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

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

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-499739
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 21-7-25
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 725 FNL & 2315' FWL At proposed prod zone		9 API Well No 30-043-21072
14 Distance in miles and direction from nearest town or post office* approximately 22.8 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 drg unit line, if any) 725'	16. No. of Acres in lease 1,440.00	11 Sec, T, R, M, or Blk and Survey or Area Section 25, T21N, R7W
17 Spacing Unit dedicated to this well W/2 320.00 acres	18 Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft See attached map	12 County or Parish Sandoval
19. Proposed Depth approx 880'	20 BLM/BIA Bond No on file PIB0003277	13 State NM
21 Elevations (Show whether DF, KDB, RT, GL, etc) 6,685 GR This action is subject to technical and procedural review pursuant to 43 CFR 3165.3 and appeal pursuant to 43 CFR 3165.4	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
DRILLING OPERATIONS AUTHORIZED ARE SUBJECT TO COMPLIANCE WITH ATTACHED "GENERAL REQUIREMENTS".

- 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 	Name (Printed/Typed) William Schwab III	Date 4/24/2009
President NIKA Energy Operating/ Agent for SG Interests I, LTD		
Approved by (Signature) 	Name (Printed/Typed) AFM	Date 7/20/09
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 3,134.41 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 3,134.41 feet, both to be parallel to the proposed access road.

NOTIFY AZTEC OOD 24 HRS.
PRIOR TO CASING & CEMENT

HOLD C104 FOR N/S

JUL 28 2009

NMOCD

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

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

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APR 24 2009

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

1 API Number 30-043-21072		2 Pool Code 71629		3 Property Name Basin Fruitland Coal	
4 Property Code 35742		5 Property Name FEDERAL 21-7-25			6 Well Number 2
7 OGRID No 20572		8 Operator Name SG INTERESTS I, LTD.			9 Elevation 6685

224

10 Surface Location

UL or Lot No C	Section 25	Township 21 N	Range 7 W	Lot Idn.	Feet from the 725	North/South Line North	Feet from the 2315	East/West Line West	County Sandoval
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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
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12 Dedicated Acres 320	13 Joint or Infill	14 Consolidation Code	15 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.

<p>16</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 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.</p> <p>Signature: <i>William Schwab III</i> Date: <i>4/24/2009</i></p> <p>Printed Name: <i>William Schwab III</i></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>Date of Survey: <i>05 Dec 2008</i></p> <p>Signature: <i>William E. Mahfke II</i></p> <p>Certificate Number: <i>8466</i></p>		

Bearings from GLO Plat

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

WELL NAME: Federal 21-7-25 #2

FIELD NAME: Basin Fruitland Coal

LOCATION: NENW Section 25, T21N, R7W
725' FNL, 2315' FWL
UL - C
Sandoval County, New Mexico

DATE: March 2009

PROPOSED TD: 880'

DEPTH TO MINERALS: 705'

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, follow access road north \pm 3134 feet 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"	880'

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'-880'	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	255 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 ~ 6685', KB ~ 6690'

Formation Tops:

Formation	Depth
Ojo Alamo	205'
Kirtland	380'
Fruitland	505'
Coal Top	705'
PC	730'
Total Depth	880'

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 21-7-25 #2
NENW (UL, C) Sec 25, T21N-R7W
725' FNL & 2315' FWL
Sandoval County, New Mexico

EIGHT POINT DRILLING PROGRAM

1. Estimated Formation Tops:

Ojo Alamo	205'
Kirtland	380'
Fruitland	505'
Coal Top	705'
PC	730'
Total Depth	880'

2. Estimated Depth of Anticipated Minerals:

Fruitland (Gas)	705'
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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"	0-880'	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 255 sx (300 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

