

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED

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

APR 24 2009

APPLICATION FOR PERMIT TO DRILL OR REENTER

Bureau of Land Management
Farmington Field Office

1a Type of Work <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5 Lease Serial No NMNM 099739
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 21-7-26
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 Unit Letter: C : 700' FNL & 1975' FEL At proposed prod zone		9 API Well No 30-043-21068
10 Field and Pool, or Exploratory Basin Fruitland Coal		11 Sec, T, R, M, or Blk and Survey or Area C Section 26, T21N, R7W
14 Distance in miles and direction from nearest town or post office* approximately 23 miles southwest of Counselor, New Mexico		12 County or Parish Sandoval
15 Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drg unit line, if any) 700'		13 State NM
16 No. of Acres in lease 1,440.00		17 Spacing Unit dedicated to this well N/2 320.00 acres
18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft. See attached map		20 BLM/BIA Bond No on file OIL CONS. DIV. PIB0003277 DIST. 3
21 Elevations (Show whether DF, KDB, RT, GL, etc.) 6,733 GR This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4		23 Estimated duration 1 month
22 Approximate date work will start* as soon as permitted		24 Attachments DRILLING OPERATIONS AUTHORIZED ARE

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No 1, shall be attached to this form SUBJECT TO COMPLIANCE WITH ATTACHED "GENERAL REQUIREMENTS".

- | | |
|---|---|
| 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 	Name (Printed/Typed) William Schwab III	Date 4/24/2009
Title President NIKA Energy Operating/Agent for SG Interests I, LTD		
Approved by (Signature) 	Name (Printed/Typed) J. Montie	Date 7/24/09
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 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 277.87 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 277.87 feet; both to be parallel to the proposed access road.

NOTIFY AZTEC OCD 24 HRS.
PRIOR TO CASING & CEMENT

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

NMOCD

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
SUNDRY NOTICES AND REPORTS ON WELLS

Do not use this form for proposals to drill or reenter an abandoned well. Use Form 3160-3 (APD) for such proposals.

Bureau of Land Management
Fairlington Field Office

RECEIVED

MAY 04 2009

FORM APPROVED
OMB No. 1004-0135
Expires July 31, 1996

5. Lease Serial No.

NMNM99739

6. If Indian, Allottee or Tribe Name

RCVD JUN 3 '09

7. If Unit or CA/Agreement, Name and/or No.

OIL CONS. DIV.

DIST. 3

1. Type of Well

☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator

SG Interests I, Ltd., c/o Nika Energy Operating, LLC

3a. Address

PO Box 2677, Durango, CO 81302

3b. Phone No. (include area code)

(970) 259-2701

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)

Unit C: 700' FNL, 1975' FWL

Sec 26-T21N-R7W (NENW)

8. Well Name and No.

FEDERAL 21-7-26 #2

9. API Well No.

Pending APD

30.043.21068

10. Field and Pool, or Exploratory Area

Basin Fruitland Coal

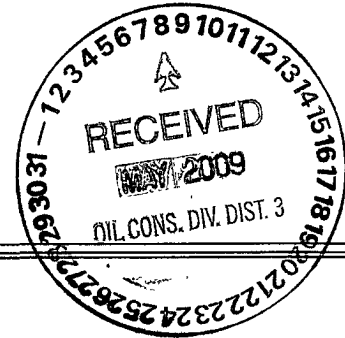
Sandoval County, NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize <input type="checkbox"/> Deepen <input type="checkbox"/> Production (Start/Resume) <input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing <input type="checkbox"/> Fracture Treat <input type="checkbox"/> Reclamation <input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair <input type="checkbox"/> New Construction <input type="checkbox"/> Recomplete <input checked="" type="checkbox"/> Other Change
	<input type="checkbox"/> Change Plans <input type="checkbox"/> Plug and Abandon <input type="checkbox"/> Temporarily Abandon <input type="checkbox"/> Dedicated Acreage
	<input type="checkbox"/> Convert to Injection <input type="checkbox"/> Plug Back <input type="checkbox"/> Water Disposal

13. Describe Proposed or Completed Operations (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

SG submitted an APD for this well to BLM on April 24, 2009. On the APD we showed dedicated acreage as the W/2 of Sec 26. SG is requesting the dedicated acreage be changed to the N/2 of Sec 26. SG plans to produce another well in the NE/4 of Sec 26 (Federal 21-7-26 #1), and both of these wells will be on the same lease in the N/2 of Sec 26.



14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed)

Marcia Stewart

Title

Agent for SG Interests I Ltd

Signature

Date

April 29, 2009

THIS SPACE FOR FEDERAL OR STATE USE

Approved by

/s/ Monica Tilden

Title

LIE

Date

MAY - 5 2009

Conditions of approval, if any, are attached. Approval of this notice 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.

Office

PFO

Title 18 U.S.C. Section 1001, makes 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)

NMOC

<p>N 89° 43' W</p> <p>79.97 Ch.</p> <p>16</p> <p>80° 65' Ch.</p> <p>1975'</p> <p>700'</p> <p>Lat. 36.02754° N Long. 107.54869° W</p> <p>Sec. 26</p> <p>N 0° 08' W</p> <p>N 89° 44' W</p> <p>79.90 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 mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>[Signature]</i> Signature _____ Date _____</p> <p><i>William Suwabito</i> Printed Name _____</p> <hr/> <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>Re-issued 02 Dec 2008 - 29 Apr 2009</p> <p>Date of Survey _____</p> <p>Signature and Seal of Professional Surveyor: <i>[Signature]</i> #8456 William E. Mahnke II</p> <p>Certificate Number _____</p>
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SG INTERESTS I, INC.
FRUITLAND DRILLING PROGRAM
TS

WELL NAME: Federal 21-7-26 #2

FIELD NAME: Basin Fruitland Coal

LOCATION: NENW Section 26, T21N, R7W
700' FNL, 1975' FWL
UL - C
Sandoval County, New Mexico

DATE: March 2009

PROPOSED TD: 820'

DEPTH TO MINERALS: 645'

Note: Review APD Stipulations before moving on location. Review regulatory notification requirements and notify accordingly. Comply with all safety and environmental requirements.

Notify: BLM Field Office Manager (Inspection and Enforcement Section) 24 hours before SPUD, CEMENTING OR PLUGGING OPERATIONS at (505) 599-8907.

DIRECTIONS:

From Counselor Trading Post on US Hwy. 550, travel south \pm 0.1 miles, turn right on dirt road with sign "Star Lake Compressor-26 miles". This is the 0 mile point for this description. Follow dirt road:

4.3 miles – Turn left at "Ojo Encino School" sign,
11.0 miles – Transition to pavement with sign "N 474",
14.5 miles – Turn right off pavement through cattle guard onto dirt road,
20.7 miles – Turn right onto lease road,
21.6 miles – Turn left still following lease road,
22.0 miles – turn right still following lease road,
22.8 miles – Arrive at Federal 21-7-25 #3 well, turn left,
23.0 miles – Turn right and follow lease road to Federal 21-7-26 #1 well,
23.5 miles – Continue thru 26 #1 pad, follow access road \pm 1905 feet to
Well location tie in. Location is 278 feet north.

DRILLING SKELETON:

<u>Interval</u>	<u>Hole Size</u>	<u>Casing Size</u>	<u>Depth</u>
Surface	12-1/4"	8-5/8"	180'
Production	7-7/8"	4-1/2"	820'

MUD PROGRAM:

<u>Interval</u>	<u>Mud Type</u>	<u>Mud Weight</u>	<u>Funnel Viscosity</u>	<u>Water Loss</u>
0 - 180'	Native	8.5 - 9.1	30 - 50	N/C
180'-820'	Native/LSND	8.5 - 9.1	30 - 50	8 - 10

CORE PROGRAM: None

ELECTRICAL LOGGING PROGRAM: Openhole logs will include a GR/Caliper and a Formation Density log from TD to the surface casing shoe.

CASING AND CEMENTING PROGRAM:

<u>Interval</u>	<u>Size, Wt, Grade, Thread</u>	<u>Depth</u>	<u>Cement</u>
Surface	8-5/8", 24#, J-55, ST&C	180'	125 sx Type 5 2% CaCl, 1/4#sx celloflake
Production	4-1/2", 10.5#, J-55, ST&C	TD	237 sx Type 5 1/4#/sx celloflake, 3# Gilsonite

WELLHEAD: 3000# Independent Style

BLOWOUT PREVENTION EQUIPMENT REQUIREMENTS:

<u>Description</u>	<u>Rating</u>
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 ~ 6733', KB ~ 6738'

Formation Tops:

Formation	Depth
Ojo Alamo	145'
Kirtland	320'
Fruitland	440'
Coal Top	645'
PC	670'
Total Depth	820'

Note: TD will be 150' below the lowest coal. The company man will be on location once coal(s) 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.

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

Federal 21-7-26 #2
NENW (UL, C) Sec 26, T21N-R7W
700' FNL & 1975' FWL
Sandoval County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	145'
Kirtland	320'
Fruitland	440'
Coal Top	645'
PC	670'
Total Depth	820'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	645
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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"	0-820'	4-1/2"	10.5#, J-55, STC

Surface Casing will be cemented with 125 sx (144 cu ft) Type 5 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 237 sx (280 cu ft) Type 5 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. Class B or G may be used depending on availability of Type 5.

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.

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.

7. Operations:

Anticipated spud date is August 2009 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

