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UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
*Bureau of Land Management
Farmington Field Office*

MAY 28 2008

APPLICATION FOR PERMIT TO DRILL OR REENTER

ROYAL AUG 26 '08
OIL CONS. DIV.
DIST. 3

1a Type of Work <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5 Lease Serial No NMNM-99739
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 SG Interests I, LTD c/o NIKA Energy Operating		7 If Unit or CA Agreement, Name and No Federal 21-7-27
3a Address P.O. Box 2677 Durango, CO 81302	3b Phone No (include area code) (970) 259-2701	8 Lease Name and Well No 2
4 Location of Well (Report location clearly and in accordance with any State requirements *) At surface Lot_C_: 660' FNL & 1960' FWL At proposed prod zone		9 API Well No 30-043-21064
14 Distance in miles and direction from nearest town or post office* approximately 23.5 miles southwest of Counselor, New Mexico		10 Field and Pool, or Exploratory Basin Fruitland Coal
15 Distance from proposed* location to nearest property or lease line, ft (Also to nearest drig unit line, if any) 660'		11 Sec., T., R., M. or Blk and Survey or Area Section 27, T21N, R7W
16 No of Acres in lease 1,440.00	17 Spacing Unit dedicated to this well N/2 320.00 acres	12 County or Parish Sandoval
18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease. ft See attached map	19 Proposed Depth 875' approx. 700'	13 State NM
20 BLM/BIA Bond No on file PHB0003277 NM 2599	21 Elevations (Show whether DF, KDB, RT, GL, etc) 6,838 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 | 4 Bond to cover the operations unless covered by an existing bond on file (see item 20 above) |
| 2 A Drilling Plan | 5 Operator certification |
| 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) | 6 Such other site specific information and/or plans as may be required by the authorized officer |

25 Signature <i>William Schwab III</i>	Name (Printed/Typed) William Schwab III	Date 05/23/08
Title President NIKA Energy Operating, Agent for SG Interests I, LTD		

Approved by (Signature) <i>William Schwab III</i>	Name (Printed/Typed) William Schwab III	Date 8/25/08
Title AFM 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)

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.

SG Interests I, LTD. proposes to drill a well to develop the Basin Fruitland Coal formation at the following location 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 7,032.67 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 7,032.67 feet, to parallel the proposed access road.

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

NOTIFY AZTEC OCD 24 HRS. PRIOR TO CASING & CEMENT

NMOCD

SEP 03 2008

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Kilo 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

¹ API Number 30-043-21064		² Pool Code 71629		³ Pool Name Basin Fruitland Coal	
⁴ Property Code 37354		⁵ Property Name FEDERAL 21-7-27			⁶ Well Number 2
⁷ OGRID No. 020572		⁸ Operator Name SG INTERESTS I, LTD.			⁹ Elevation 6838

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
C	27	21N	7W		660	North	1960	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: 320 N2
¹³ Joint or Infill: CM
¹⁴ Consolidation Code:
¹⁵ 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.

<p>16</p> <p>N 89°46' W</p> <p>79.55 Ch.</p> <p>660'</p> <p>1960'</p> <p>80.83 Ch.</p> <p>Lat. 36.02771° N Long. 107.56649° W</p> <p>Sec. 27</p> <p>7676117 /</p> <p>N 0°11' E</p> <p>N 89°52' W</p> <p>79.95 Ch.</p>	<p>¹⁷ OPERATOR CERTIFICATION</p> <p>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.</p> <p><i>William Schwab</i> 5/27/2008 Signature Date</p> <p>William Schwab JTS Printed Name</p>
	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p>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.</p> <p>27 Mar 2008 Date of Survey</p> <p><i>William E. Mahjke II</i> Signature and Seal of Professional Surveyor #8466</p> <p>William E. Mahjke II Certificate Number 8466</p>

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

NW Federal 21-7-27 #2
NE Sec 26-7-21N-R7W
660' FNL & 1960' FEEL FWL
Sandoval County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	175'
Kirtland	325'
Fruitland	500'
Coal Top	700'
PC	725'
Total Depth	875'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	700'
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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"	0-875'	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 260 sx (299 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 July 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.

2-M SYSTEM

