

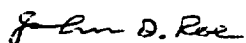
The six wells to be connected to this gathering system are completed, or will be completed, in either the WAW Fruitland Sand-Pictured Cliffs or the Basin Fruitland Coal pools, and the natural gas from each pool is believed to be mutually compatible. Since five of the six wells have no production history (four have been drilled, but not completed; and one has been completed, but not first delivered), we only have actual production data for one well, Dugan's Leah Marie No. 1, which was completed 10/01/90 in the Basin Fruitland Coal. The production history for this well is presented on Attachment No. 6, and as of 01/01/02, a total of 131,802 mcf have been produced. Production currently averages 86 mcf/d plus 11 BWPD. Anticipated production of  $\pm 400$  mcf/d for each of the wells to be completed is based upon our experience with similar completions in the general area. Attachment No. 7 presents a copy of a gas analysis from Dugan's Leah Marie No. 1 Fruitland Coal completion, which is believed to be representative for the Fruitland Coal in this area. Also presented in Attachment No. 7 is a copy of a gas analysis from a Fruitland Sand-Pictured Cliffs completion in the SW/4 of Section 26, which is also believed to be representative of production from the WAW Fruitland Sand-Pictured Cliffs in this area. Attachment No. 8 presents a sketch of the Central Delivery Sales Meter site. The equipment at the CDP will consist of a central compressor, a two-phase separator (to recover any water that inadvertently gets into the system), a 100 bbl. steel water storage tank, and El Paso's gas sales meter, which will be an orifice-type meter.

As previously stated, Dugan Production is the operator and holds 100% of the working interest in all six wells. All leasehold interest is either Federal or Navajo Allotted, and there is no overriding royalty interest. A complete copy of this application is being sent to the Farmington Indian Minerals Office (FIMO) for their review and concurrence, as it is our understanding that FIMO will review this application on behalf of the Navajo Allottees and will provide the Allottees with whatever notice and information they need. Copies of this application sent to the BLM and FIMO are being sent by certified return-receipt mail and upon receiving the return receipts, we will provide copies to the NMOCD as evidence of interest owner notification.

In summary, Dugan Production Corp. is proposing to install a new gas gathering system which will gather produced natural gas from six wells and deliver the gas to a CDP sales meter belonging to El Paso Field Services. Dugan Production is the operator of all six wells and will install and operate the Leah Marie Gas Gathering System. A central gathering system compressor will be installed, which will allow all wells to benefit from the operation of one compressor and eliminate the need for individual wellhead compressors (which may not be economically feasible for some wells). A central compressor, as opposed to individual wellhead compressors, will provide an overall more efficient operation, will reduce the volumes of compressor fuel needed, plus will reduce compressor noise and exhaust emissions, which is an important consideration since there are people living in this general area (none close to the CDP site). All gas volumes, BTU's and revenues will be allocated from the CDP to the individual wells using allocation factors determined from gas volumes recorded by allocation meters located at each well and BTU's determined for each well. This should help to insure that the proposed surface commingling and off-lease measurement will not diminish the production value of any one well.

Should you have questions or need additional information, please let me know.

Sincerely,



John D. Roe  
Engineering Manager

JDR:sh

xc: NMOCD-Aztec  
Farmington Indian Minerals Office