5847 San Felipe Suite 3600
Houston, Texas 77057
Telephone: (713) 780-5000
Fax (713) 780-5273
Telex 9108813603

OIL CONSERVATION DIVISION
RECEIVED

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September 5, 1990

BHP Petroleum (Americas) Inc

State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

9/11/90
Copy sent to E. Busch

RE: Unorthodox Location, Administrative Approval Request
Gallegos Canyon Unit #397
NE 1/4 SW 1/4 Sec. 36 T29N R13W
San Juan County, New Mexico

Gentlemen:

BHP Petroleum respectfully requests that a non standard location be administratively approved to allow the GCU #397 well to be drilled 1555' FSL and 1965' FWL to be completed in the Fruitland Coal formation.

The non standard location is requested due to topographical reasons. A standard location is not possible due to steep terrain and massive rock out croppings.

The subject location is immediately adjacent to the existing Amoco well location # 189-E producing from the Dakota formation.

BHP is the operator of all offsetting proration units.

Ernie Busch visited the subject location with J. C. Harris and myself on August 10, 1990 and concurred that the subject location was the most feasible.

For both economical and mechanical reasons BHP doesn't think that directionally drilling the proposed well to a standard location is feasible. Economically it is not feasible based on the extra expense of drilling a directional hole compared to the anticipated production. Our experience has shown that a rod pump will have to be installed to remove excess water from the well bore and a directionally drilled hole would greatly hinder or prohibit that.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Chuck Williams

Chuck Williams
Field Services Administrator

Submit to Appropriate
District Office
State Lease – 6 copies
Fee Lease – 5 copies

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Form C-101
Revised 1-1-89

API NO. (assigned by OCD on New Wells)

5. Indicate Type of Lease STATE [XX] FEE [ ]

6. State Oil & Gas Lease No. E 5462-4

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. Type of Work:
DRILL [X] RE-ENTER [ ] DEEPEN [ ] PLUG BACK [ ]

b. Type of Well:
OIL WELL [ ] GAS WELL [X] OTHER SINGLE ZONE [X] MULTIPLE ZONE [ ]

7. Lease Name or Unit Agreement Name: Gallegos Canyon Unit

2. Name of Operator: BHP Petroleum (Americas) Inc.

8. Well No. 397

3. Address of Operator: 5847 San Felipe Suite #3600 Houston, Texas 77057

9. Pool name or Wildcat: Basin Fruitland Coal

4. Well Location
Unit Letter K : 1555 Feet From The South Line and 1965 Feet From The West Line

Section 36 Township 29N Range 13W NMPM San Juan County

10. Proposed Depth	11. Formation	12. Rotary or C.T.
1436'	Fruitland Coal	Rotary

13. Elevations (Show whether DF, RT, GR, etc.)	14. Kind & Status Plug. Bond	15. Drilling Contractor	16. Approx. Date Work will start
5473'	Blanket	Unknown	Fall 1990

17. PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
8 3/4"	7"	20#	± 130'	50 sx (57.5 cu ft)	Surface
6 1/4"	4 1/2"	10.5#	±1436'	182 sx (224 cu ft)	Surface

It's proposed to drill the subject well to 1436' with primary production anticipated in the Fruitland Coal.

Estimated Formation Tops:		
	Kirtland	56'
	Fruitland	992'
	Basal Fruitland Coal	1259'
	Pictured Cliffs	1286'
	T.D.	1436'

B.O.P.E. will consist of 2000# Reagan Bladder type B.O.P., pipe rams and blind rams B.O.P.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTIVE ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Chuck Williams TITLE Field Services Administator DATE August 6, 1990

TYPE OR PRINT NAME Chuck Williams TELEPHONE NO. 713 780-5448

(This space for State Use)

APPROVED BY _____ TITLE _____ DATE _____

CONDITIONS OF APPROVAL, IF ANY:

Submit to Appropriate
District Office
State Lease - 4 copies
Fee Lease - 3 copies

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised 1-1-89

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

Operator	Lease	Well No.
BHP PETROLEUM (AMERICAS) INC.	GALLEGOS CANYON UNIT	397

Unit Letter	Section	Township	Range	County
K	36	29 N	13 W NMPM	San Juan

Actual Footage Location of Well:
1555 feet from the South line and 1965 feet from the West line

Ground level Elev.	Producing Formation	Pool	Dedicated Acreage:
5473	Fruitland Coal	Basin Fruitland Coal	320 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.

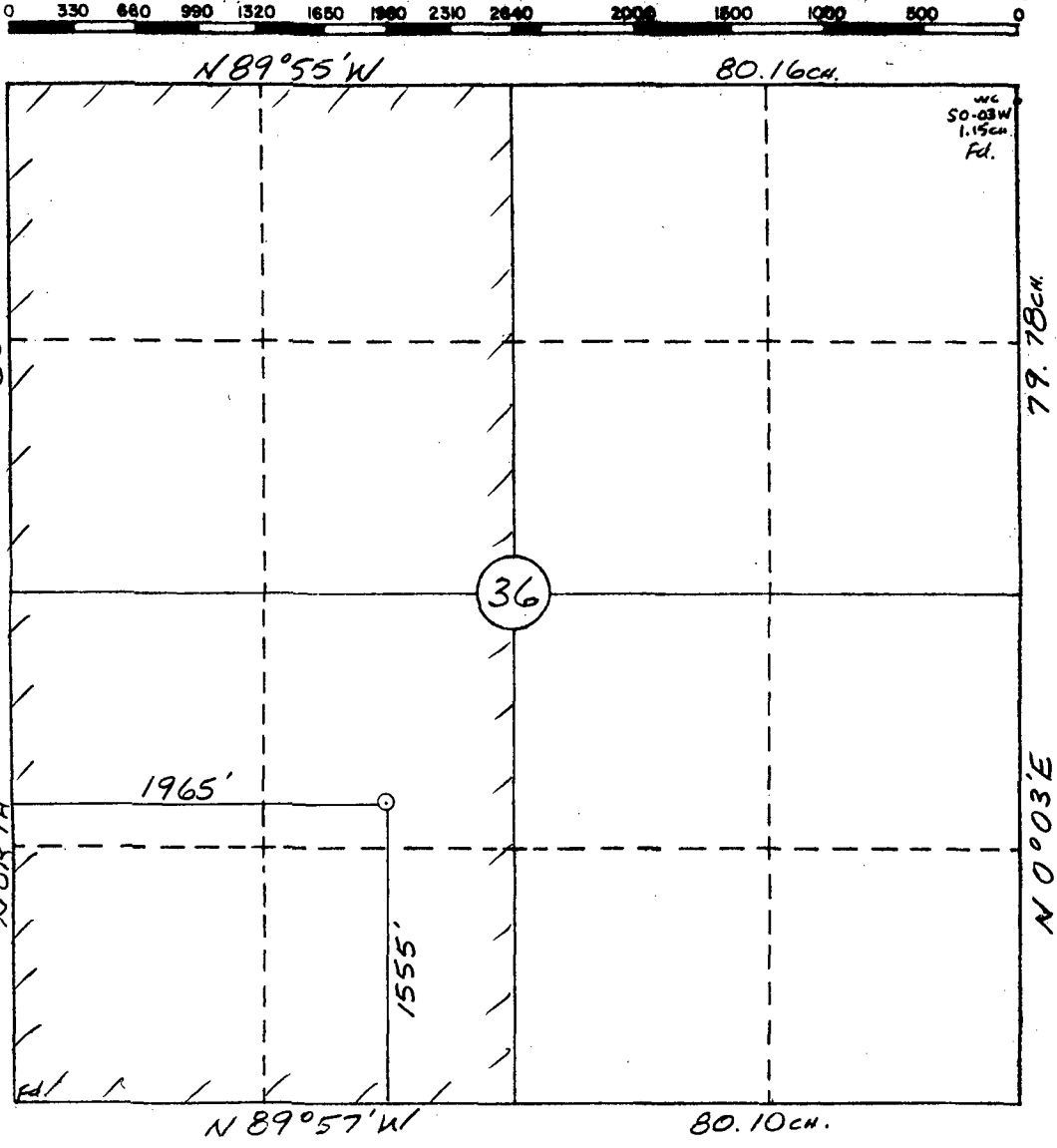
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).

3. If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?

☐ Yes ☐ No If answer is "yes" type of consolidation _____

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if neccessary. _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

I hereby certify that the information contained herein in true and complete to the best of my knowledge and belief.

Signature: Chuck Williams
Printed Name: Chuck Williams
Position: Field Services Administrator
Company: BHP Petroleum (Americas) Inc.
Date: August 3, 1990

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 supervison, and that the same is true and correct to the best of my knowledge and belief.

7-13-90

Date Surveyed
William E. Mahnke II
Signature & Seal of Professional Surveyor
WILLIAM E. MAHNKE II NEW MEXICO #8466 REGISTERED PROFESSIONAL LAND SURVEYOR
Certificate No. 8466

BHP PETROLEUM (AMERICAS) INC.
GALLEGOS CANYON UNIT NO. 397
1555' FSL & 1965' FWL SECTION 36 T29N-R13W
SAN JUAN COUNTY, NEW MEXICO
TEN POINT PROGRAM

1. **Surface Formation:** Ojo Alamo

2 &
3. **Estimated Formation Tops:**

Formation	Top	Expected Production
Kirtland	56	
Fruitland	992	
Basal Fruitland Coal	1259	Gas
Pictured Cliffs	1286	Gas
Total Depth	1436	

4. **Casing and Cementing Program:** A string of 7" 20# K-55 casing with ST&C couplings is to be set at ±130' in an 8 3/4" hole and cemented to the surface in a single stage with 50 sx Class 'H' cement (yield = 1.15 ft^3/sx) containing 3 % $CaCl_2$ and ¼ #/sx celloflake. Slurry volume assumes a 100 percent excess over calculated hole volume. Centralizers will be run on the bottom two joints as long as boulders are not encountered while drilling the surface hole. If boulders are encountered while drilling the surface hole, no centralizers will be run as it has been BHP P(A)'s experience centralizers have a tendency to knock off boulders and hang up the casing while running in the hole. Minimum clearance between collars and hole is 1.094". Prior to drilling out shoe, casing and BOPE will be tested to a minimum of 2000 psi. Safety factors utilized in the design of this casing string were: Burst = 1.1, Collapse = 1.125, and Tension = 1.8 or 100,000# overpull whichever was greater.

A production string of 4½" 10.5# K-55 casing with ST&C couplings will be run from the surface to total depth in a 6¼" hole. This string will be cemented to the surface with a minimum of 132 sx of 50-50 pozmix containing 2 % gel, 0.5 % fluid loss additive and ¼ #/sx celloflake (yield = 1.26 ft^3/sx) followed by 50 sx of Class 'G' cement containing low fluid loss additives (yield = 1.15 ft^3/sx). Slurry volume assumes a 50 percent excess over calculated hole volume. Cement volume is subject to change after review and recalculation of hole volume from the open hole calipers. Centralizers will

be spaced such that a minimum of two are located above and two are located below the Basal Fruitland Coal; and, if any Ojo Aloma is present in the open hole section at the top of the hole, a minimum of one centralizer will be run just below the base and another into the base of Ojo Alamo. Minimum clearance between collars and hole is 1.25". Prior to perforating the casing for any attempted completion, the casing will be tested to a minimum of 2500 psi. Safety factors utilized in the design of this casing string were: Burst = 1.1, Collapse = 1.125, and Tension = 1.8 or 100,000# overpull whichever was greater.

A chronological log following the completion of the cementing operations detailing the pump rate, pump pressure, slurry density, and slurry volume for each job will be submitted in a Sundry Notice.

5. **Pressure Control Equipment:** (See attached schematic diagrams) A minimum of a 2M BOPE well control system will be utilized. BOP's and choke manifold will be installed and pressure tested before drilling out under surface casing and then will be checked daily as to mechanical operation condition. Ram type preventors will be tested to 70 percent of the internal yield pressure of the casing. The annular preventor will be tested to 50 percent of its working pressure.

A full opening internal blowout preventor or drill pipe safety valve will be on the drilling floor at all times and will be capable of fitting all connections.

6. **Mud Program:** A fresh water Low Solids, Non-Dispersed mud system will be used to drill this well. Sufficient materials will be on location at all times to maintain mud properties and to control any unforeseen lost circulation problems or abnormal pressures in the Farmington Sands of the Kirtland Formation. All drilling fluids will be contained in a steel pit. At the completion of drilling, the drilling fluid will be hauled off to be used for another well. The remaining accumulation of solids in the pit will be dumped into a small earthen pit beside the steel pit. As soon as this pit dries up, it will be covered up.

Mud program summary is as follows:

Interval (feet)	Mud Weight (#/gal)	Viscosity (sec/qt)
0 - 1000	8.4 or less	30 - 38
1000 - TD	9.3 or less	40 - 55

7. **Auxiliary Equipment:**
An upper Kelly Cock will be utilized. At a minimum, a flow sensor will be installed in the system and the mud volume constantly be visually monitored.

8. **Logging Program:** SP-DIL and GR-FDC-CNL logs will be run from TD to surface casing shoe.

Coring Program: No cores are planned.

Testing Program: No tests are planned.

Stimulation Program: Perf the Basal Fruitland Coal with 2 JSPF and frac with 50,000 gals of either a 70 quality nitrogen foam or a crosslinked-gelled water containing a minimum of 50,000 lbs of 20-40 mesh sand.

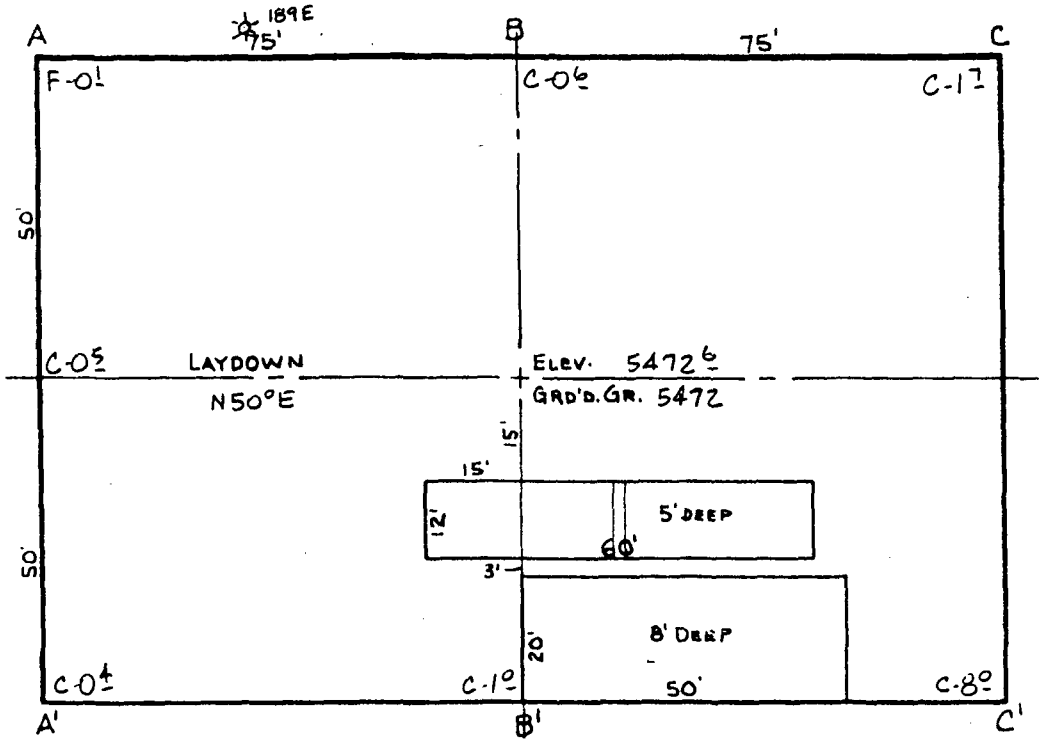
9. **Abnormal Pressure:** Although not expected, abnormal pressures are possible in the Farmington Sands of the Kirtland Formation.

Estimated Bottom Hole Pressure: 400 psi.

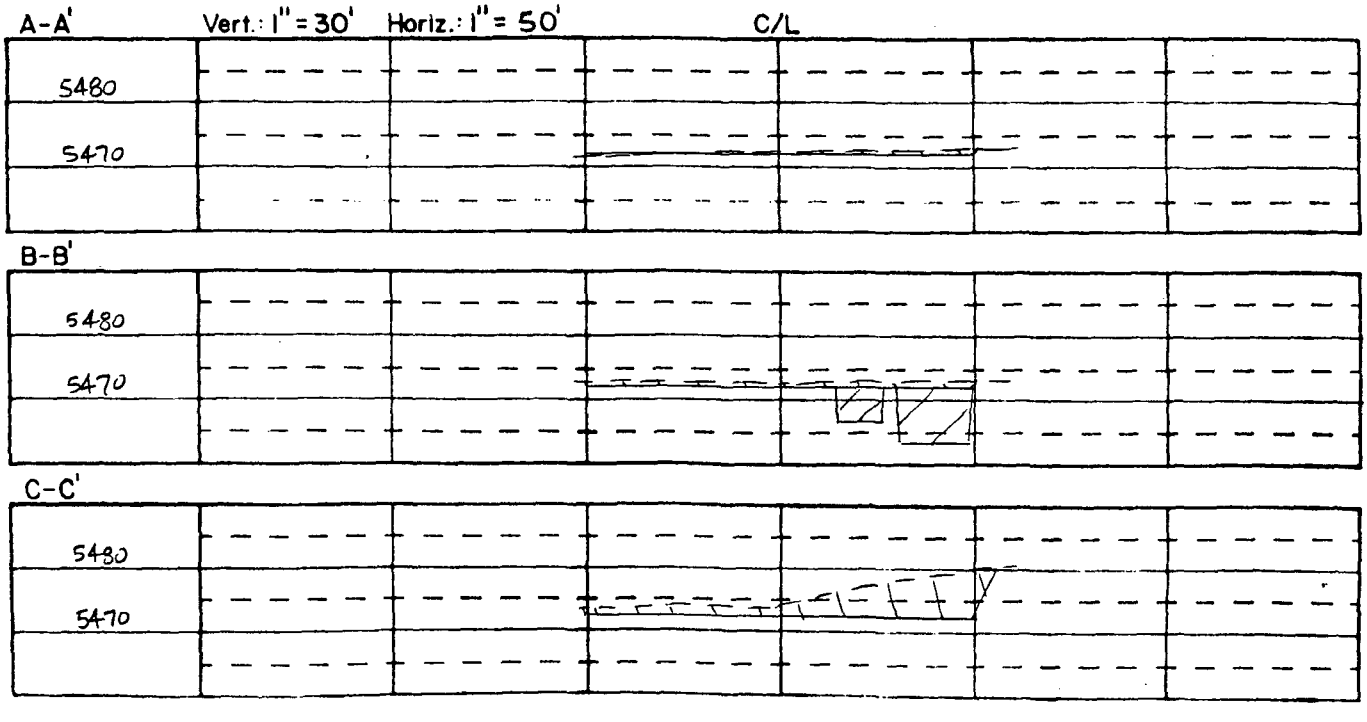
10. **Anticipated Starting Date:** As soon as all required approvals are received.

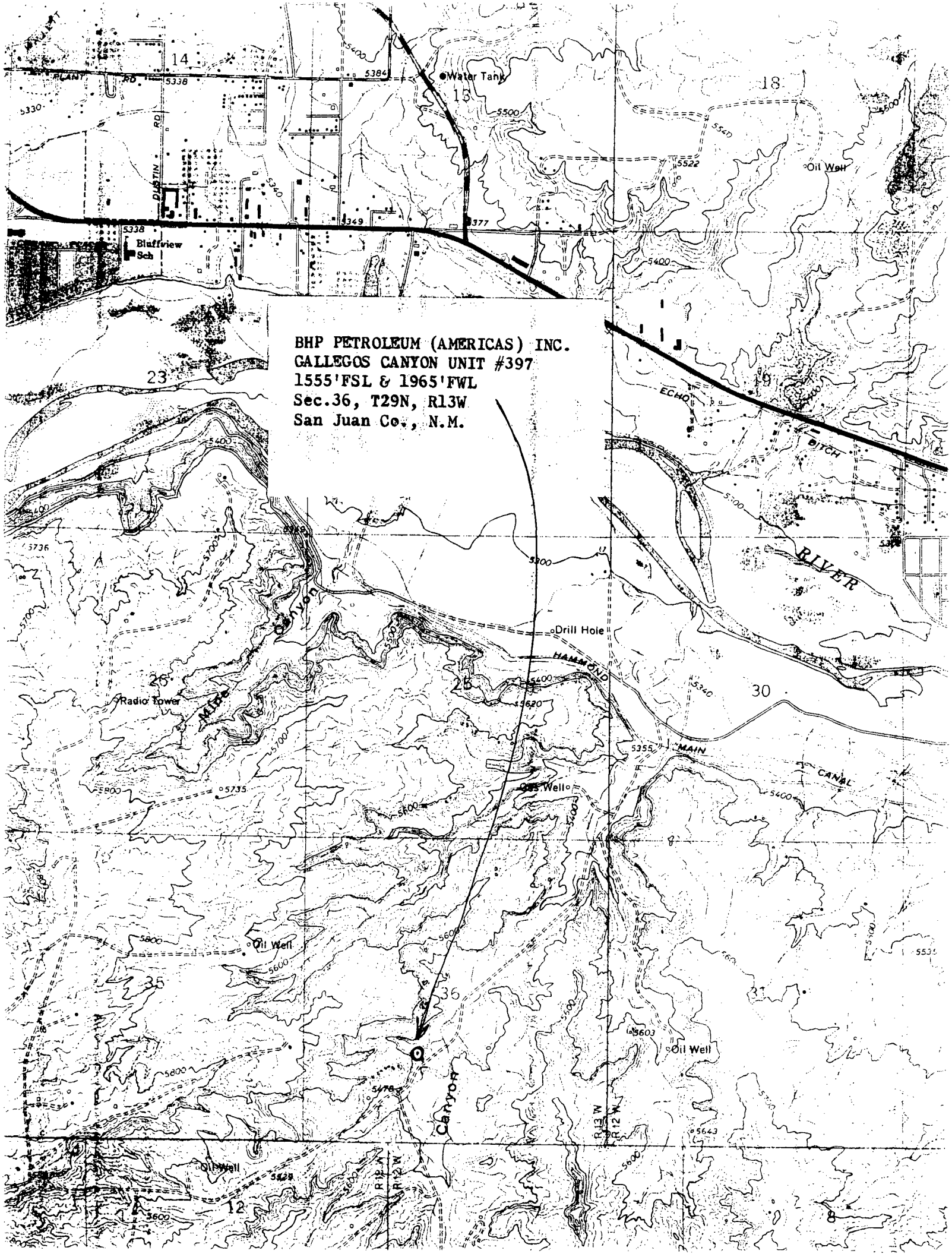
Duration of Operation: It is anticipated a total of 4 days will be required for drilling operations and 5 days for completion operations.

BHP PETROLEUM (AMERICAS) INC.
GALLEGOS CANYON UNIT #397
1555'FSL & 1965'FWL
Sec.36, T29N, R13W
San Juan Co., N.M.



SCALE: 1" = 30'




BHP PETROLEUM (AMERICAS) INC.
GALLEGOS CANYON UNIT #397
1555'FSL & 1965'FWL
Sec.36, T29N, R13W
San Juan Co., N.M.
PLANT RD
DUSTIN RD
Bluffview Sch
Water Tank
Oil Well
ECHO
DITCH
RIVER
Drill Hole
HAMMOND
MAIN CANAL
Radio Tower
Oil Well
Oil Well
Oil Well
Canyon
R13W
R12W
14
15
18
23
19
26
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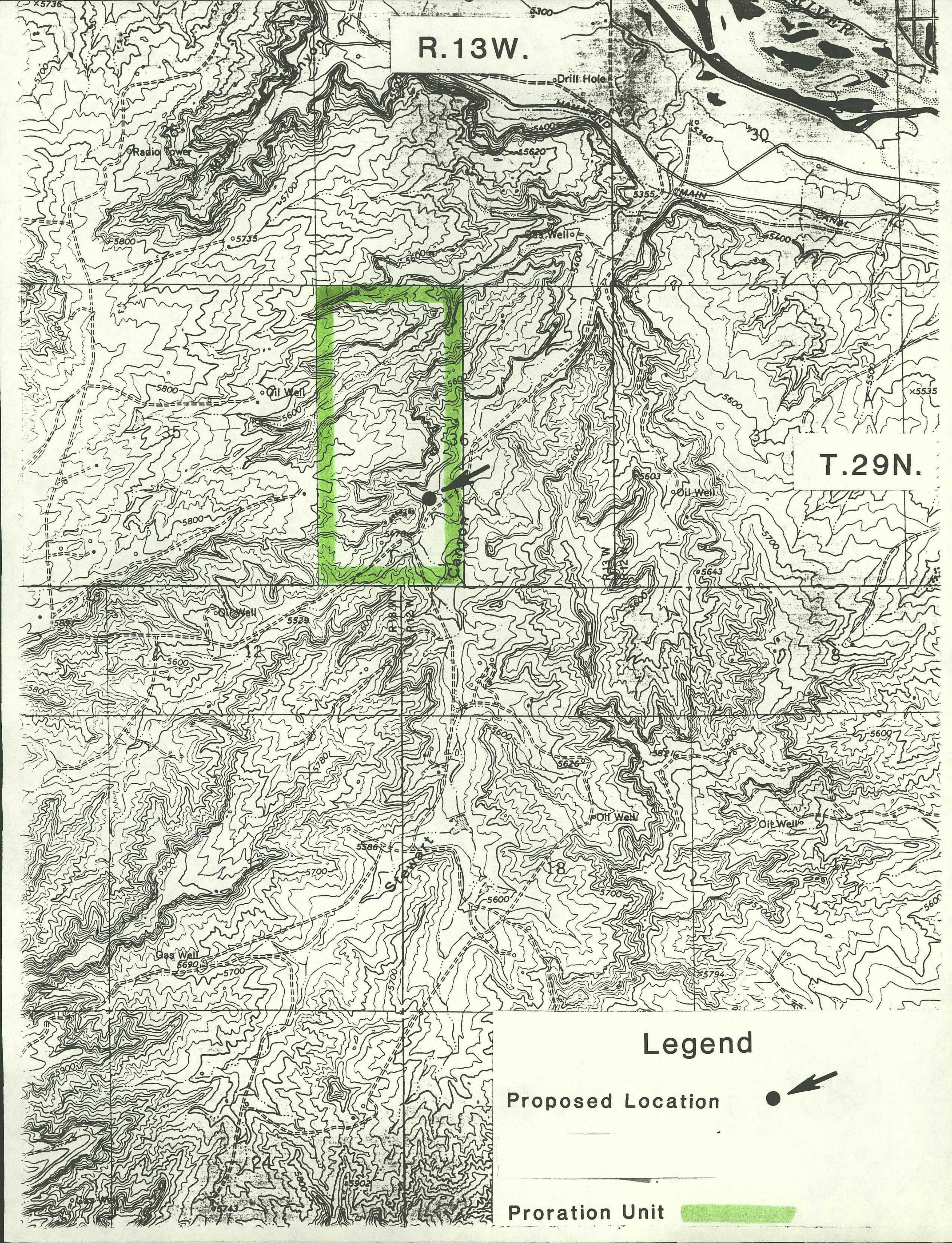
R.13W.
T.29N.
Drill Hole
Radio Tower
Gas Well
Oil Well
MAIN
CANAL
Canyon
Stewart
35
36
30
12
18
24
Legend
Proposed Location
Proration Unit