

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

RECEIVED

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

APPLICATION FOR PERMIT TO DRILL OR REENTER

APR 24 2009

Lease Serial No.

NMNM-099732

6 If Indian, Allottee or Tribe Name

7 If Unit or CA Agreement, Name and No

Federal 21-6-32 red CA

8 Lease Name and Well No

1

9 API Well No

1 3004321069

10 Field and Pool, or Exploratory

Basin Fruitland Coal

11 Sec, T, R, M, or Blk and Survey or Area

Section 32, T21N, R6W

12 County or Parish

Sandoval

13 State

NM

1a Type of Work ☒ DRILL

☐ REENTER

Bureau of Land Management  
Farmington Field Office

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 Unit Letter: G : 2150' FNL & 1920' FEL

At proposed prod. zone

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

approximately 18.9 miles southwest of Counselor, New Mexico

15 Distance from proposed\*

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

1920'

16 No. of Acres in lease

2,361.920

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. 895'

20 BLM/BIA Bond No. on file

NM1935  
PIB0003277

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

6,831GR

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

*William Schwab III*

Name (Printed/Typed)

William Schwab III

Date

4/24/2009

Title

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

Approved by (Signature)

*AFM*

Name (Printed/Typed)

Office PFO

Date

7/20/09

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 2,402.98 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 2,402.98 feet; both to be parallel to the proposed access road.

This action is subject to technical and procedural review pursuant to 43 CFR 3105.8 and appeal pursuant to 43 CFR 3165.4

NMOC

Drilling operations authorized are subject to compliance with attached "General Requirements".

JUL 28 2009

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

RECEIVED

APR 24 2008

Form C-102

Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

Bureau of Land Management  
Field Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION

<sup>1</sup> API Number 30-043-21069	<sup>2</sup> Pool Code 71629	<sup>3</sup> Pool Name Basin Fruitland Coal
<sup>4</sup> Property Code 35511	<sup>5</sup> Property Name FEDERAL 21-6-32	<sup>6</sup> Well Number 1
<sup>7</sup> OGRID No. 20572	<sup>8</sup> Operator Name SG INTERESTS I, LTD.	<sup>9</sup> Elevation 6831

<sup>10</sup> Surface Location

UL or Lot No	Section	Township	Range	Lot Ida.	Feet from the	North/South Line	Feet from the	East/West Line	County
G	32	21 N	6 W		2150	North	1920	East	Sandoval

<sup>11</sup> Bottom Hole Location If Different From Surface

UL or Lot No	Section	Township	Range	Lot Ida.	Feet from the	North/South Line	Feet from the	East/West Line	County

<sup>12</sup> Dedicated Acres 3.20	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
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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.

<sup>16</sup> 	<sup>17</sup> 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 has an undivided 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. Signature: <i>William Schwab</i> Date: 4/24/2008 Printed Name: William Schwab
	<sup>18</sup> 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: 19 Nov 2008 Signature: <i>William E. Mahnke</i> Printed Name: William E. Mahnke Certificate Number: 8466

Bearings are from GLO Plat

**SG INTERESTS I, INC.  
FRUITLAND DRILLING PROGRAM  
TS**

**WELL NAME:** Federal 21-6-32 #1

**FIELD NAME:** Basin Fruitland Coal

**LOCATION:** NE/4 Section 32, T21N, R6W  
2150' FNL, 1920' FEL  
UL - G  
Sandoval County, New Mexico

**DATE:** March 2009

**PROPOSED TD:** 895'

**DEPTH TO MINERALS:** 720'

**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 continuing to follow lease road,
- 22.0 miles – Turn right following lease road,
- 22.8 miles – Arrive at Federal 21-7-25 #3 well, turn left,
- 23.0 miles – Turn right and follow access road  $\pm$  2500 feet northwest to location.

**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"	895'

**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'-895'	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	260 sx Type 5 1/4#/sx celloflake, 3# Gilsonite

**WELLHEAD:** 3000# Independent Style

**BLOWOUT PREVENTION EQUIPMENT REQUIREMENTS:**

<b><u>Description</u></b>	<b><u>Rating</u></b>
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 ~ 6831', KB ~ 6836'

**Formation Tops:**

<b><u>Formation</u></b>	<b><u>Depth</u></b>
Ojo Alamo	195'
Kirtland	345'
Fruitland	520'
Coal Top	720'
PC	745'
Total Depth	895'

**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.

**NOTIFICATION SCHEDULE**

**Purpose or Reason**

**Regulatory**

**Phone Number**

**Comments**

BLM

505-599-8907

Notify 24 hours before spud,  
testing BOP's, running casing,  
or cementing.

BLM

505-899-8900

Changes or questions regarding  
approved plans or drilling ops.

BLM

505-327-2186  
505-326-0253  
505-334-1266

Emergency program changes  
after normal business hours.  
Wayne Townsend  
Steve Mason  
Jim Lovato

NMOCD

505-334-6178

Notify 24hrs before cementing.  
Monica Kuehling  
~~Henry Villanueva~~

*Steve Hayden*

**Drilling Issues**

Tripp Schwab  
tripp@nikaenergy.com

970-259-2701  
970-769-3589  
970-769-3589

Office  
Mobile  
Home

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

**Federal 21-6-32 #1**  
**SWNE (UL, G) Sec 32, 21N-R6W**  
**2150' FNL & 1920' FEL**  
**Sandoval County, New Mexico**

**EIGHT POINT DRILLING PROGRAM**

**1. Estimated Formation Tops:**

Ojo Alamo	195'
Kirtland	345'
Fruitland	520'
Coal Top	720'
PC	745'
Total Depth	895'

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

Fruitland (Gas)	720'
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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"	0-895'	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 260 sx (307 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.



**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 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

