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

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

Bureau of Land Management  
Farmington Field Office

APPLICATION FOR PERMIT TO DRILL OR REENTER

5. Lease Serial No	NM 99732
6. If Indian, Allottee or Tribe Name	
7. If Unit or CA Agreement, Name and No	Federal 21-6-31
8. Lease Name and Well No	2
9. API Well No.	30-043-21063
10. Field and Pool, or Exploratory	Basin Fruitland Coal
11. Sec., T, R, M, or Blk and Survey or Area	C Section 31, 21N, 6W
12. County or Parish	Sandoval
13. State	NM
14. Distance in miles and direction from nearest town or post office*	approximately 22 miles south of Counselor, New Mexico
15. Distance from proposed* location to nearest property or lease line, ft (Also to nearest drg unit line, if any)	775'
16. No. of Acres in lease	2,361.920
17. Spacing Unit dedicated to this well	48 N/2 320.00
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft	685' 860'
19. Proposed Depth	PB0003277 NM 2559
20. BLM/BIA Bond No on file	
21. Elevations (Show whether DF, KDB, RT, GL, etc )	6,746 GR
22. Approximate date work will start*	as soon as permitted
23. Estimated duration	1 month

1a Type of Work ☒ DRILL ☐ REENTER

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

2. Name of Operator

SG Interests I, LTD c/o NIKA Energy Operating

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 775' FNL & 1764' FWL

At proposed prod zone

14 Distance in miles and direction from nearest town or post office\*

approximately 22 miles south of Counselor, New Mexico

15 Distance from proposed\*

location to nearest property or lease line, ft (Also to nearest drg unit line, if any)

775'

16. No. of Acres in lease

2,361.920

17. Spacing Unit dedicated to this well

48  
N/2 320.00

18 Distance from proposed location\* to nearest well, drilling, completed, applied for, on this lease, ft

19 Proposed Depth

685' 860'

20 BLM/BIA Bond No on file

PB0003277 NM 2559

21. Elevations (Show whether DF, KDB, RT, GL, etc )

6,746 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

W. Schwab III

Name (Printed Typed)

William Schwab III

Date

4/25/2008

Title

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

Approved by (Signature)

W. Manley

Name (Printed Typed)

Office FFO

Date

11/12/08

Title

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.

An access road of approximately 1,480.89 feet will be needed to access the proposed well pad.

This APD is also serving as an application for an on-lease gas and water pipeline ties of approximately 1,480.89 feet, both to be parallel to 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

NOV 18 2008

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NOTIFY AZTEC NMOCD 24 HRS.  
PRIOR TO CASING & CEMENT

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.

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

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

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Avenue, Artesia, NM 88210  
District III  
1090 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>30043-210203</b>		Pool Code <b>71629</b>	Pool Name <b>Basin Fruitland Coal</b>
Property Code <b>35828</b>	Property Name <b>FEDERAL 21-6-31</b>		Well Number <b>2</b>
OGRID No. <b>20572</b>	Operator Name <b>SG INTERESTS I, LTD.</b>		Elevation <b>6746</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
<b>C</b>	<b>31</b>	<b>21N</b>	<b>6W</b>		<b>775</b>	<b>North</b>	<b>1764</b>	<b>West</b>	<b>Sandoval</b>

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>320.48 N2</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.

<p>16</p> <p>20.11 Ch. 19.96 Ch. N 89°15' W 39.31 Ch.</p> <p>775'</p> <p>1764'</p> <p>Lat. 36.01247° N Long. 107.51381° W</p> <p>Lot 1</p> <p>Lot 2</p> <p>Lot 3</p> <p>Lot 4</p> <p>80.76 Ch. 80.51 Ch. 80.05' E 80.15' E</p> <p>Sec. 31</p> <p>19.92 Ch. 19.92 Ch. N 89°29' W 39.84 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 Schwarze</i> 4/25/2008 Signature Date <b>William Schwarze III</b> 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>04 Mar 2008 Date of Survey Signature and Seal of Professional Surveyor <i>William E. Mahnke II</i> Certificate Number <b>8466</b></p>

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

**Federal 21-6-31 #2**  
**NW Sec 31-21N-R6W**  
**775' FNL & 1764' FWL**  
**Sandoval County, New Mexico**

**EIGHT POINT DRILLING PROGRAM**

**1. Estimated Formation Tops:**

Ojo Alamo	160'
Kirtland	310'
Fruitland	485'
Coal Top	685'
PC	710'
Total Depth	860'

**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"	0-860'	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 255 sx (293 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.

# 2-M SYSTEM

