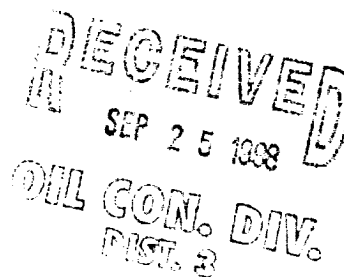




NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

September 8, 1998



Dugan Production Corporation
P. O. Box 420
Farmington, New Mexico 87499-0420
Attention: Kurt Fagerlius

Administrative Order NSL-4131

Dear Mr. Fagerlius:

Reference is made to your application dated August 7, 1998 for an exception to the well location requirements provided within the "Special Rules and Regulations for the Basin-Dakota Pool," as promulgated by Division Order No. R-10987, for a non-standard Basin-Dakota replacement gas well location in an existing standard 320-acre lay-down gas spacing and proration unit for the Basin-Dakota Pool comprising the S/2 of Section 10, Township 26 North, Range 9 West, NMPM, San Juan County, New Mexico. This unit is currently dedicated to Dugan Production Corporation's Huerfanito Well No. 5-E (API No. 30-045-29465), located a standard gas well location 1850 feet from the South and East lines (Unit J) of Section 10.

Initial development of Basin-Dakota gas production within the subject 320-acre unit commenced in 1964 when Austral Oil Company Incorporated drilled its Huerfanito Well No. 5 (API No. 30-045-05912) at a standard gas well location 1190 feet from the South line and 1450 feet from the West line (Unit N) of Section 10. In June, 1998 Dugan Production Corporation, successor operator, plugged and abandoned the Huerfanito Well No. 5.

The application has been duly filed under the provisions of Rules 104.F and 605.B of the Rules and Regulations of the New Mexico Oil Conservation Division ("Division").

By the authority granted me under the provisions of Division Rule 104.F(2), the following described well to be drilled at an unorthodox gas well location in Section 10 is hereby approved:

Huerfanito Well No. 5-R
840' FSL & 2490' FWL (Unit N). 30-045-29465

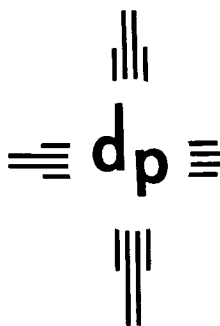
Further, both of the aforementioned Huerfanito Well Nos. 5-E and 5-R and existing gas spacing and proration unit will be subject to all existing rules, regulations, policies, and procedures applicable to prorated gas pools in Northwest, New Mexico.

Sincerely,

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington



dugan production corp.

August 7, 1998

Mr. Frank Chavez
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

RECEIVED
AUG 7 1998

OIL CON. DIV.
DIST. 3

Re: Application for Administrative Approval of Unorthodox Location
Dugan Production Corp's. Huerfanito #5R
840' FSL & 2490' FWL (SE/4 SW/4)
Unit N, Section 10, T26N, R9W
San Juan County, New Mexico
Basin Dakota Pool

Dear Mr. Chavez:

Dugan Production Corp. hereby requests approval for an unorthodox location for the referenced well. Copies of the well location plat (NMOCD Form C-102), topographic map, map showing offsetting operators, cumulative Dakota gas production map and a stratigraphic cross section are attached for your reference.

For geologic reasons, the location of this replacement well is necessary for Dugan Production in order to minimize economic risk and maximize recovery of the remaining Dakota reserves from this lease. The enclosed cross section and Dakota production map show that a well drilled at the chosen location will encounter good sand development and recover the highest cumulative gas production from a relatively undrained portion of the reservoir.

By certified mail, a copy of this application and request for approval has been sent to all Dakota offsetting operators and the Bureau of Land Management. Also, a copy of this application has been sent to Mr. Michael Stogner with the NMOCD in Santa Fe, New Mexico.

Please contact me if you have any questions or need additional information.

Very Sincerely,

Kurt Fagrelus

Kurt H. Fagrelus
Geologist

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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

[NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location]
 [DD-Directional Drilling] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
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 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling
☒ NSL ☐ NSP ☐ DD ☐ SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
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[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

- [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
 [B] ☒ Offset Operators, Leaseholders or Surface Owner
 [C] ☐ Application is One Which Requires Published Legal Notice
 [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] ☐ Waivers are Attached

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

Note: Statement must be completed by an individual with supervisory capacity.

Kurt Fagrelus
 Print or Type Name

Kurt Fagrelus
 Signature

Geologist
 Title

8-7-98
 Date

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Huerfano Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 21, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number		2 Pool Code 71599		3 Pool Name Basin Dakota	
4 Property Code 003709		5 Property Name Huerfanito			6 Well Number SR
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6275' Estimated

10 Surface Location

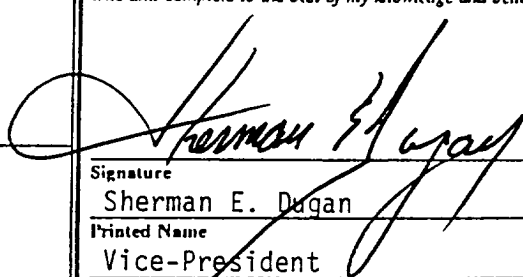
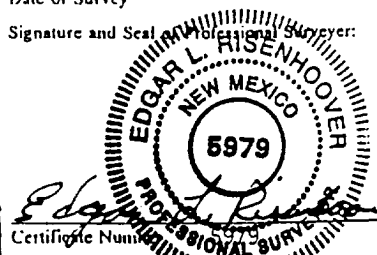
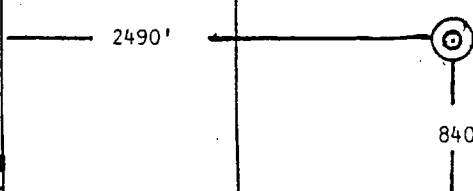
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
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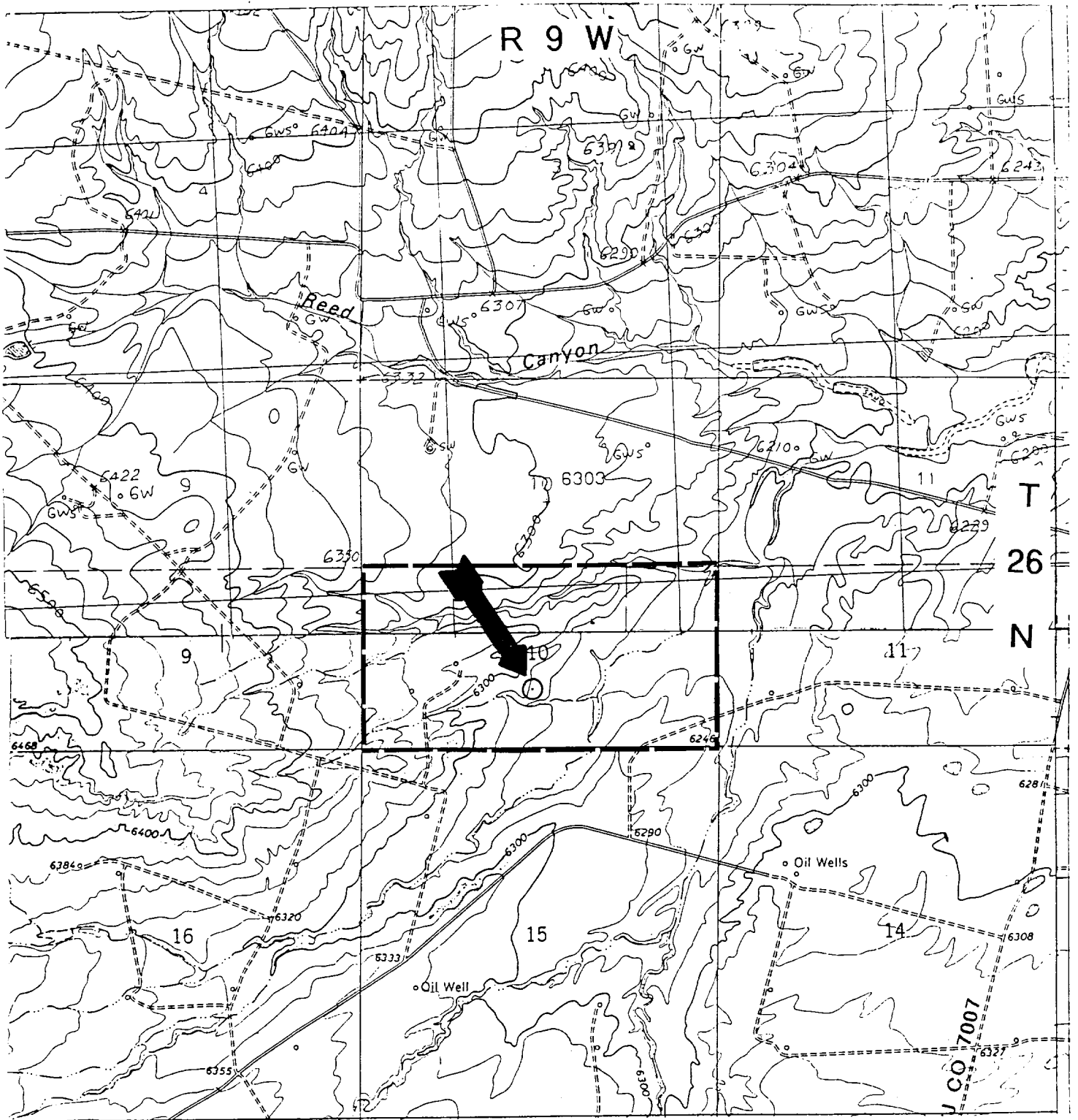
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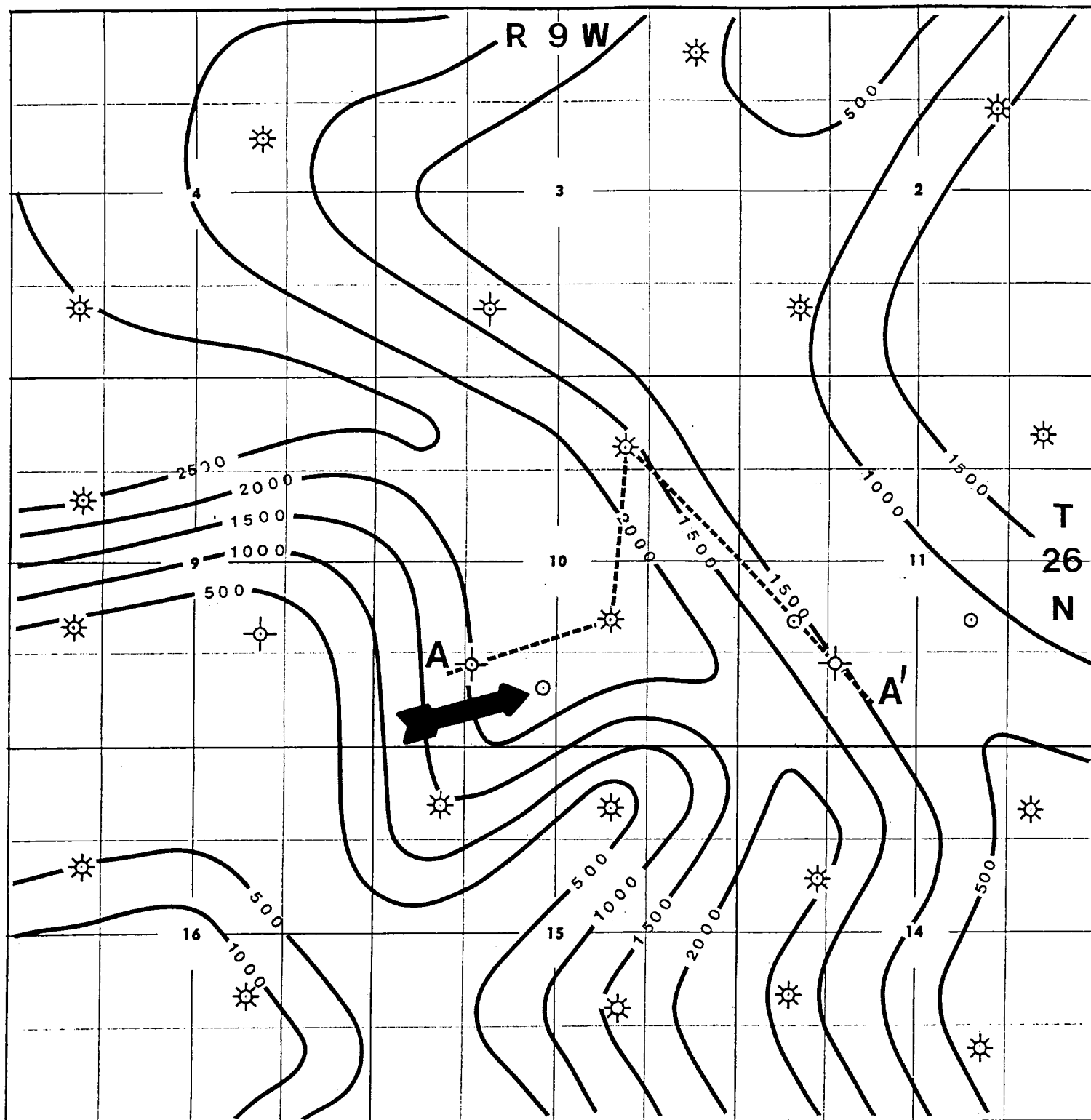
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16				17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief  Signature Sherman E. Dugan Printed Name Vice-President Title June 18, 1998 Date	
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Dugan SF Production 078388-A				18 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. June 8, 1998 Date of Survey Signature and Seal of Professional Surveyer:  Certificate Number	
					



Dugan Production Corp.
Huerfanito #5R
Application for Unorthodox Location

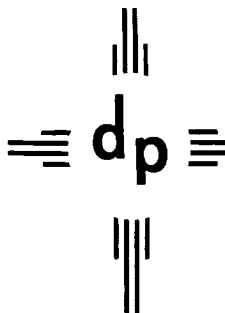
TOPOGRAPHIC MAP



Dugan Production Corp.
Huerfanito #5R
Application for Unorthodox Location

**CUMULATIVE DAKOTA GAS
PRODUCTION MAP THRU 11/97**

C.I.=500 mmcf



dugan production corp.

August 7, 1998

Mr. Frank Chavez
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, New Mexico 87410

RECEIVED
AUG 7 1998
OIL CON. DIV.
DIST. 3

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Kurt H. Fagrelius
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- Engineering Bureau -

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 Print or Type Name

Kurt Fagrelus
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Geologist
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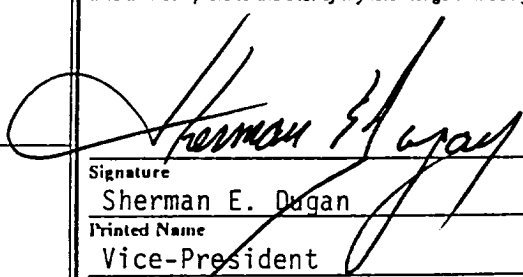
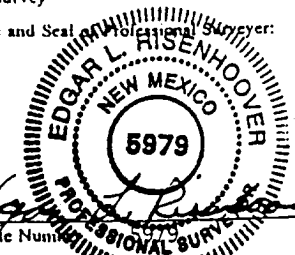
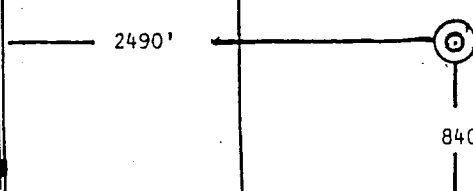
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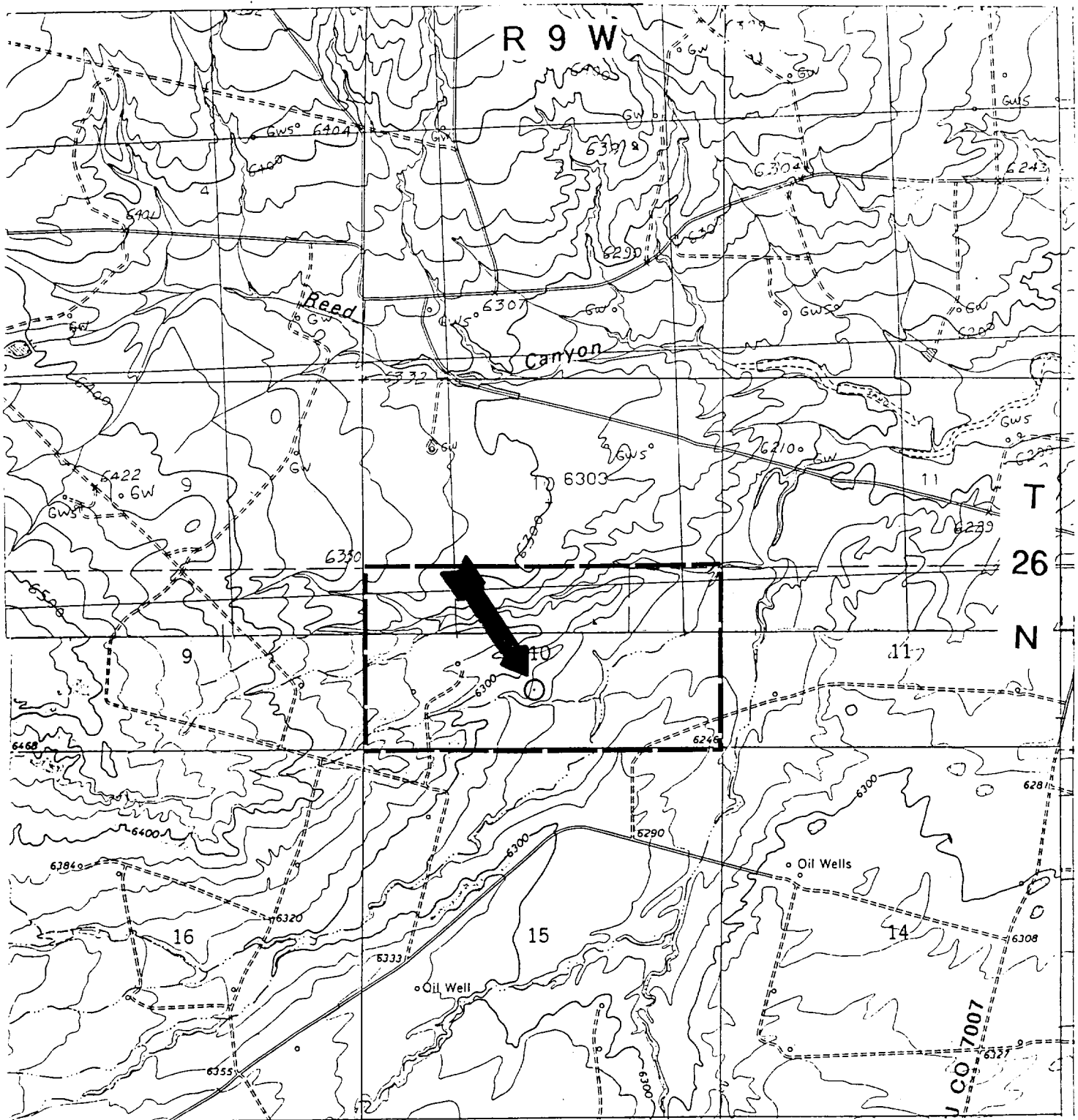
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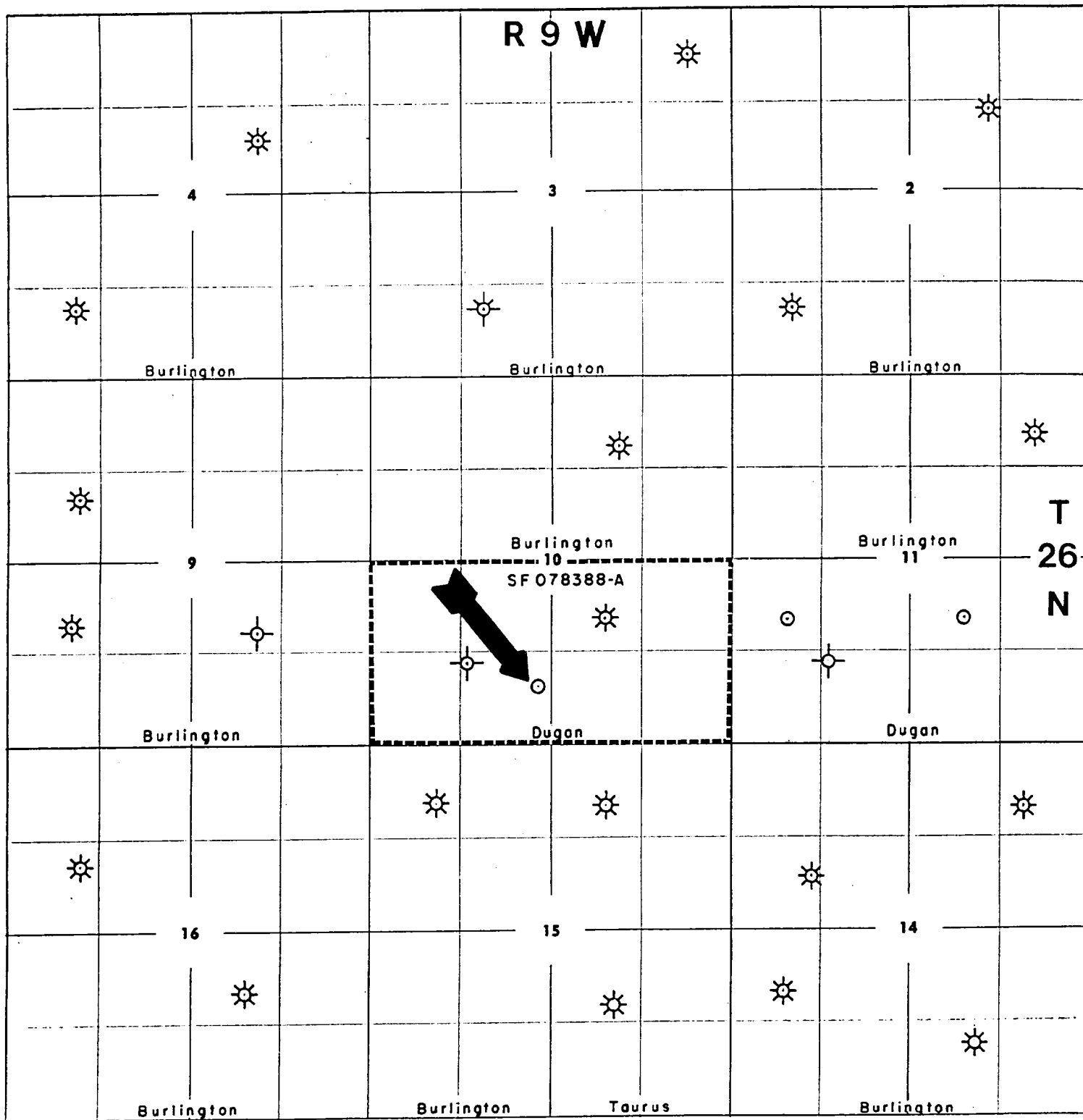
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RECEIVED AUG 7 1998 OIL CON. DIV. DIST. 3					
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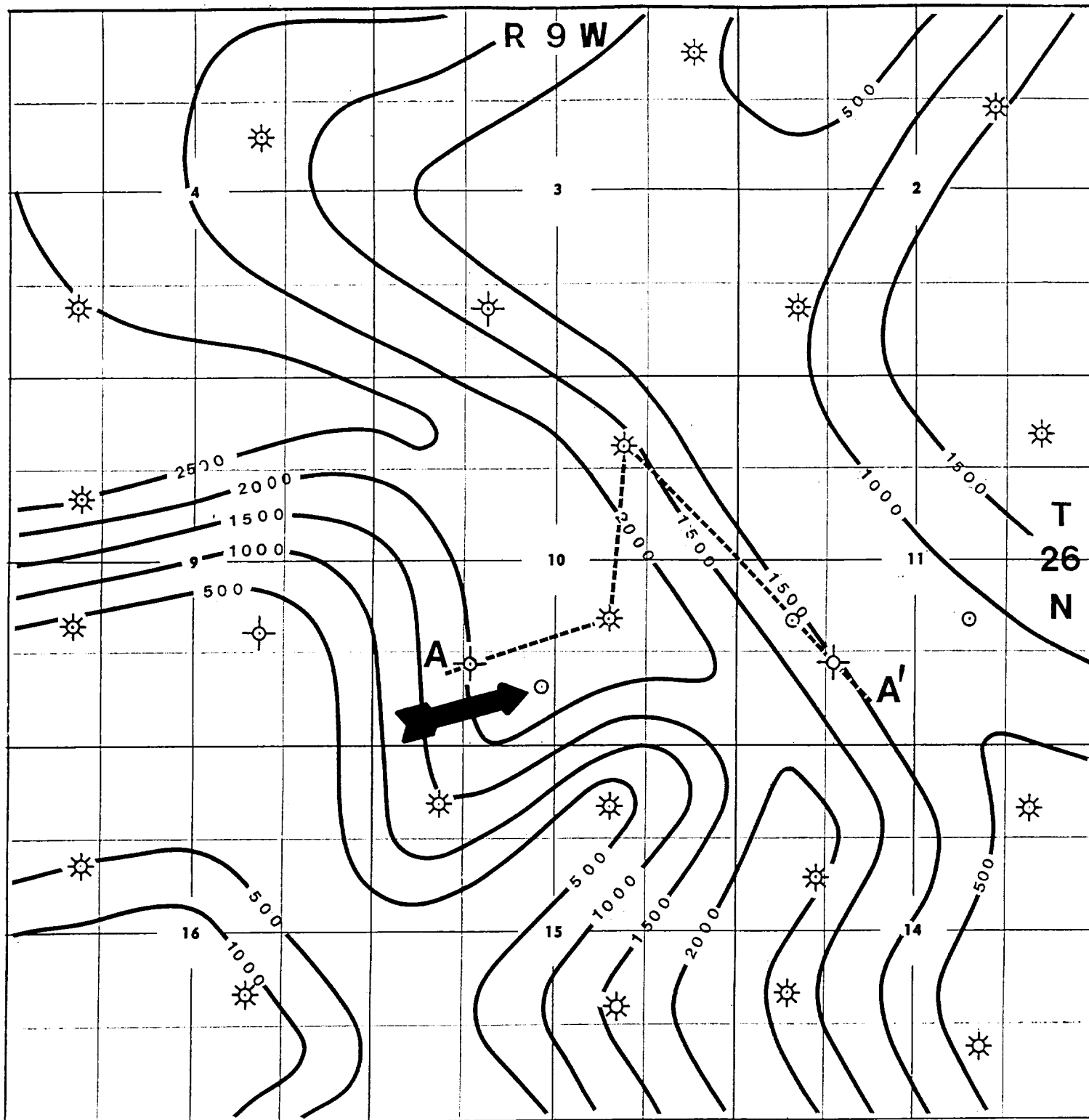
Dugan Production Corp.
Huerfanito #5R
Application for Unorthodox Location

TOPOGRAPHIC MAP



Dugan Production Corp.
Huerfanito #5R
Application for Unorthodox Location

**OFFSETTING OPERATOR MAP
DAKOTA WELLS ONLY**



Dugan Production Corp.
Huerfanito #5R
Application for Unorthodox Location

**CUMULATIVE DAKOTA GAS
PRODUCTION MAP THRU 11/97**

C.I.=500 mmcf