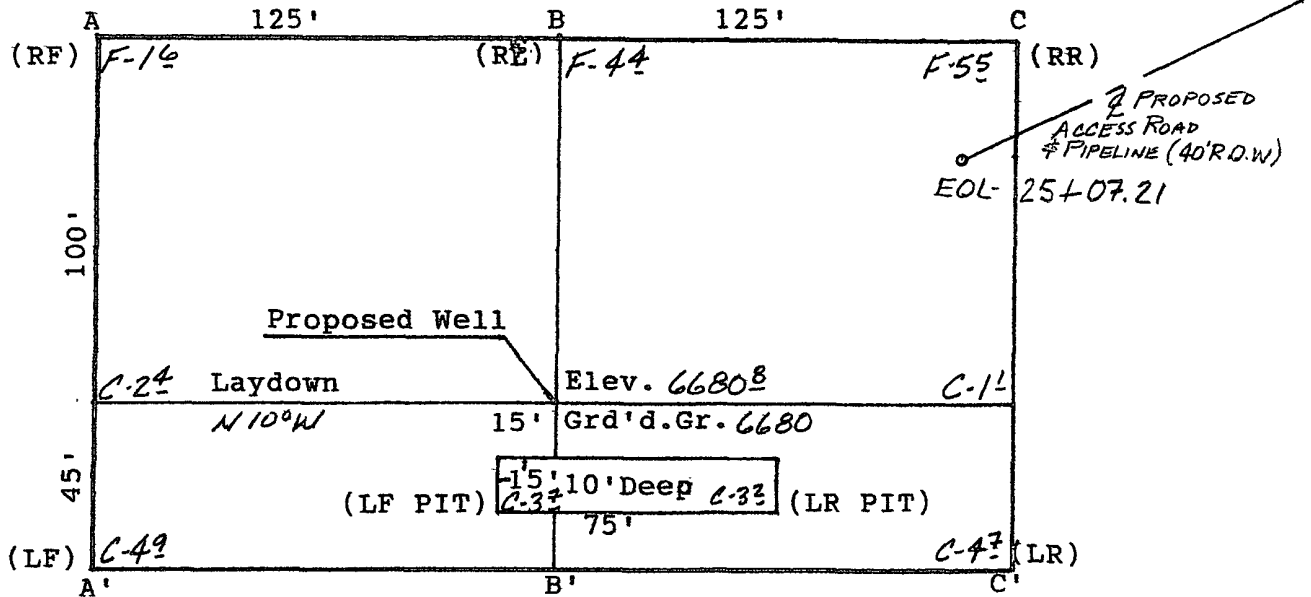
**7. Anticipated Abnormal Pressures and Temperatures:**

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

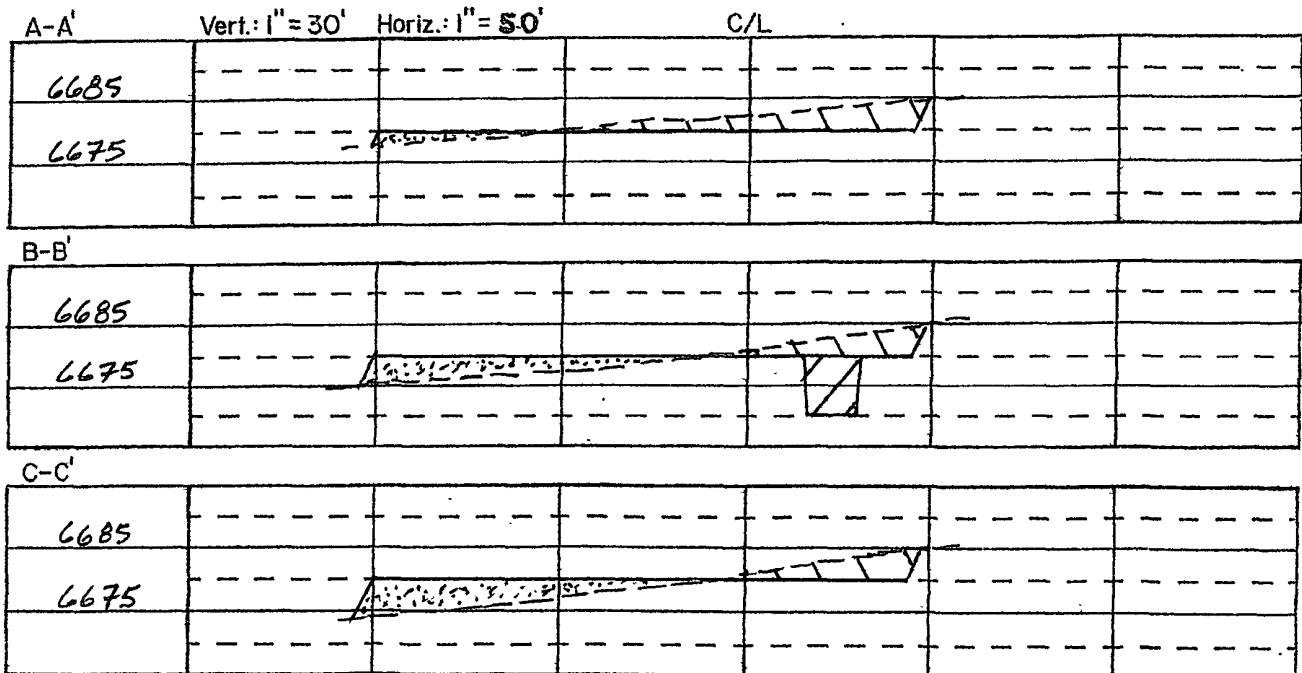
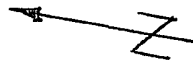
**8. Operations:**

Anticipated spud date is June 2008 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.

SG INTERESTS I, LTD.  
 FEDERAL 21-7-26 #1  
 1860' FNL & 1970' FEL  
 Sec. 26, T21N, R7W, NMPM  
 Sandoval Co., NM



Scale: 1"=50'



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