

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY

5. LEASE DESIGNATION AND SERIAL NO.

U-39921

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK

DRILL

DEEPEN

PLUG BACK

b. TYPE OF WELL

OIL WELL

GAS WELL

OTHER

2. NAME OF OPERATOR

DUGAN PRODUCTION CORP.

3. ADDRESS OF OPERATOR

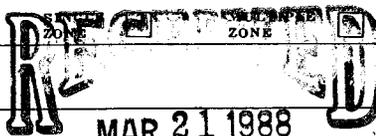
P.O. Box 208, Farmington, NM 87499

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)

At surface

500' FSL & 1850' FEL

At proposed prod. zone



DIVISION OF  
OIL, GAS & MINING

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME

Blue Sky

9. WELL NO.

1.

10. FIELD AND POOL OR WILDCAT

Wildcat - UNDESIGNATED  
Desert Creek - Ismay

11. SEC., T., R., M., OR BLK.  
AND SURVEY OR AREA

Sec. 34, T39S, R22E, SLM

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*

approximately 5 miles north of St. Christopher's Mission, Utah

12. COUNTY OR PARISH

San Juan

13. STATE

Utah

15. DISTANCE FROM PROPOSED\*

LOCATION TO NEAREST  
PROPERTY OR LEASE LINE, FT.  
(Also to nearest drlg. unit line, if any)

500'

16. NO. OF ACRES IN LEASE

1280

17. NO. OF ACRES ASSIGNED  
TO THIS WELL

40

18. DISTANCE FROM PROPOSED LOCATION\*  
TO NEAREST WELL, DRILLING, COMPLETED,  
OR APPLIED FOR, ON THIS LEASE, FT.

19. PROPOSED DEPTH

5730'

20. ROTARY OR CABLE TOOLS

rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)

4588' GL

22. APPROX. DATE WORK WILL START\*

asap

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	13-3/8"	61#	150'	213 cu. ft. circ. to surface
*11"	8-5/8"	24#	550'	280 cu. ft. circ. to surface
*7-7/8"	5-1/2"	15.5#	5730'	1446 cu. ft. circ. to surface
7-7/8"	5-1/2"	15.5#	5730'	1568 cu. ft. circ. to surface

24.

SIGNED Sherman E. Dugan

TITLE Vice-President

DATE 3-4-88

(This space for Federal or State office use)

PERMIT NO.

APPROVAL DATE

APPROVED BY

/s/ Kenneth V. Rhea

TITLE

Acting DISTRICT MANAGER

DATE

MAR 19 1988

CONDITIONS OF APPROVAL, IF ANY:

CONDITIONS OF APPROVAL ATTACHED

\*See Instructions On Reverse Side

FLARING OR VENTING OF  
GAS IS SUBJECT OF NTL 4-A  
DATED 1/1/80

SUBJECT TO RIGHT OF WAY  
APPROVAL

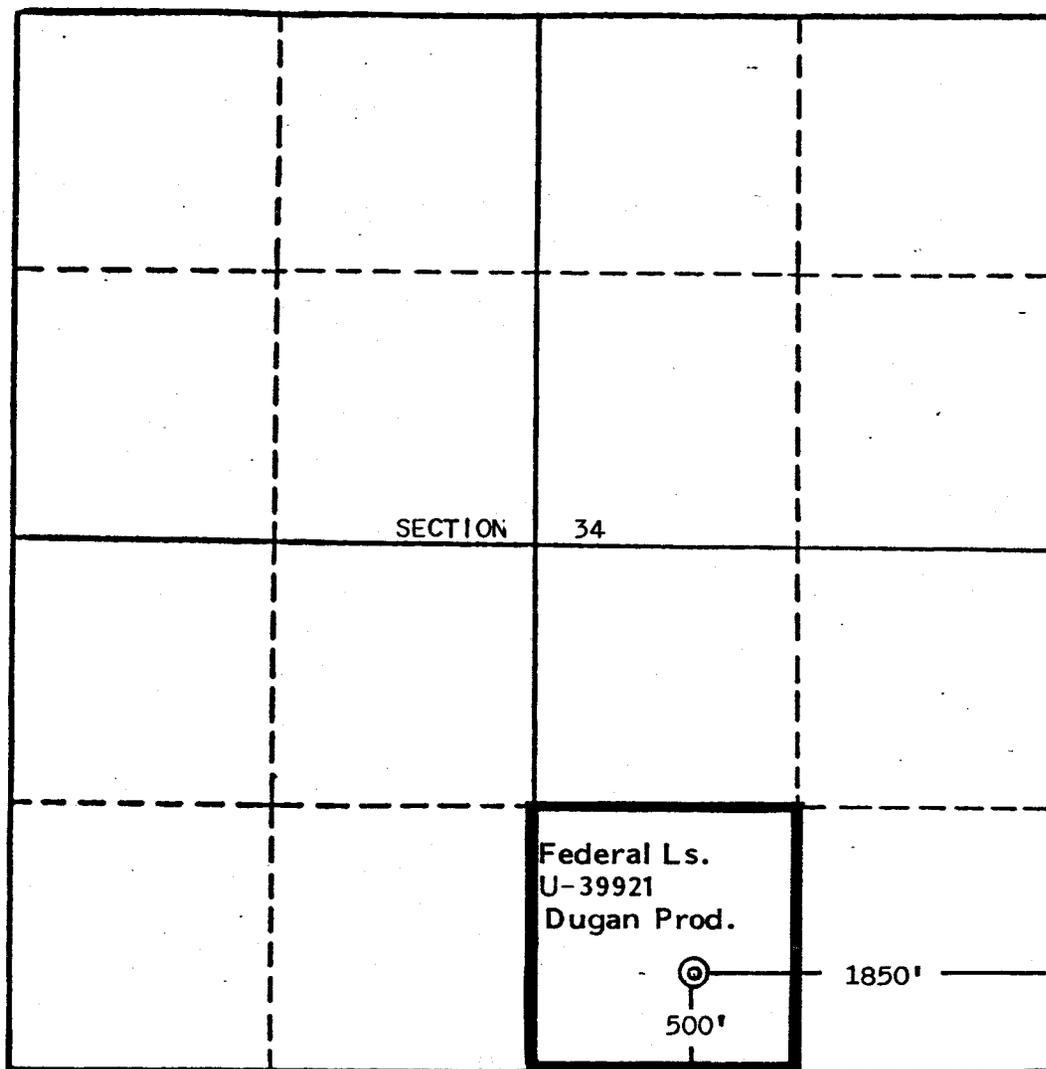
Company Dugan Production Corporation

Well Name & No. Blue Sky #1

Location 500' F/SL 1850' F/EL

Sec. 34, T. 39 S., R. 22 E., S. L. M., County San Juan, Utah

Ground Elevation 4588



Scale, 1 inch = 1,000 feet

Surveyed February 13, 1988

This is to certify that the above plat was prepared from field notes of actual surveys made by me or under my supervision and that the same are true and correct to the best of my knowledge and belief.

Seal:



*Edgar L. Risenhoover*  
Edgar L. Risenhoover  
Registered Land Surveyor  
New Mexico Reg. No. 5979

Non-resident certification as authorized by Utah State Law

Dugan Production Corporation  
Well No. Blue Sky 1  
Sec. 34, T. 39 S., R. 22 E.  
San Juan County, Utah  
Lease U-39921

CONDITIONS OF APPROVAL

Approval of this application 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.

Dugan Production Corporation is the bonded entity on this application. Liability will remain with the bonded party named until we are formally notified by letter of the new bonded entity in reference to this Application for Permit to Drill.

A. DRILLING PROGRAM

Surface Casing String (8-5/8"):

Set 50' into the Chinle regardless of water or no water encountered.

Cement must circulate to surface.

Pressure test casing to 1500 psi prior to drilling out from casing or any shoe.

Pressure Control Equipment:

BOP Systems will be consistent with API RP 53.

Annular preventer will be tested to 1500 psi against casing.

BOP controls will be installed prior to drilling the surface casing plug and will remain in use until the well is completed or abandoned.

Accumulator - Adequate to activate BOP.

Remote controls on floor.

Choke line and Bloopie line shall be staked.

B. THIRTEEN POINT SURFACE USE PLAN

1. Avoid the archaeological site flagged along the access route.
2. Surface disturbance and vehicular travel will be limited to the approved locations and access road. Any additional area needed will be approved by the Area Manager in advance.

The access road will be rehabilitated or brought to Reource (Class III) Road Standards within sixty (60) days of dismantling of the drilling rig. If this time frame cannot be met, the Area Manager will be notified so that temporary drainage control can be installed along the access road.

3. The top 4-5 inches of soil material and brush will be removed from the location and stockpiled along the north side of the location.

4. Production Facilities:

All permanent (onsite for six (6) months or longer) structures constructed or installed (including oil well pump jacks) will be painted a flat, nonreflective, earth tone color to match the standard environmental colors, as determined by the Rocky Mountain Five-State Interagency Committee. All facilities will be painted within (6) six months of installation. Facilities required to comply with the Occupational Safety and Health Act (OSHA) may be excluded.

If a tank battery is constructed on this lease, it will be surrounded by a dike of sufficient capacity to contain 1-1/2 times the storage capacity of the largest tank in the battery.

All loading lines and valves will be placed inside the berm surrounding the tank battery.

All site security guidelines identified in 43 CFR 3162.7-4 regulations will be adhered to.

All off-lease storage, off-lease measurement, or commingling on-lease or off-lease will have prior written approval from the District Manager.

All product lines entering and leaving hydrocarbon storage tanks will be effectively sealed.

Gas meter runs for each well will be located within five hundred (500) feet of the wellhead. The gas flowline will be buried from the well head to the meter and downstream for the remainder of the pad. Meter runs will be housed and/or fenced.

The oil and gas measurement facilities will be installed on the well location. The oil and gas meters will be calibrated in place prior to any deliveries. Tests for meter accuracy will be conducted monthly for the first three (3) months on new meter installations and at least quarterly thereafter. The Area Manager will be provided with a date and time for the initial meter calibration and all future meter-proving schedules. A copy of the meter calibration reports will be submitted to the Resource Area Office. All meter measurement facilities will conform with the API standards for liquid hydrocarbons and the AGA standard for natural gas measurement.

5. Plans for Restoration of Surface:

Before any dirt work to restore the location takes place, the reserve pit must be completely dry.

The stockpiled topsoil will be evenly distributed over the disturbed contours.

Prior to reseeding, all disturbed areas, including the access roads, will be scarified and left with a rough surface. Rips will be 6 inches deep and 18 inches apart.

Seed will be broadcast or drilled between October 1 and February 28.

The following seed mixture will be used: (PLS)

3 lbs/ac	Crested Wheatgrass
3 lbs/ac	Indian Ricegrass
2 lbs/ac	Fourwing Saltbush
1/2 lb/ac	Yellow Sweet Clover

Increase by 50 percent if broadcast seeded.

The reserve pit and that portion of the location and access road not needed for production will be reclaimed.

NOTIFICATIONS

Notify the San Juan Resource Area, at (801) 587-2141 for the following:

2 days prior to commencement of dirt work, construction or reclamation;

1 day prior to spudding;

1 day prior to running and cementing surface casing;

1 day prior to pressure testing of BOPE and/or surface casing.

Notify the Moab District Office, Branch of Fluid Minerals at (801) 259-6111 for the following:

No well abandonment operations will be commenced without the prior approval of the District Manager. In the case of newly drilled dry holes, and in emergency situations, verbal approval can be obtained by calling the following individuals, in the order listed:

Dale Manchester, Petroleum Engineer      Office Phone: (801) 259-6111

Home Phone: (801) 259-6239

Lynn Jackson, Chief, Branch of Fluid Minerals

Office Phone: (801) 259-6111

Home Phone: (801) 259-7990

Paul Brown, I&E Coordinator

Office Phone: (801) 259-6111

Home Phone: (801) 259-7018

24 hours advance notice is required for all abandonments.



EXPLANATORY

The following additional facts are set forth in order to define more clearly the full purpose of the proposed application:

Dugan Production Corp. is applying for the purpose of acquiring the right to use a portion of the unappropriated water of the State of Utah. One & one-half acre feet, secured from the San Juan River. The point of diversion from the source is 500' FWL and 100' FSL Sec. 32 T40S R24E; the bridge across the San Juan River, near the town of Montezuma Creek, Utah will be necessary for drilling and completion fluids for the proposed #1 Blue Sky Well located in the SE/4 of Section 34, T39S, R22E - 500' FSL & 1850' FEL, San Juan County, Utah

(Use page 4 if additional explanatory is needed.)

The quantity of water sought to be appropriated is limited to that which can be beneficially used for the purpose herein described

*Sherman E. Dugan*

Signature of Applicant\*

Sherman E. Dugan

\*If applicant is a corporation or other organization, signature must be the name of such corporation or organization by its proper officer, or in the name of the partnership by one of the partners, and the names of the other partners shall be listed. If a corporation or partnership, the affidavit below need not be filled in. If there is more than one applicant, a power of attorney, authorizing one to act for all, should accompany the Application.

DECLARATION OF CITIZENSHIP

STATE OF UTAH, }  
County of..... } ss

On the ..... day of ....., 19....., personally appeared before me, a notary public for the State of Utah, the above applicant who, on oath, declared that he is a citizen of the United States, or has declared his intention to become such a citizen.

My commission expires:

(SEAL)

Notary Public

STATE ENGINEER'S ENDORSEMENT

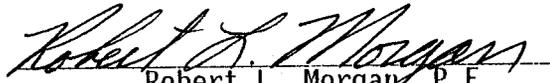
WATER RIGHT NUMBER: 09 - 1562

APPLICATION NO. T63099

1. February 29, 1988    Application received.
  2. March 15, 1988     Application designated for APPROVAL by MP and KLJ.
  3. Comments:
- 
- 

Conditions:

This application is hereby APPROVED, dated March 25, 1988, subject to prior rights and this application will expire on March 25, 1989.

  
Robert L. Morgan, P.E.  
State Engineer

UNITED STATES DEPARTMENT OF THE INTERIOR GEOLOGICAL SURVEY

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK

DRILL

DEEPEN

PLUG BACK

b. TYPE OF WELL

OIL WELL

GAS WELL

OTHER

2. NAME OF OPERATOR

DUGAN PRODUCTION CORP.

3. ADDRESS OF OPERATOR

P.O. Box 208, Farmington, NM 87499

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements) At surface

500' FSL & 1850' FEL At proposed prod. zone

DIVISION OF OIL, GAS & MINING

sw/SE

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*

approximately 5 miles north of St. Christopher's Mission, Utah

15. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drig. unit line, if any)

500'

16. NO. OF ACRES IN LEASE

1280

17. NO. OF ACRES ASSIGNED TO THIS WELL

40

18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

19. PROPOSED DEPTH 5730'

20. ROTARY OR CABLE TOOLS

rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)

4588' GL

22. APPROX. DATE WORK WILL START\*

asap

23. PROPOSED CASING AND CEMENTING PROGRAM

Table with 5 columns: SIZE OF HOLE, SIZE OF CASING, WEIGHT PER FOOT, SETTING DEPTH, QUANTITY OF CEMENT. Rows include hole sizes from 17-1/2" to 7-7/8" and casing sizes from 13-3/8" to 5-1/2".

Plan to drill a 17-1/2" hole and set 150' of 13-3/8" OD, 61#, J-55 surface casing; then plan to drill an 11" hole to base of Navajo Sandstone. If excessive water is encountered, 8-5/8" OD, 24#, J-55 casing will be set; if not, a 7-7/8" hole will be drilled to total depth. Plan to drill with gel-water-mud program to test Desert Creek-Ismay formations. Plan to run IES & CDL logs. If determined productive will run 5 1/2" OD, 15.5#, J-55 casing, selectively perforate, frac, clean out after frac and complete well.

\*to be used if excessive water encountered in Navajo Sandstone.

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. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

SIGNED: Sherman E. Dugan, Vice-President, DATE: 3-4-88

PERMIT NO. 43-037-31399, APPROVAL DATE

APPROVED BY THE STATE OF UTAH DIVISION OF OIL, GAS AND MINING

DATE: 3/13/88, BY: [Signature], WELL SPACING: R615-3-2

\*See Instructions On Reverse Side

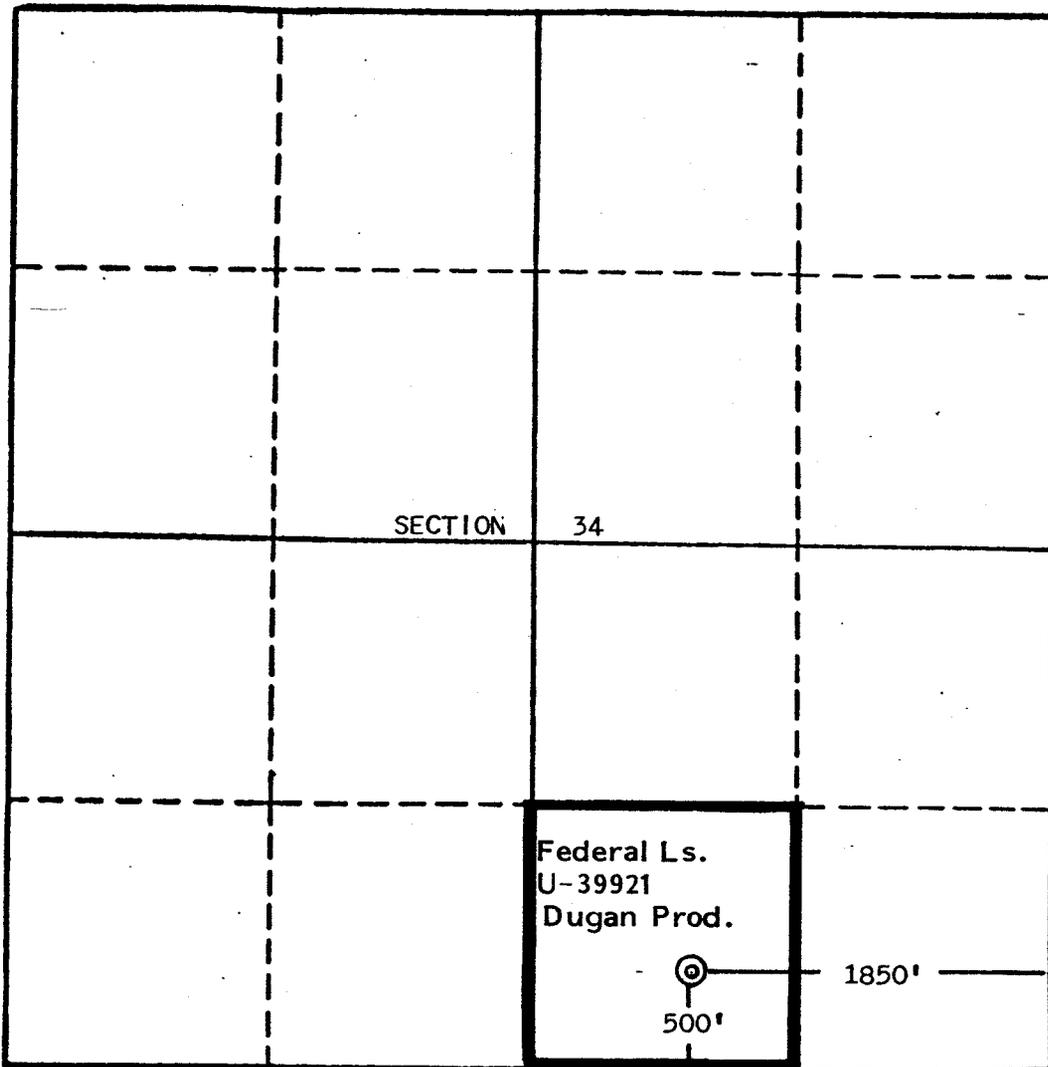
Company Dugan Production Corporation

Well Name & No. Blue Sky #1

Location 500' F/SL 1850' F/EL

Sec. 34, T. 39 S., R. 22 E., S. L. M., County San Juan, Utah

Ground Elevation 4588



Scale, 1 inch = 1,000 feet

Surveyed February 13, 1988

This is to certify that the above plat was prepared from field notes of actual surveys made by me or under my supervision and that the same are true and correct to the best of my knowledge and belief.

Seal:



*Edgar L. Risenhoover*

Edgar L. Risenhoover  
Registered Land Surveyor  
New Mexico Reg. No. 5979

Non-resident certification as authorized by Utah State Law

Division of Oil, Gas and Mining  
ATTN: ARLENE  
SALT LAKE CITY, UTAH

FROM

DUGAN PRODUCTION CORP.

P. O. BOX 208  
FARMINGTON, N. M. 87401  
(505) 325-1821

SUBJECT

DUGAN PRODUCTION CORP-APD-BLUESKY #1

DATE

3/21/88

MESSAGE

DEAR ARLENE,  
ATTACHED PLEASE FIND OUR APD FOR  
THE BLUESKY #1 WITH THE SPECIAL  
STIPULATIONS FROM THE BLM.

IF YOU HAVE ANY QUESTIONS, PLEASE  
DON'T HESITATE TO CALL US AT THIS  
OFFICE. IT IS OUR UNDERSTANDING THAT  
OPERATIONS CAN NOT COMMENCE UNTIL THE  
STATE OF UTAH HAS ALSO APPROVED THE  
APD.

RECORDED  
MAR 23 1988

DIVISION OF  
OIL, GAS & MINING

SIGNED

Barbara Williams

SEND WHITE COPY RETAIN YELLOW COPY

Dugan Production Corporation  
Well No. Blue Sky 1  
Sec. 34, T. 39 S., R. 22 E.  
San Juan County, Utah  
Lease U-39921

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B. THIRTEEN POINT SURFACE USE PLAN

1. Avoid the archaeological site flagged along the access route.
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1 day prior to spudding;

1 day prior to running and cementing surface casing;

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No well abandonment operations will be commenced without the prior approval of the District Manager. In the case of newly drilled dry holes, and in emergency situations, verbal approval can be obtained by calling the following individuals, in the order listed:

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Home Phone: (801) 259-6239

Lynn Jackson, Chief, Branch of Fluid Minerals

Office Phone: (801) 259-6111

Home Phone: (801) 259-7990

Paul Brown, I&E Coordinator

Office Phone: (801) 259-6111

Home Phone: (801) 259-7018

24 hours advance notice is required for all abandonments.

(Submit in quadruplicate to  
appropriate Regional Director)

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
MINERALS MANAGEMENT SERVICE

**DESIGNATION OF OPERATOR**

*This form does not constitute an information collection as defined by 44 U.S.C. 3502  
and therefore does not require approval by the Office of Management and Budget*

The lessee identified below is, on the records of the Minerals Management Service, a leaseholder of:

Lease Number: U.S.A. U-39921

Regional Office: Moab District Office  
125 West 2nd South Main

and hereby designates Moab, Utah 94532

Name: Dugan Production Corporation

P. O. Box 208

Address: Farmington, New Mexico 87499

as his operator and local agent, with full authority to act in his behalf in complying with the terms of the lease and regulations applicable thereto and on whom the Regional Director or his representative may serve written or oral instructions in securing compliance with the Operating Regulations with respect to (describe block or aliquot portion to which this designation is applicable):

TOWNSHIP 39 SOUTH, RANGE 22 EAST, S.L.M.

Section 34: SE/4

Containing 160 acres, more or less, in  
San Juan County, Utah

This Designation of Operator shall terminate and cease to be valid upon the effective date of that Transfer of Record Title Interest for U.S.A. U-39921 executed by Mobil Exploration and Producing North America Inc. on March 7, 1988 to Dugan Production Corporation.

It is understood that this designation of operator does not relieve the lessee of responsibility for compliance with the terms of the lease, laws, regulations, and Outer Continental Shelf Orders applicable to the area. It is also understood that this designation of operator does not constitute an assignment of any interest in the lease.

In case of default on the part of the designated operator, the lessee will make full and prompt compliance with all regulations, lease terms, or orders of the Secretary of the Interior or his representative.

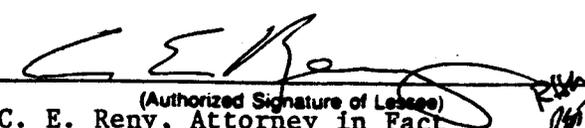
The lessee agrees to notify the Regional Director promptly of any change in the designated operator.

March 7, 1988

(Date)

Mobil Exploration and Producing  
North America Inc.

(Name of Lessee)

  
(Authorized Signature of Lessee)  
C. E. Reny, Attorney in Fact



## DEVELOPMENTAL PLAN

Blue Sky #1  
Lease No. U-39921  
Township 39 South, Range 22 East, SLM  
Section 34, 500 ft. FSL - 1850 ft. FEL  
San Juan County, Utah

1. Existing roads are shown on Exhibit E.  
Plan to improve and maintain existing roads as required.
2. Planned access road(s) are shown on Exhibit E.
  - A. New or reconstructed roads(s), if any, were centerline flagged at the time of location staking.
  - B. Access road crosses Federal land.
  - C. Plan to improve and/or maintain existing roads and construct approximately 2700' new road from abandoned location, Davis Oil Recapture Pocket #3, 1546' FEL & 2084' FNL, Section 3, T40S, R22E, and upgrade existing 2-track from A.P.C. Operating Partnership Recapture Pocket #1 well located in the SE/4 SE/4 of Section 3, T40S, R22E, San Juan County, Utah, to point where new access road begins.
3. Location of existing wells is shown on Exhibit F.
4. Location of Existing and/or Proposed Facilities:
  - A. Existing facilities owned or controlled by Lessee/Operator are shown on Exhibit F.
  - B. New facilities, in the event of production, are shown on Exhibit F. Construction materials and methods: Materials obtained on site; anticipated new production facilities are shown on Plat #1. Protective measures and devices to protect livestock and wildlife: As required.
  - C. Plan for rehabilitation of disturbed areas no longer needed for operations after construction completed: As required.
5. Location and Type of Water Supply:
  - A. Location and type of water supply: The bridge across San Juan River in the town of Montezuma Creek, Utah, 500' FWL & 100' FSL, SW/4 Section 32, T40S, R24E, SLM (Montezuma Creek).
  - B. Method of transporting water: Water truck.
  - C. Water well is not to be drilled on lease.
6. Source of Construction Materials:
  - A. Materials are to be obtained on site.
  - B. These materials are from Federal land.
  - C. These materials are to be used as follows: Level location, build pits, construct roadway to location. Top soil will be removed and stockpiled separately on the northern side of location.

7. Methods for Handling Waste Disposal:
  - A. Waste materials will be contained/disposed of as follows:
    - 1) Cuttings: Reserve pit.
    - 2) Drilling fluids: Reserve pit.
    - 3) Produced fluids (oil, water): Test tank and/or reserve pit.
    - 4) Sewage: Drilling Contractor will provide facilities.
    - 5) Trash: Will be contained and disposed of in a fenced pit.
    - 6) Operator will be responsible for proper cleanup when the rig is moved.
    - 7) Reserve pits will be fenced on three sides during the drilling operations and on four sides when the rig is moved from location.
8. Ancillary Facilities: No permanent camp is planned; temporary trailer house may be utilized while drilling. No airstrip is planned.
9. Well site layout is shown on Exhibit C.  
Pits are to be lined with native clay or bentonite.
10. Plans for restoration of surface upon completion of operations:
  - A. Location will be leveled, recontoured, and restored as needed.
  - B. Revegetation and rehabilitation, including abandoned access roads, will be completed per instructions from the surface management agency.
  - C. Pits will be fenced with livestock netting and so maintained until cleanup.
  - D. Rehabilitation operations will be commenced as soon as practically possible and completed soon thereafter.
11. Other Information:
  - A. General description of:
    - 1) Topography: Center point is situated at 4588' above mean sea level. The location slopes gently east southeast in broad low relief valley.
    - 2) Soil characteristics: Sandy, clay, silt, loam, proceeding southward bedrock exposures.
    - 3) Geologic features: See Operations Plan, Exhibit B
    - 4) Flora and fauna: Vegetation, rabbitbrush, saltbrush; grasses include yucca, Mormon Tea, galleta.
  - B. Other surface use activities and surface ownership of all involved lands: Surface ownership BLM of all lands involved; indications of cattle grazing.
  - C. Proximity of:
    - 1) Water: San Juan River - 5 miles due south.
    - 2) Occupied dwellings: St. Christopher's Mission 5 miles south.
    - 3) Archeological: See Archeological Report. Any archeological sites found during inspection were flagged with blue surveyor's ribbon. The dirt contractor was notified that all dirt work would be done to the east of the ribbons to avoid the site. Ribbons will be removed after construction of dirt berms adjacent to the access road along the area.
    - 4) Historical or cultural sites: See Archeological Report.

- D. There will be no deviation from the proposed drilling and/or workover program without prior approval from the District Manager. Safe drilling and operating practices must be observed. All wells, whether drilling, producing, suspended, or abandoned, will be identified in accordance with 43 CFR 3162.3-2.

"Sundry Notice and Report on Wells" (Form 3160-5) will be filed for approval for all changes of plans and other operations in accordance with 43 CFR 3162.3-2.

The dirt contractor will be provided with an approved copy of the surface use plan.

All persons in the area who are associated with the project will be informed by the operator that they will be subject to prosecution for disturbing archaeological sites or collecting artifacts. If subsurface cultural material is exposed during construction, work at that spot will stop immediately and the BLM, San Juan Resource Area Office will be contacted (801) 587-2141. The operator will be responsible for the cost of evaluation of the discovery and proper mitigation measures. An decision as to proper mitigation shall be made by the authorized officer after consulting with the operator.

This permit will be valid for a period of one (1) year from the date of approval. After permit termination, a new application will be filed for approval for any future operations.

If at any time the facilities located on public lands authorized by the terms of the lease are no longer included in the lease (due to a contraction in the unit or other lease or unit boundry change) the BLM will process a change in authorization to the appropriate statute. The authorization will be subject to appropriate rental, or other financial obligation determined by the authorized officer.

12. Lessee's or Operator's Representative:

Sherman E. Dugan  
Dugan Production Corp.  
P. O. Box 208  
Farmington, New Mexico 87499

13. Certification: The following statement must be signed by the Lessee's or Operator's Field Representative who is identified in Item #12 of this Developmental Plan.

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in this Plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Operator and its Contractors and Subcontractors in conformity with the Plan and the terms and conditions under which it is approved.

By: \_\_\_\_\_

*Herman Stugan*

Date: \_\_\_\_\_

*3/4/88*

**EXHIBIT B**  
**Blue Sky #1**  
**Lease No. U-39921**  
**Township 39 South, Range 22 East, SLM**  
**Section 34, 500' FSL & 1850' FEL**  
**San Juan County, Utah**

OPERATIONS PLAN

APPROXIMATE FORMATION TOPS:

Summerville	surface	Moenkopi	2210'
Entrada	surface	Cutler	2345'
Carmel	490'	Hermosa	4445'
Navajo	550'	Ismay-Upper	5375'
Kayenta	990'	Ismay-Lower	5450'
Wingate	1150'	Gothic "B" Shale	5525'
Chinle	1410'	Desert Creek	5575'
Shinarump	2130'	Akah	5665'
		Total Depth	5730'

LOGGING PROGRAM:

IES & CDL

Catch Samples every 10 feet from 4000' feet to total depth.

CASING PROGRAM:

<u>Hole Size</u>	<u>Casing Size</u>	<u>Wt./Ft.</u>	<u>Setting Depth</u>	<u>Grade and Condition</u>
17-1/2"	13-3/8"	61#	150'	J-55
*11"	8-5/8"	24#	550'	J-55
7-7/8"	5-1/2"	15.5#	5730'	J-55

Plan to drill a 17-1/2" hole and set 150' of 13-3/8" OD, 61#, J-55 surface casing; then plan to drill an 11" hole to base of Navajo Sandstone. If excessive water is encountered, 8-5/8" OD, 24#, J-55 casing will be set; if not, a 7-7/8" hole will be drilled to total depth. Plan to drill with gel-water-mud program to test Desert Creek-Ismay formations. Plan to run IES and CDL logs. If determined productive, will run 5 1/2" OD, 15.5#, J-55 casing, selectively perforate, frac, clean out after frac and complete well.

\*to be used for intermediate string if excessive water inflow encountered from Navajo Sandstone.

CEMENTING PROGRAM: All volumes are contingent upon Caliper logs.

Approximate location of stage tool: 2550 ft.

Surface - Plan to cement 13-3/8" casing with 180 sx (213 cu.ft.) of Class "B" with 2% CaCl.  
Circulate to surface.

If excessive water inflow is encountered from the Navajo Sandstone:

Intermediate: Cement 8-5/8" casing in 11" hole with 237 sx (280 cu.ft.) of Class "B" with 2% CaCl circulated to surface.

1st Stage - Cement with 375 sx (690 cu.ft.) of 65/35 "B" poz with 6% gel + 1/4# flocele/sk followed by 110 sx (148 cu.ft.) Class "B" with 10% NaCl + 6 1/2# gilsonite/sk.  
Total cement slurry for 1st Stage is 838 cu. ft.  
Projected cement top for 1st Stage is 2425 ft.

2nd Stage - Cement 5 1/2" casing with 275 sx (608 cu.ft.) 65/35 "B" poz with 12% gel + 1/4# flocele/sk followed by 50 sx (59 cu.ft.) Class "B" with 1/4# flocele/sk.  
Circulate to surface.  
Total cement slurry for 2nd Stage is 667 cu. ft.  
Total cement slurry for both stages is 1505 cu. ft.

If minimal water inflow encountered from the Navajo sandstone:

No Intermediate casing required.

1st Stage - Cement with 375 sx (690 cu.ft.) of 65/35 "B" poz with 6% gel + 1/4# flocele/sk followed by 110 sx (148 cu.ft.) Class "B" with 10% NaCl + 6 1/2# gilsonite/sk.  
Total cement slurry for 1st Stage is 838 cu. ft.  
Projected cement top for 1st Stage is 2425 ft.

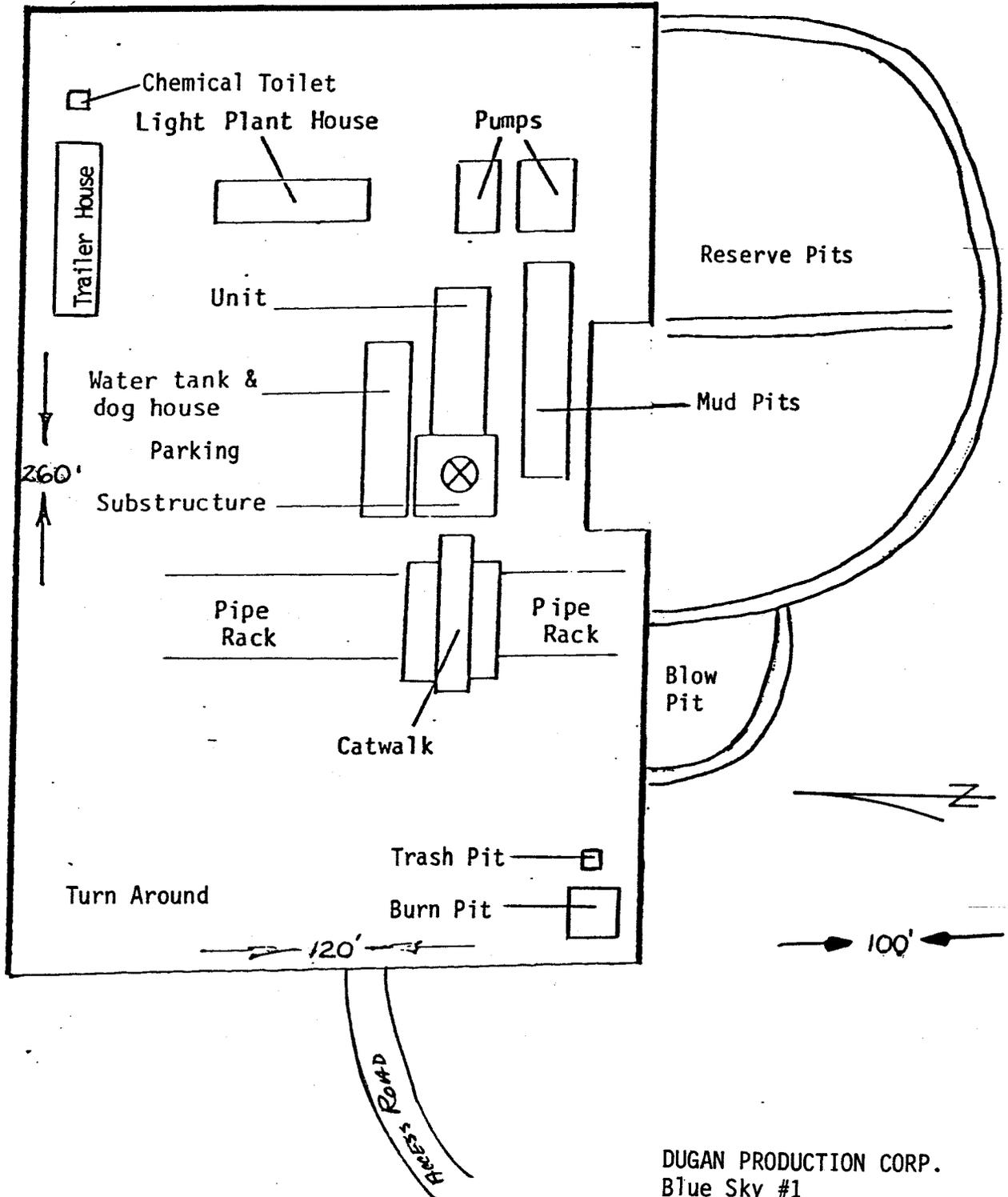
2nd Stage - Cement 5 1/2" casing with 330 sx (730 cu.ft.) 65/35 "B" poz with 12% gel + 1/4# flocele/sk followed by 50 sx (59 cu.ft.) Class "B" w/1/4# flocele/sk.  
Circulate to surface.  
Total cement slurry for 2nd Stage is 789 cu. ft.  
Total cement slurry for both stages is 1627 cu. ft.

WELLHEAD EQUIPMENT: Casing head - 10" 900 Series  
Tubing head - 10" x 6" 900 Series -new with flanged outlets

Dugan Production Corp. - Office: 325-1821  
Tom Dugan 325-5694  
Sherman Dugan 327-4287  
Radio Dispatch 327-2676

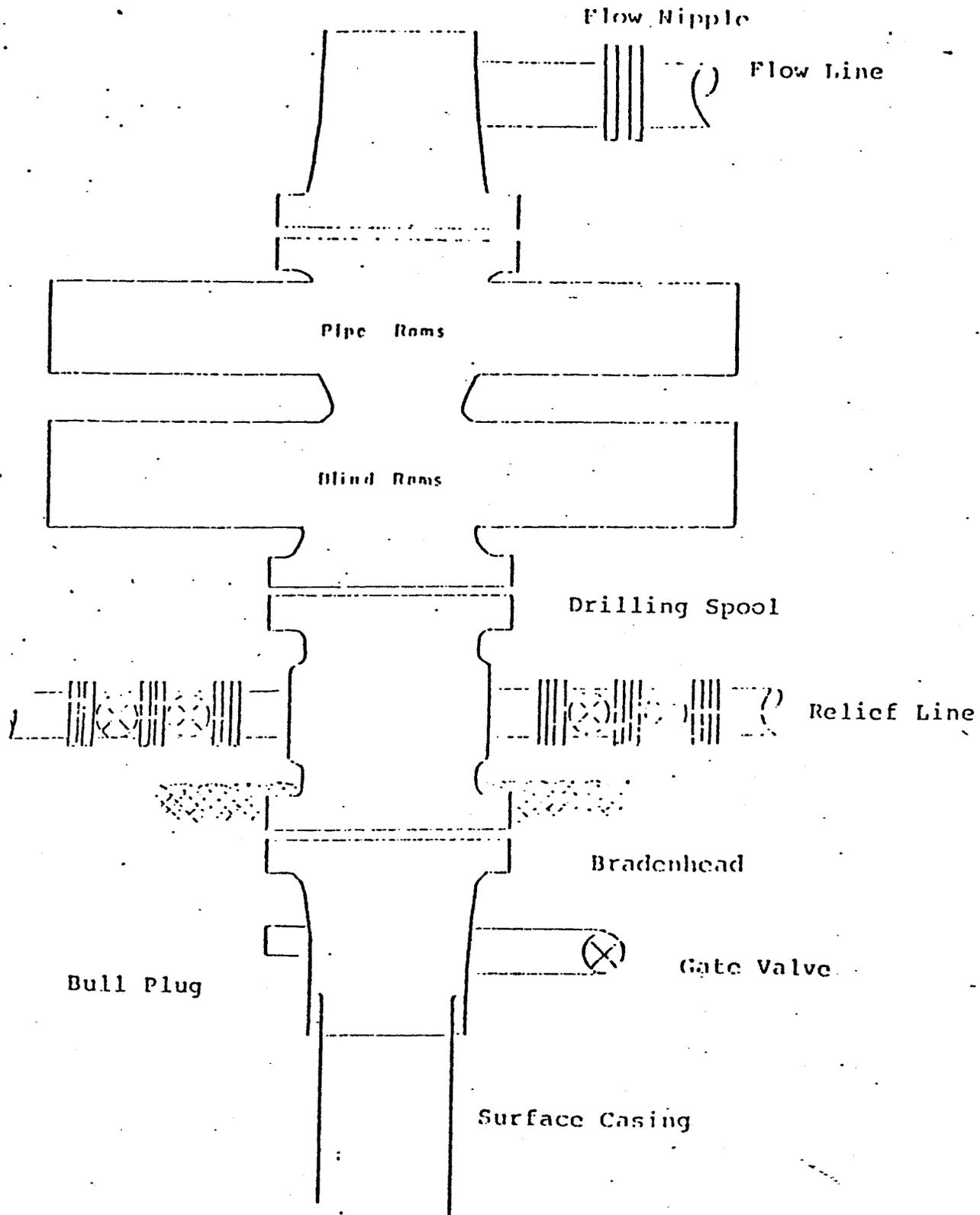
Jim Jacobs 325-8353  
John Roe 326-1034  
Kurt Fagrelus 324-4327

TYPICAL LOCATION  
FOR  
DESERT CREEK - ISMAY  
WELL



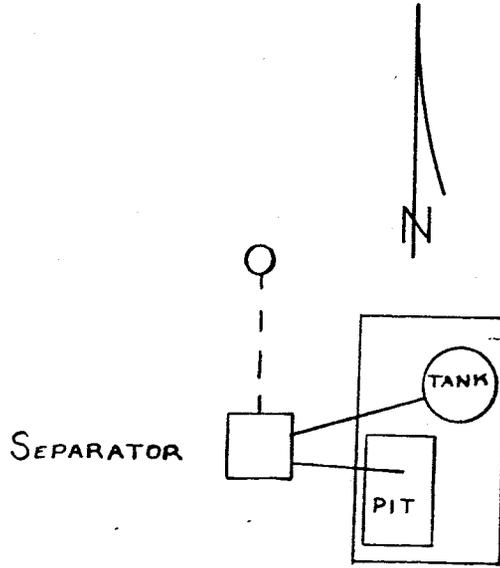
DUGAN PRODUCTION CORP.  
Blue Sky #1  
Exhibit C

TYPICAL BOP INSTALLATION  
FOR DESERT CREEK-ISMAY WELL

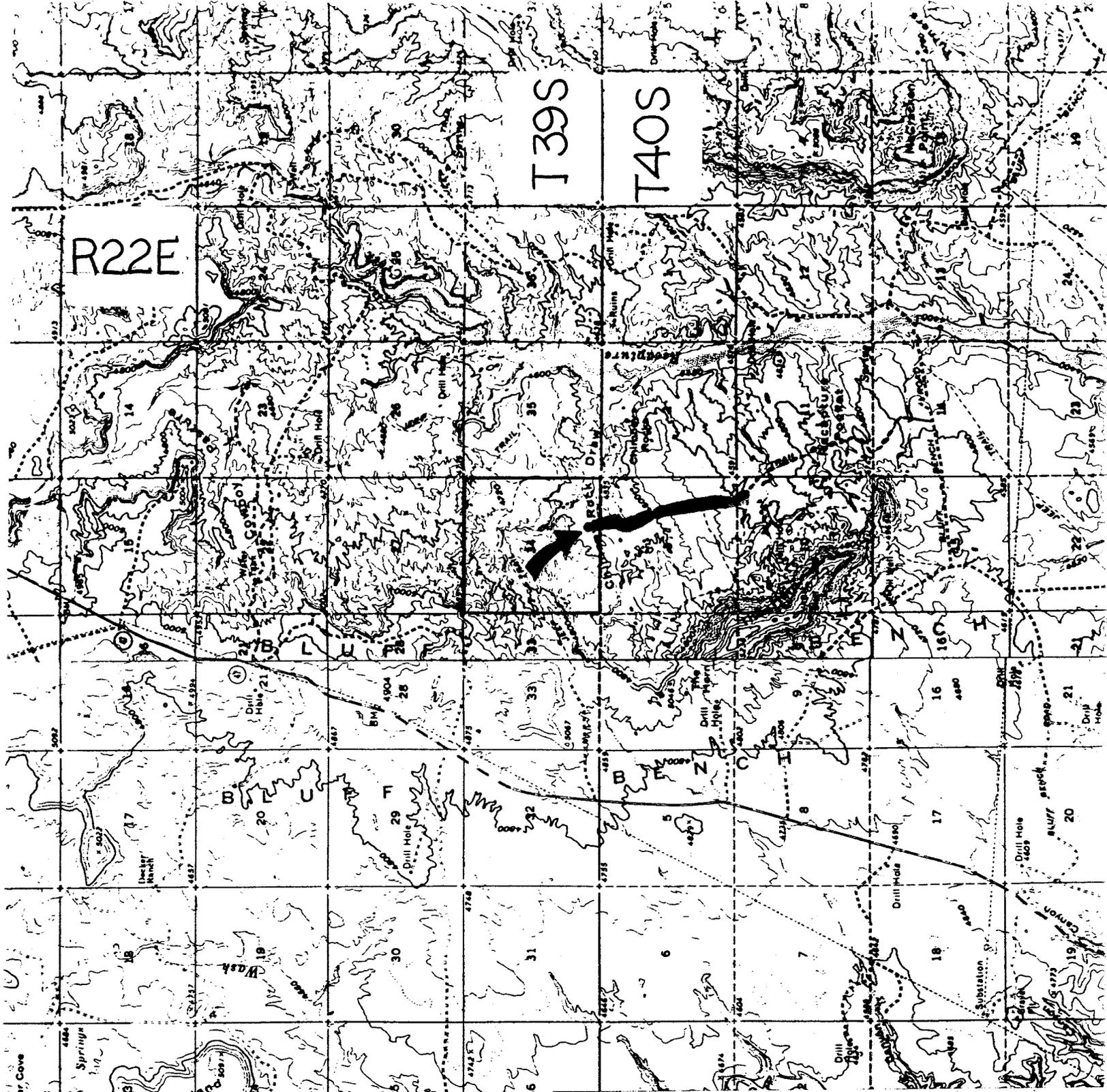


DUGAN PRODUCTION CORP.  
Blue Sky. #1  
Exhibit D

Series 900 Double Gate BOP, rated  
at 3000 psi Working Pressure  
When gas drilling operations begin a Shaffer type  
50 or equivalent rotating head is installed on top of  
the flow nipple and the flow line is converted into  
a blowie line.



PLAT #1  
DUGAN PRODUCTION CORP.  
Anticipated Production Facilities  
Blue Sky #1



DUGAN PRODUCTION CORP. - Blue Sky #1  
Existing Roads Exhibit E

Vicinity of nearest town or reference pt.  
Montezuma Creek, Utah

Type of surface paved 2 lane

Conditions good

Other \_\_\_\_\_

Reference map: USGS map - Montezuma Creek  
Utah, N3715-W10915/15, 1962, Scale

1:62500

DUGAN PRODUCTION CORP. - Blue Sky #1  
Planned Access Road(s) Exhibit E

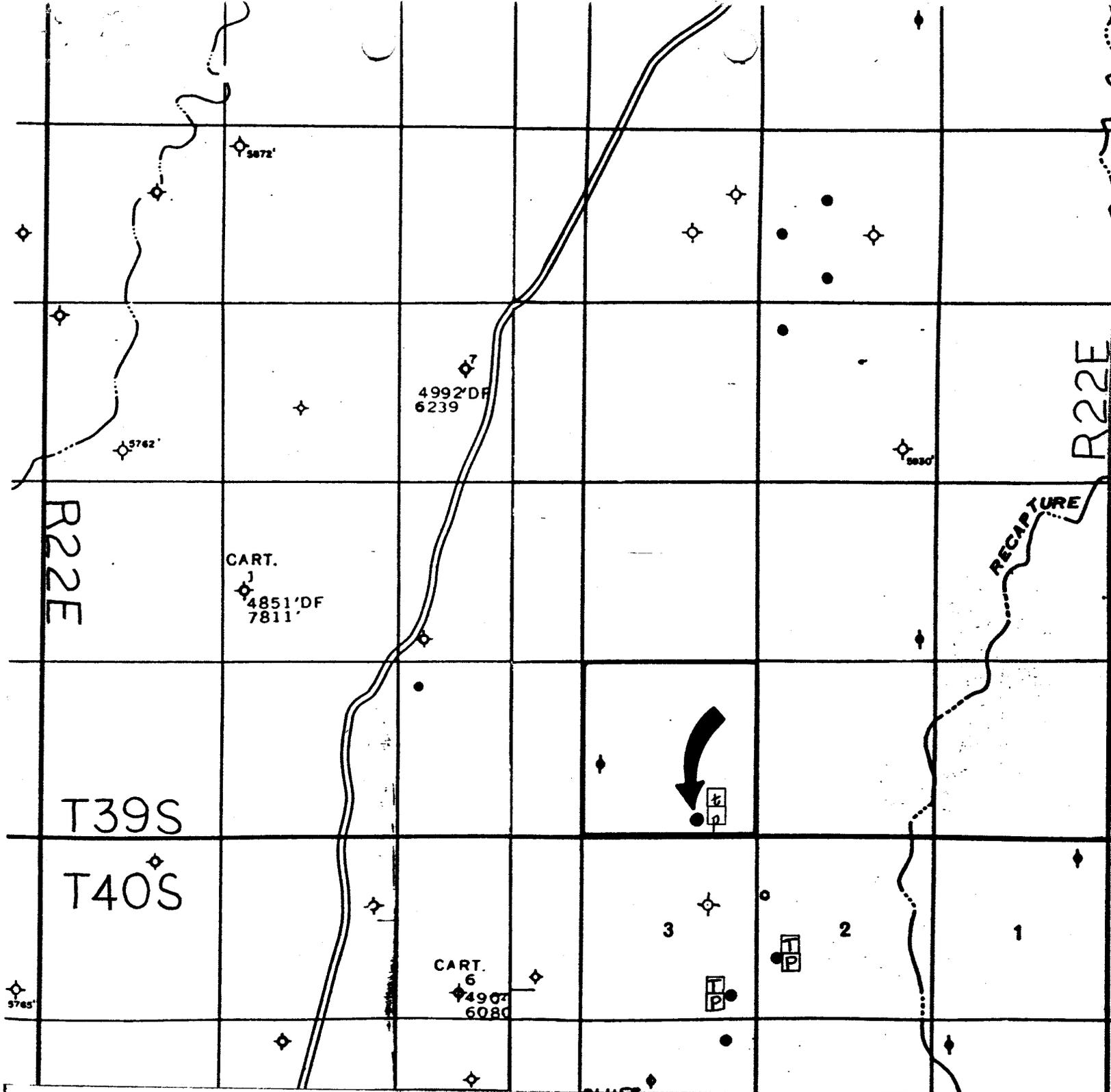
Width 20' Maximum grades 10% or less  
 Drainage design as required

Cuts & Fills see diagram

Surfacing material none required

- Turnouts
- Culverts
- Gates
- Cattleguards
- Fence cuts
- New Access Road
- Upgraded Existing 2-track

Access road(s) do do not cross Fed Ind land.



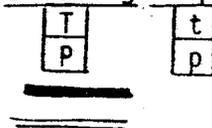
**DUGAN PRODUCTION CORP. - Blue Sky #1**  
Location of Existing Wells Exhibit F

- ⊙ Water wells
- ◇ Abandoned wells
- ⚡ Temporarily abandoned wells
- ⚡ Disposal wells
- Drilling wells
- Producing wells
- Shut-in wells
- ⊖ Injection wells

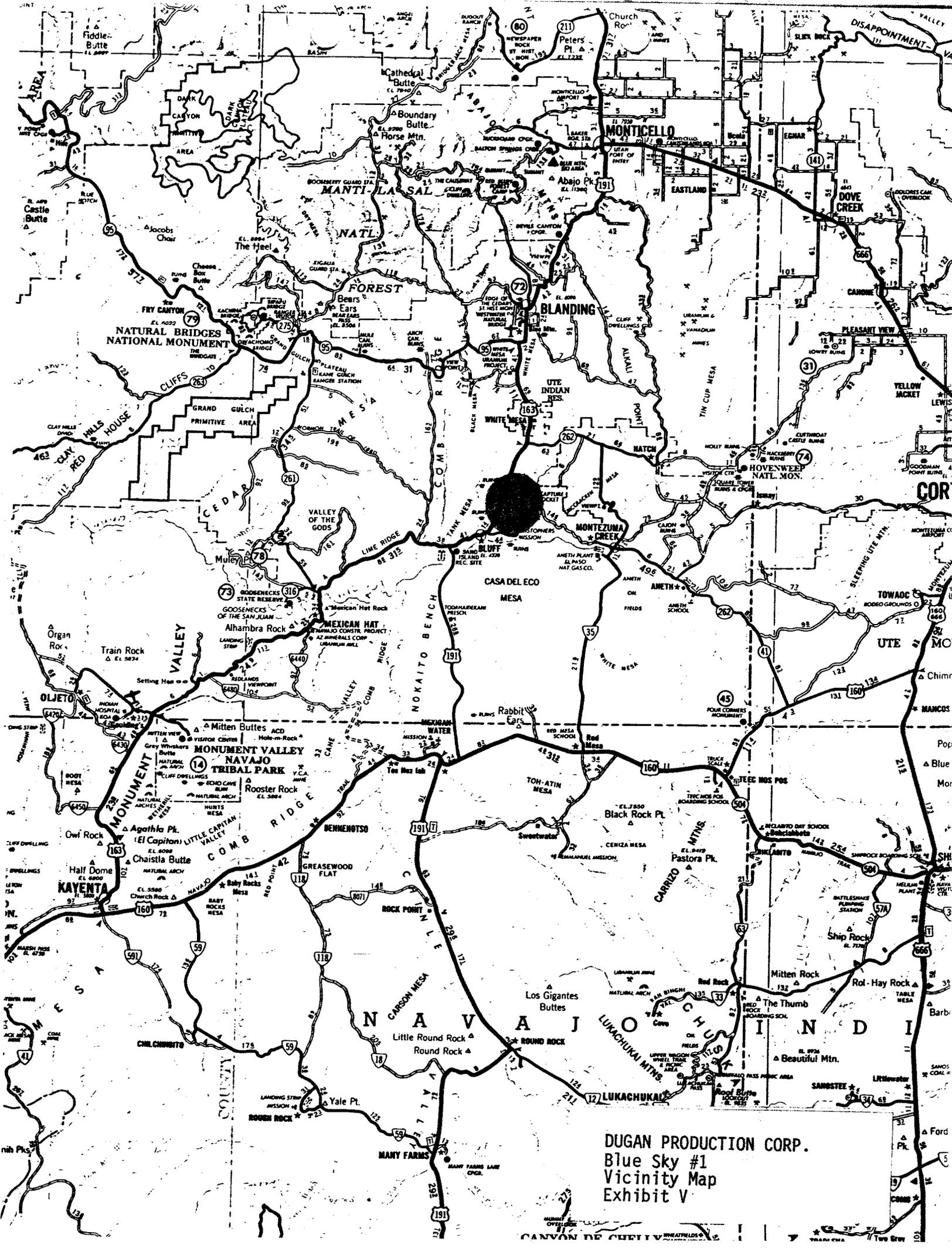
**DUGAN PRODUCTION CORP. - Blue Sky #1**  
Location of Facilities Exhibit F

- T Tank batteries
- P Production facilities
- Oil gathering lines
- Gas gathering lines
- Injection lines
- Disposal lines

Existing Propsd



[\* indicates buried line]



DUGAN PRODUCTION CORP.  
Blue Sky #1  
Vicinity Map  
Exhibit V

033011

OPERATOR Rugan Production Corp. DATE 3-24-88

WELL NAME Blue Sky #1

SECS WSE 34 T 39S R 22E COUNTY San Juan

43-037-31399  
API NUMBER

Fed.  
TYPE OF LEASE

CHECK OFF:

PLAT

BOND

NEAREST WELL

LEASE

FIELD

POTASH OR OIL SHALE

PROCESSING COMMENTS:

No other well within 920'

Need water permit

APPROVAL LETTER:

SPACING:

R615-2-3

UNIT

R615-3-2

CAUSE NO. & DATE

R615-3-3

STIPULATIONS:

1- Water permit



STATE OF UTAH  
NATURAL RESOURCES  
Oil, Gas & Mining

Norman H. Bangerter, Governor  
Dee C. Hansen, Executive Director  
Dianne R. Nielson, Ph.D., Division Director

355 W. North Temple • 3 Triad Center • Suite 350 • Salt Lake City, UT 84180-1203 • 801-538-5340

March 28, 1988

N2146

Dugan Production Corporation  
P. O. Box 208  
Farmington, New Mexico 87499

Gentlemen:

Re: Blue Sky #1 - SW SE Sec. 34, T. 39S, R. 22E  
500' FSL, 1850' FEL - San Juan County, Utah

Approval to drill the referenced well is hereby granted in accordance with Rule R615-3-2, Oil and Gas Conservation General Rules, subject to the following stipulations:

1. Prior to commencement of drilling, receipt by the Division of evidence providing assurance of an adequate and approved supply of water as required by Chapter 3, Title 73, Utah Code Annotated.

In addition, the following actions are necessary to fully comply with this approval:

1. Spudding notification to the Division within 24 hours after drilling operations commence.
2. Submittal of an Entity Action Form to the Division within five working days of the time that the well is spudded or a change in operations or interests necessitates a change in entity status.
3. Submittal to the Division of completed Form OGC-8-X, Report of Water Encountered During Drilling.
4. Prompt notification to the Division should you determine that it is necessary to plug and abandon this well. Notify John R. Baza, Petroleum Engineer, (Office) (801) 538-5340, (Home) 298-7695, or Jim Thompson, Lead Inspector, (Home) 298-9318.
5. Compliance with the requirements of Rule R615-3-22, Gas Flaring or Venting, Oil and Gas Conservation General Rules.

Page 2  
Dugan Production Corporation  
Blue Sky #1  
March 28, 1988

6. Prior to commencement of the proposed drilling operations, plans for toilet facilities and the disposal of sanitary waste at the drill site shall be submitted to the local health department having jurisdiction. Any such drilling operations and any subsequent well operations must be conducted in accordance with applicable state and local health department regulations. A list of all local health departments and copies of applicable regulations are available from the Division of Environmental Health, Bureau of General Sanitation, telephone (801) 538-6121.
7. This approval shall expire one (1) year after date of issuance unless substantial and continuous operation is underway or an application for an extension is made prior to the approval expiration date.

The API number assigned to this well is 43-037-31399.

Sincerely,



R. J. Firth  
Associate Director, Oil & Gas

as  
Enclosures  
cc: Branch of Fluid Minerals  
D. R. Nielson  
8159T

OPERATOR Dugan Production Corp.  
ADDRESS P. O. Box 208  
Farmington, NM 87499

OPERATOR CODE N2140  
PHONE NO. 505 325-1821

ENTITY ACTION FORM - DOGM FORM 6

OPERATORS MUST COMPLETE FORM UPON SPUDDING NEW WELL OR WHEN CHANGE IN OPERATIONS OR INTERESTS NECESSITATES CHANGE IN EXISTING ENTITY NUMBER ASSIGNMENT.

ACTION CODE	CURRENT ENTITY NO.	NEW ENTITY NO.	API NUMBER	WELL NAME	WELL LOCATION					SPUD DATE	EFFECTIVE DATE
					QQ	SC	TP	RG	COUNTY		
A	99999	10867	43-037-31399	Blue Sky #1	SW/SE	34	39	22	San Juan	4/21/88	
COMMENTS: <i>Federal lease, not in unit Proposed zone atop Assign new entity, only well in sec. 34</i>											
COMMENTS:											
COMMENTS:											
COMMENTS:											
COMMENTS:											

**RECEIVED**  
MAY 2 1988

- ACTION CODES: A - ESTABLISH NEW ENTITY FOR NEW WELL  
B - ADD NEW WELL TO EXISTING ENTITY  
C - RE-ASSIGN WELL FROM ONE EXISTING ENTITY TO ANOTHER EXISTING ENTITY  
D - RE-ASSIGN WELL FROM ONE EXISTING ENTITY TO A NEW ENTITY  
E - OTHER (EXPLAIN IN COMMENTS SECTION)  
(SEE INSTRUCTIONS)

DIVISION OF  
OIL, GAS & MINING

*Sherman Dugan*  
SIGNATURE Sherman E. Dugan  
*by Chev Gunn*  
Vice President 4-28-88  
TITLE DATE

3. LEASE DESIGNATION AND SERIAL NO.  
U-39921

SUNDRY NOTICES AND REPORTS ON WELLS

(Do not use this form for proposals to drill or to deepen or to recomplete a well. Use "APPLICATION FOR PERMIT" for that purpose.)

RECEIVED  
MAY 6 1988

1. OIL WELL  GAS WELL  OTHER

7. UNIT AGREEMENT NAME

2. NAME OF OPERATOR  
DUGAN PRODUCTION CORP.

8. FARM OR LEASE NAME  
Blue Sky

3. ADDRESS OF OPERATOR  
P.O. Box 208, Farmington, NM 87499

DIVISION OF  
OIL, GAS & MINING

9. WELL NO.  
1

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.\* See also space 17 below.)  
At surface

10. FIELD AND POOL, OR WILDCAT  
Wildcat -  
Desert Creek - Ismay

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA  
Sec. 34, T39S, R22E, S

5. 500' FSL & 1850' FEL

14. PERMIT NO.  
43-037-31397

15. ELEVATIONS (Show whether of, to, or, etc.)  
4588' GL

12. COUNTY OR PARISH  
San Juan

13. STATE  
UT

16. Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

SUBSEQUENT REPORT OF:

TEST WATER SHUT-OFF   
FRACTURE TREAT   
SHOOT OR ACIDIZE   
REPAIR WELL   
(Other)

PLUG OR ALTER CASING   
MULTIPLE COMPLETE   
ABANDON\*   
CHANGE PLANS

WATER SHUT-OFF   
FRACTURE TREATMENT   
SHOOTING OR ACIDIZING   
(Other)

REPAIRING WELL   
ALTERING CASING   
ABANDONMENT\*

(NOTE: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. DESCRIBE PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting and proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)\*

This well was drilled to a total depth of 5820'. T.D. was reached on 5-3-88. No show of oil or gas was encountered. Plan to plug & abandon as per BLM Moab office as follows:

1. Spot cement plug 5820' to 5600'.
2. Spot cement plug 5490' to 5390'.
3. Spot cement plug 100' below 8-5/8" casing and 100' inside 8-5/8" casing 1710' - 1510'.
4. Spot cement plug 50' to surface.
5. Install dry hole marker.
6. Restore surface.

Verbal instructions obtained via telephone 5-3-88.

COPY  
COPY

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

SIGNED Jim L. Jacobs

TITLE Geologist

DATE 5-4-88

APPROVED BY \_\_\_\_\_  
CONDITIONS OF APPROVAL, IF ANY:

TITLE \_\_\_\_\_ DATE \_\_\_\_\_

Federal approval of this action is required before commencing operations.

ACCEPTED BY THE STATE OF UTAH DIVISION OF OIL, GAS, AND MINING  
DATE: 5-10-88  
BY: John R. Day

5. LEASE DESIGNATION AND SERIAL NO.  
 U-39921

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME  
 Blue Sky

9. WELL NO.  
 1

10. FIELD AND POOL, OR WILDCAT  
 Wildcat -  
 Desert Creek - Ismay

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA  
 Sec. 34, T39S, R22E, SLM

12. COUNTY OR PARISH  
 San Juan

13. STATE  
 UT

**SUNDRY NOTICES AND REPORTS ON WELLS**  
 (Do not use this form for proposals to drill or to deep or plug back to a different reservoir. Use "APPLICATION FOR PERMIT" for such proposals.)

**RECEIVED**  
 MAY 11 1988

1. OIL WELL  GAS WELL  OTHER

2. NAME OF OPERATOR  
 DUGAN PRODUCTION CORP.

3. ADDRESS OF OPERATOR  
 P.O. Box 208, Farmington, NM 87499

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements. See also space (7 below.) At surface)  
 500' FSL & 1850' FEL

14. PERMIT NO.  
 43-037-31399

15. ELEVATIONS (Show whether DF, ST, GR, etc.)  
 4588' GL

DIVISION OF  
 OIL, GAS & MINING

16. Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
TEST WATER SHUT-OFF <input type="checkbox"/>	PULL OR ALTER CASING <input type="checkbox"/>	WATER SHUT-OFF <input type="checkbox"/>	REPAIRING WELL <input type="checkbox"/>
FRACTURE TREAT <input type="checkbox"/>	MULTIPLE COMPLETION <input type="checkbox"/>	FRACTURE TREATMENT <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
SHOOT OR ACIDIZE <input type="checkbox"/>	ABANDON* <input type="checkbox"/>	SHOOTING OR ACIDIZING <input type="checkbox"/>	ABANDONMENT* <input checked="" type="checkbox"/>
REPAIR WELL <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	(Other) _____	(Other) _____

(NOTE: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. DESCRIBE PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)\*

This well was plugged and abandoned in the following manner as per BLM-Moab office instructions:

1. Spotted 65 sx (76.7 cu. ft.) cement plug 5820-5600'.
2. Spotted 37 sx (43.66 cu. ft.) cement plug 5490-5390'.
3. Spotted 60 sx (70.8 cu. ft.) cement plug 1710'-1510'.
4. Spotted 15 sx (17.7 cu. ft.) cement plug 50' to surface.
5. Installed dry hole marker.

Note: All cement plugs were class "B" neat cement. Plugging operations were completed 5-4-88. Dry hole marker installed 5-8-88. 9.2# per gallon mud was left in hole between plugs.

Location restoration work will be done during planting season July thru September 15, 1988.

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

SIGNED Jim L. Jacobs TITLE Geologist DATE 5-9-88  
 (This space for Federal or State office use)

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_  
 CONDITIONS OF APPROVAL, IF ANY:

1 State of Utah 3 BLM, Moab 1 Duncan 1 File UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

5. LEASE DESIGNATION AND SERIAL NO.

U-39921

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME

Blue Sky

9. WELL NO.

1

10. FIELD AND POOL, OR WILDCAT

Wildcat - Desert Creek - Ismay

11. SEC., T., R., M., OR BLOCK AND SURVEY OR AREA

Sec. 34, T39S, R22E, SLM

12. COUNTY OR PARISH

San Juan

13. STATE

UT

WELL COMPLETION OR RECOMPLETION REPORT AND LOG \*

1a. TYPE OF WELL: OIL WELL [ ] GAS WELL [ ] DRY [X] Other P & A

b. TYPE OF COMPLETION: NEW WELL [X] WORK OVER [ ] DEEP-EN [ ] PLUG BACK [ ] DIFF. RESVR. [ ]

2. NAME OF OPERATOR DUGAN PRODUCTION CORP.

3. ADDRESS OF OPERATOR P.O. Box 208, Farmington, NM 87499

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements) At surface 500' FSL & 1850' FEL At top prod. interval reported below

At total depth

14. PERMIT NO. 43-037-31379 DATE ISSUED 3-19-88

15. DATE SPUDDED 4-21-88 16. DATE T.D. REACHED 5-3-88 17. DATE COMPL. (Ready to prod.) P & A 18. ELEVATIONS (DF, RKB, RT, GR, ETC.)\* 4588' GL 19. ELEV. CASINGHEAD 4588'

20. TOTAL DEPTH, MD & TVD 5820' 21. PLUG. BACK T.D., MD & TVD --- 22. IF MULTIPLE COMPL., HOW MANY\* --- 23. INTERVALS DRILLED BY T.D. ROTARY TOOLS CABLE TOOLS

24. PRODUCING INTERVAL(S), OF THIS COMPLETION—TOP, BOTTOM, NAME (MD AND TVD)\* P & A 25. WAS DIRECTIONAL SURVEY MADE no

26. TYPE ELECTRIC AND OTHER LOGS RUN 7-1-91 Compensated Density Compensated Neutron Log; Dual Induction Laterolog 27. WAS WELL CORED no

28. CASING RECORD (Report all strings set in well)

Table with columns: CASING SIZE, WEIGHT, LB./FT., DEPTH SET (MD), HOLE SIZE, CEMENTING RECORD, AMOUNT PULLED. Includes data for 13-3/8" and 8-5/8" casings.

29. LINER RECORD and 30. TUBING RECORD tables with columns for SIZE, TOP (MD), BOTTOM (MD), SACKS CEMENT, SCREEN (MD), SIZE, DEPTH SET (MD), PACKER SET (MD).

31. PERFORATION RECORD (Interval, size and number) None 32. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC. Table with columns: DEPTH INTERVAL (MD), AMOUNT AND KIND OF MATERIAL USED.

33.\* PRODUCTION

Table with columns: DATE FIRST PRODUCTION, PRODUCTION METHOD, WELL STATUS, DATE OF TEST, HOURS TESTED, CHOKER SIZE, PROD'N. FOR TEST PERIOD, OIL-BBL., GAS-MCF., WATER-BBL., GAS-OIL RATIO.

34. DISPOSITION OF GAS (Sold, used for fuel, vented, etc.) TEST WITNESSED BY

35. LIST OF ATTACHMENTS

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records. SIGNED Jim L. Jacobs TITLE Geologist DATE 5-9-88

\*(See Instructions and Spaces for Additional Data on Reverse Side)

37. SUMMARY OF POROUS ZONES: (Show all important zones of porosity and contents thereof; cored intervals; and all drill-stem, tests, including depth interval tested, cushion used, time tool open, flowing and shut-in pressures, and recoveries):

38. GEOLOGIC MARKERS

FORMATION	TOP	BOTTOM	DESCRIPTION, CONTENTS, ETC.	NAME	TOP	
					MEAS. DEPTH	TRUE VERT. DEPTH
				Chinle	1570'	
				Shinarump	2387'	
				Moenkopi	2490'	
				Cutler	2610'	
				Honaker Trail	4312'	
				Honaker Trail Marker	4940'	
				Ismay	5440'	
				Lower Ismay	5551'	
				Gothic SL	5612'	
				Desert Creek	5655'	
				Akah Shale	5763'	