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JUN 17 2008

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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Bureau of Land Management
Farmington Field Office

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. Management-80498
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input checked="" type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator Dugan Production Corp.		7. If Unit or CA Agreement, Name and No.
3a. Address 709 East Murray Drive Farmington, NM 87401		8. Lease Name and Well No. Hoss Com #97
3b. Phone No. (include area code) 505-325-1821		9. API Well No. 30-045-34534
4. Location of Well (Report location clearly and in accordance with any State requirements.) At surface 2160' FNL and 660' FWL, Lat. 36.24233 N At proposed prod. zone Same as above. Long. 107.96223 W		10. Field and Pool, or Exploratory Basin Fruitland Coal
11. Sec., T. R. M. or Blk. and Survey or Area E Sec. 12, T23N, R11W NMPM		12. County or Parish San Juan
14. Distance in miles and direction from nearest town or post office* Approx. 35-miles SE of Farmington, New Mexico 87401		13. State NM
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any) 66 Feet	16. No. of acres in lease 800 Acres	17. Spacing Unit dedicated to this well W/2 - 320.0 Acres
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. Approx. 1500'	19. Proposed Depth 925 Feet	20. BLM/BIA Bond No. On File NM0140
21. Elevations (Show whether DF, KDB, RT, GL, etc.) GL-6464'	22. Approximate date work will start* ASAP	23. Estimated duration 5-Days

24. Attachments

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

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

25. Signature <i>Kurt Fagrelus</i>	Name (Printed/Typed) Kurt Fagrelus	Date 06/17/2008
Title Geologist		

Approved by (Signature)	Name (Printed/Typed)	Date
Title		Office

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 page 2)

A water based gel-mud will be used to drill surface and production casing hole.
Standard 2,000 psi BOP will be used to drill production hole. The Fruitland Coal will be completed from approximately 735' - 775'. The interval will be fracture stimulated.

A COMPLETE C-144 MUST BE SUBMITTED TO AND APPROVED BY THE NMOCD FOR: A PIT, CLOSED LOOP SYSTEM, BELOW GRADE TANK, OR PROPOSED ALTERNATIVE METHOD, PURSUANT TO NMOCD PART 19.15.17, PRIOR TO THE USE OR CONSTRUCTION OF THE ABOVE APPLICATIONS.

JUL 24 2008

aw

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

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

Bureau of Land Management
Farmington Field Office

Form C-102
Revised October 12, 2005
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

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AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-045-34534		Pool Code 71629	Pool Name BASIN FRUITLAND COAL
Property Code 31980	Property Name HOSS COM		Well Number 97
GRID No 006515	Operator Name DUGAN PRODUCTION CORPORATION		Elevation 6464'

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
E	12	23N	11W		2160	NORTH	660	WEST	SAN JUAN

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 320.0 Acres - (W/2)					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

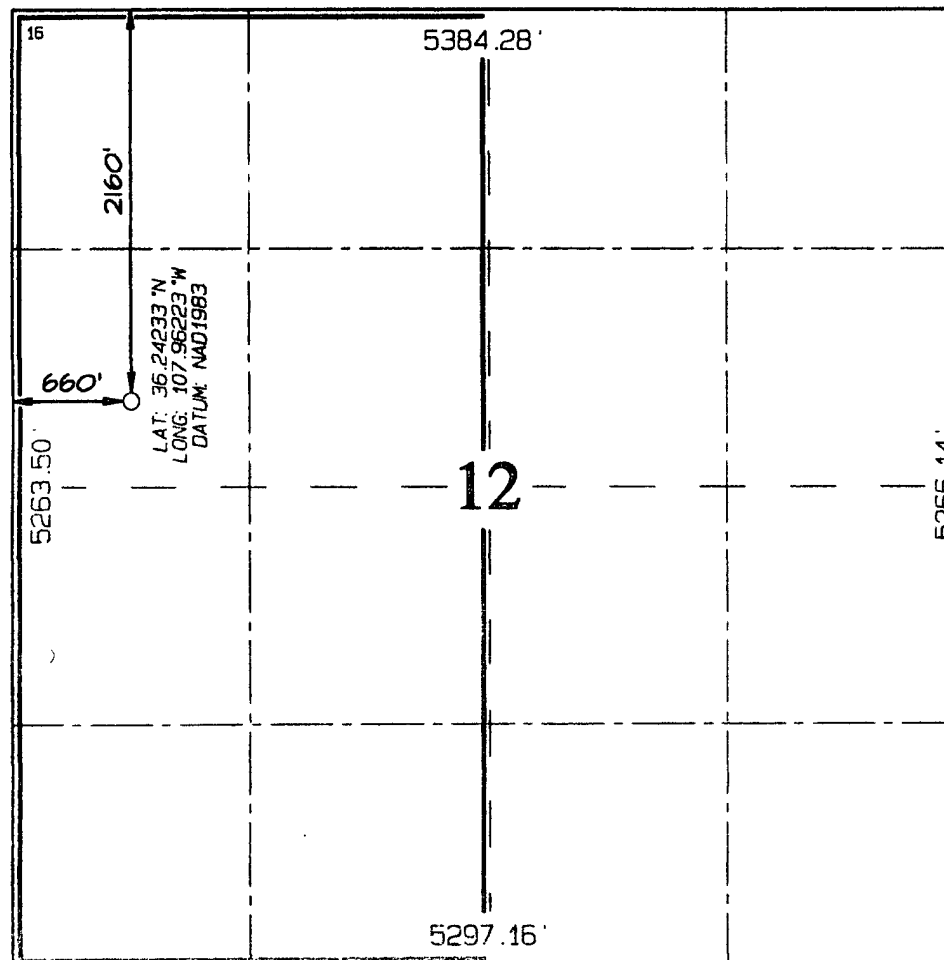
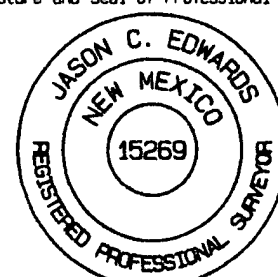
	17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom-hole location or has a right to 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. <i>Kurt Fagrelius</i> 06/17/2008 Signature Date Kurt Fagrelius Printed Name
	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: MAY 28, 2008 Signature and Seal of Professional Surveyor  JASON C. EDWARDS Certificate Number 15269

EXHIBIT B
OPERATIONS PLAN
Hoss Com #97

APPROXIMATE FORMATION TOPS:

Kirtland	Surface
Fruitland	510'
Pictured Cliffs	775'
Total Depth	925'

Catch samples every 10 feet from 550 feet to total depth.

LOGGING PROGRAM:

Run cased hole GR-CCL-CNL from total depth to surface.

CASING PROGRAM:

Hole Size	Casing Size	Setting Wt./ft.	Depth	Grade and Condition
12-1/4"	8-5/8"	24#	120'	J-55
7"	5-1/2"	14#	925'	J-55

Plan to drill a 12-1/4" hole and set 120' of 8-5/8" OD, 24#, J-55 surface casing. Then plan to drill a 7" hole to total depth with gel-water mud program to test the Fruitland Coal. 5-1/2", 14#, J-55 production casing will be run and cemented. Cased hole GR-CCL-CNL log will be run. Productive zone will be perforated and fractured. After frac, the well will be cleaned out and production equipment will be installed.

CEMENTING PROGRAM:

Surface: Cement to surface with 70 cf Class B + 2% CaCl₂.
Circulate cement to surface.

Production Stage-Cement with 90 cf 2% lodense with
1/4# celloflake/sx followed by 55 cf Class "B" with
1/4# celloflake/sx.
Total cement slurry for production stage is 145 cf
Circulate cement to surface.

An adequate spacer will be pumped ahead of the cement slurry to help prevent mud contamination of the cement. An adequate number of casing centralizers will be run through useable water zones to ensure that casing is centralized through these zones. The adequate number of centralizers will be determined based on API standards. Centralizers to impart a swirling action around the casing will be used just below and into the base of the lowest usable water zone. These devices will assist mud displacement, increase cement bonding potential and create an effective hydraulic seal. A

chronological log will be kept which records the pump rate, pump pressure, slurry density, and slurry volume for the cement job. The log will be sent to the BLM after completion of the job.

Maximum Anticipated Bottom Hole Pressure - 300 psi.

Drilling Fluid - will be fresh water with bentonite 8.9#/gal.

WELLHEAD EQUIPMENT:

Huber 8-5/8"x5-1/2" casing head, 1000# working pressure, factory tested to 2000#.

Huber 5-1/2"x2-7/8" tubing head, 1000# working pressure, factory tested to 2000#.

Blow-Out Preventor Equipment (BOPE): Exhibit D.

Annular preventer, double ram, or 2 rams with one being blind and one being a pipe ram.

Kill line (2" minimum)

1 kill line valve (2" minimum)

1 choke line valve

2 chokes

Upper kelly cock valve with handle available.

Safety valve and subs to fit all drill string connections in use.

Pressure gauge on choke manifold.

2" minimum choke line.

Fill-up line.

Working pressure for all BOPE will be 2,000 psi or greater.

Blow-Out Preventor Equipment (BOPE) tests will be performed without using a test plug.

Will test BOPE and surface casing together. The test will include a low pressure test to 250 psig held for five minutes and a high pressure test to 800 psig held for thirty minutes (with no more than a 10 percent pressure drop during the duration of the tests). If a 10 percent or greater pressure drop occurs, a packer will be run to isolate the surface casing and BOPE to locate the source of the leak.

Contacts:

Dugan Production Corp. Office and Radio Dispatch: 325-1821

Mark Brown: 327-3632 (H), 320-8247 (M)

Kurt Fagrelus: 325-4327 (H), 320-8248 (M)

John Alexander: 325-6927 (H), 320-1935 (M)