

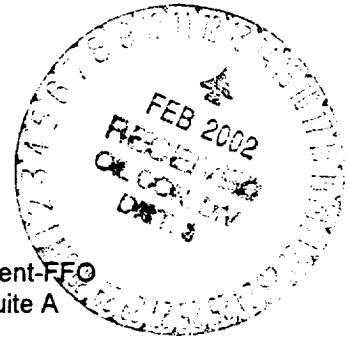
dugan production corp.

NAME - FEB 11, 2002

February 11, 2002

Ms. Lori Wrotenbery
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Mr. Steve Henke
Bureau of Land Management-FFO
1235 La Plata Highway, Suite A
Farmington, NM 87401



Re: Proposed surface commingling & off-lease measurement
Six wells operated by Dugan Production Corp.
Dugan Production's Proposed Leah Marie Gas Gathering System
San Juan County, New Mexico

A Dear Ms. Wrotenbery and Mr. Henke:

We are writing to request your approvals for the surface commingling and off-lease measurement of natural gas produced from six wells operated by Dugan Production Corp. Four of the wells are located on Federal Lease NM-55113, and since the proposed CDP sales meter will also be located on this lease, will not require off-lease measurement, but will require approvals for surface commingling. Two of the wells are located on Navajo Allotted Lease NOG-9909-1356 and will require approvals to surface commingle and for off-lease measurement.

Of the six wells, only one, Dugan's Leah Marie #1, has an established producing history. A second well, Dugan's Mitzi No. 1 has recently been completed, but has not been connected to a pipeline. Four of the wells have recently been drilled, but completions have been postponed until the subject gas gathering system is ready to deliver gas. The six wells are all located within Section 23, T-26N, R12W and include two Fruitland Coal completions (Pool No. 71629), plus four WAW Fruitland Sand-Pictured Cliffs completions (Pool No. 87190).

This new gathering system will be known as the Leah Marie Gas Gathering System and will deliver natural gas to a central delivery sales meter (CDP) to be installed, operated, and maintained by El Paso Field Services (EPFS) in the NWSW of Section 23, T-26N, R-12W at the Leah Marie No. 2 well site. Only natural gas will be surface commingled. All liquids will be separated, stored, and disposed of at each individual well. We do not anticipate any liquid hydrocarbon production. Dugan Production holds 100% of the working interest in all wells.

Attachment No. 1 was reproduced from the Carson Trading Post USGS Quadrangle topography map and presents Dugan's proposed Leah Marie Gas Gathering System along, with the six wells proposed to be connected to the system. In addition, Dugan Production's leasehold interest in this area is also presented. This gathering system will consist of approximately 10,200' of buried 2" to 8", 160# working pressure, new polyethylene pipe. To insure the initial system integrity, we will pressure test all lines to approximately 120 psi. To insure continued gathering system integrity, the entire gathering system will be periodically surveyed, using Dugan's portable gas detector. The frequency of our monitoring will primarily be dependent upon the indicated need, but will most likely be at least annually. We anticipate maintaining a system gathering pressure of ± 10 psi and will be using a single-stage compressor located at the CDP to deliver gas into El Paso's pipeline, which is currently averaging 50 to 75 psi. Each well will be equipped with continuous recording allocation meters (Barton dry-flow or similar), which will be maintained by Dugan Production in accordance with state and federal regulations (currently Onshore Order No. 5). The monthly charts from each allocation meter will be integrated by a commercial integration company and the volumes recorded will be used to determine factors for allocating sales volumes, BTU's and revenues from the CDP sales meter to each well.

Attachment No. 2 presents well and lease information for each of the six wells to be connected to the gathering system. Attachment No. 3 presents the C-102's for each of the wells along with the dedicated spacing units and associated leases. Attachment No. 4 presents the ownership for each of the six wells, and Attachment No. 5 presents the proposed allocation procedures.

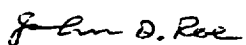
The six wells to be connected to this gathering system are completed, or will be completed, in either the WAW Fruitland Sand-Pictured Cliffs or the Basin Fruitland Coal pools, and the natural gas from each pool is believed to be mutually compatible. Since five of the six wells have no production history (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 ± 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

ATTACHMENT NO. 2 - PAGE 1 OF 1
DUGAN PRODUCTION CORP.
PROPOSED LEAH MARIE GATHERING SYSTEM AND CDP
SAN JUAN COUNTY, NEW MEXICO

Well Name	API No. 30-045-	Well Location		Well Location		Lse. Type	CA Number	Pool	Completion Date	Current Prod. (1)			Spacing Unit
		UL-Sec-Twn-Rng		Lease No.						MC/D	BC/D	BW/D	
WELLS TO BE ADDED TO SYSTEM													
Leah Marie No. 1	27126	C-23-26N-12W		NM55113	FED	N/A	Basin Fruitland Coal	10/01/90	86	0	11	W/2-320A	
Leah Marie No. 2	29831	L-23-26N-12W		NM55113	FED	N/A	WAW FR Sand/PC	Note 2	400	0	40	SW/4-160A	
Leah Marie No. 3	30314	E-23-26N-12W		NM55113	FED	N/A	WAW FR Sand/PC	Note 3	400	0	40	NW/4-160A	
Leah Marie No. 4	30315	O-23-26N-12W		NM55113	FED	N/A	WAW FR Sand/PC	Note 4	400	0	40	SE/4-160A	
Mitzi No. 1 (Note 5)	24811	A-23-26N-12W		NOG-9909-1356	Navajo Allotted	N/A	WAW FR Sand/PC	02/08/01	400	0	40	NE/4-160A	
Mitzi Com No. 90	30093	G-23-26N-12W		NOG-9909-1356	Navajo Allotted	Pending	Basin Fruitland Coal	Note 6	400	0	40	E/2-320A	

Notes:

1. N/A - Not applicable or not needed.

2. Production data for Leah Marie No. 1 is actual average during 11/01 and 12/01. Since all other wells have not produced or have not been completed, production data represents anticipated rates of production.

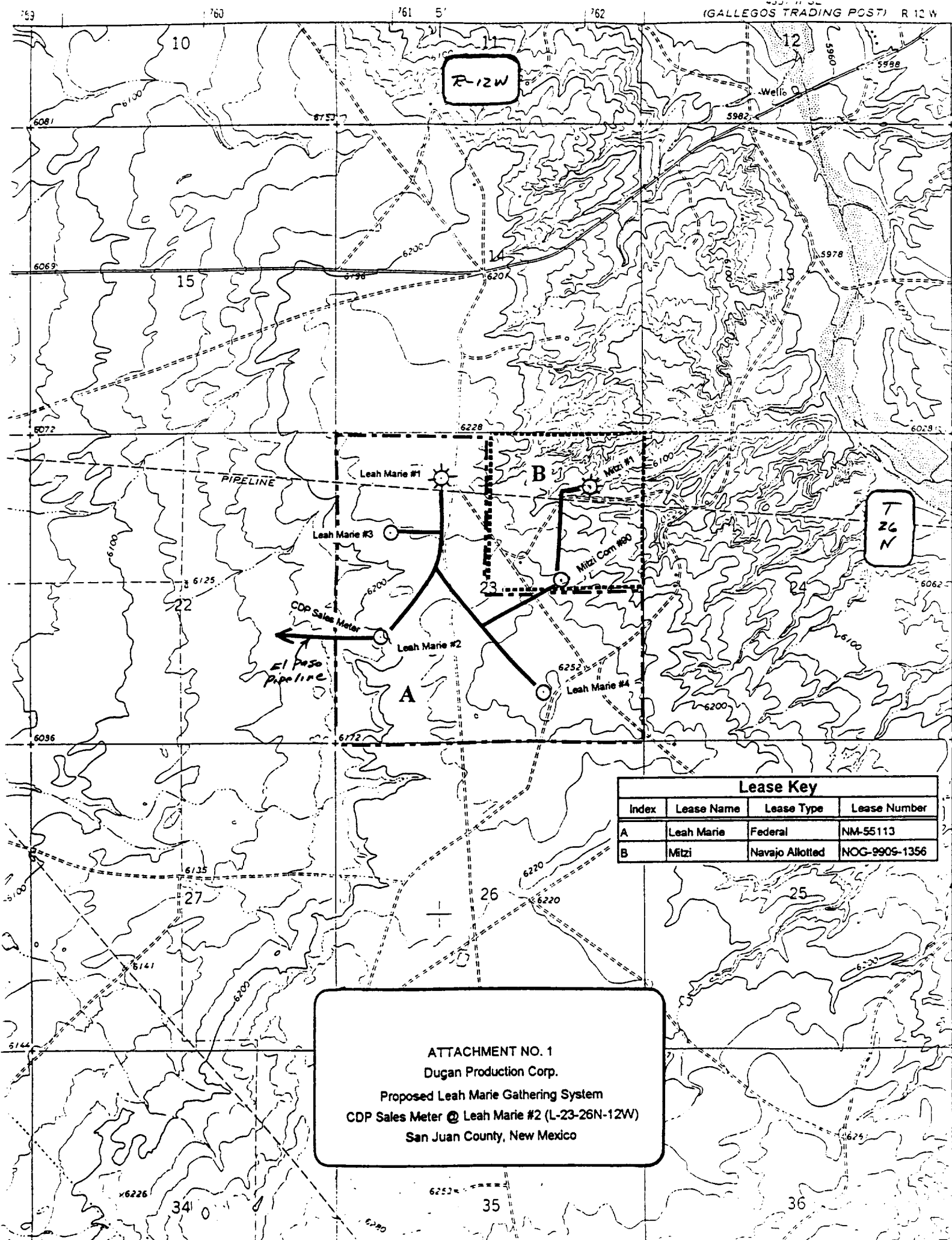
3. Leah Marie No. 2 was spudded on 01/14/02. Drilled TD = 1,405' and 4-1/2" casing is cemented @ 1,400'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on Leah Marie No. 3, 4 and Mitzi Com No. 90.

4. Leah Marie No. 3 was spudded on 01/21/02. Drilled TD = 1,480' and 4-1/2" casing is cemented @ 1,474'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on Leah Marie No. 2, 4 and Mitzi Com No. 90.

5. Leah Marie No. 4 was spudded on 01/28/02. Drilled TD = 1,485' and 4-1/2" casing is cemented at 1,476'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on the Leah Marie No. 2, 3 and Mitzi Com No. 90.

6. The Mitzi No. 1 completion is a re-entry of an abandoned wellbore (Tenneco's Navajo Yazza No. 1). The Pictured Cliffs formation was completed 02/08/01 and tested a rate of 97 mcf/d + 140 BWPD. The well is currently shut in pending a pipeline connection.

7. The Mitzi Com No. 90 was spudded on 05/24/01. Drilled TD = 1,505' and 4-1/2" casing is cemented at 1,482'. The wellbore is currently ready to be completed, which will occur in conjunction with completion efforts on the Leah Marie No. 2, 3 and 4.



All distances must be from the outer boundaries of the Section

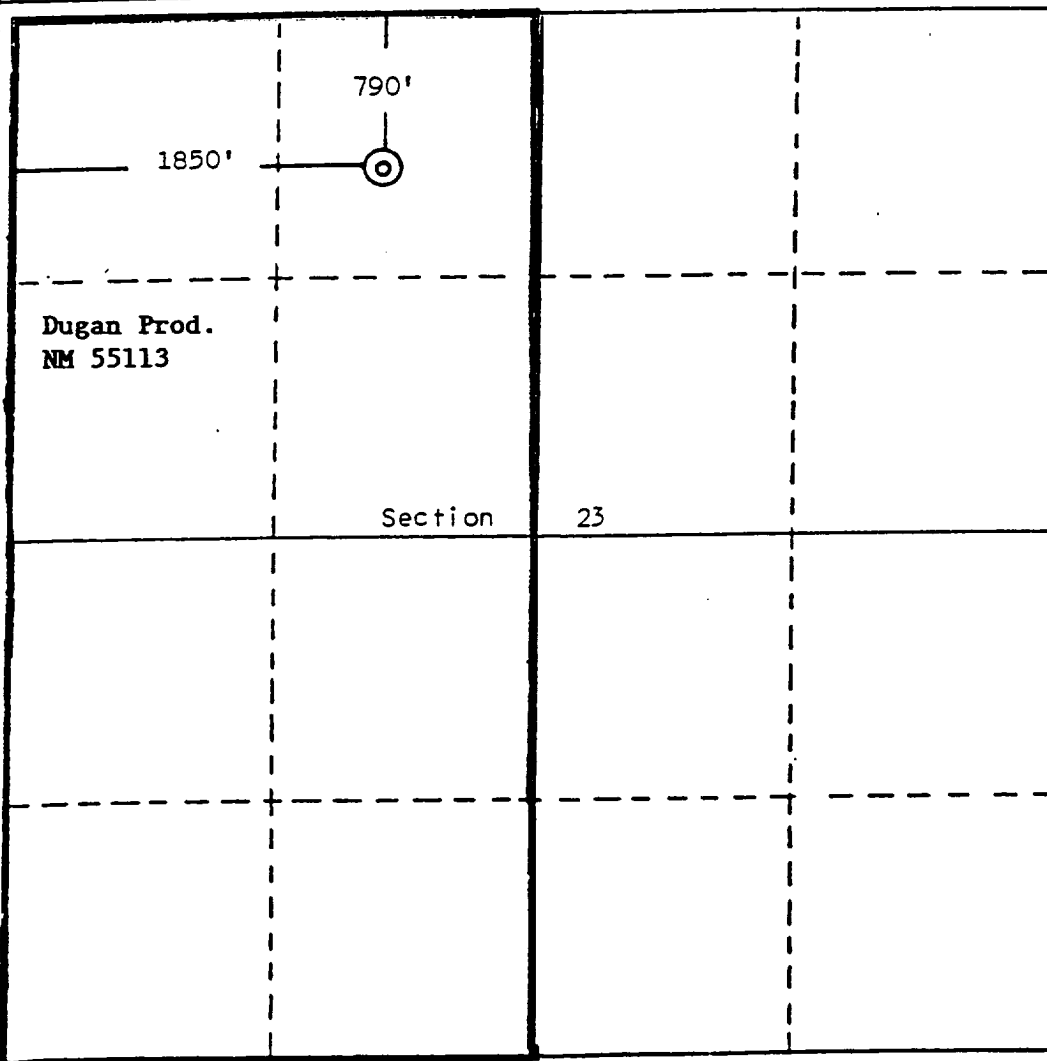
Operator Dugan Production Corporation			Lease Leah Marie			Well No. 1		
Unit Letter C	Section 23	Township 26 North	Range 12 West	County San Juan				
Actual Footage Location of Well: 790 feet from the North line and 1850 feet from the West line								
Ground Level Elev. 6225	Producing Formation Fruitland Coal		Pool Basin Fruitland Coal		Dedicated Acreage: 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 interests 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 necessary.) _____

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 interests, has been approved by the Division.



CERTIFICATION

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

Name

Jim L. Jacobs

Position

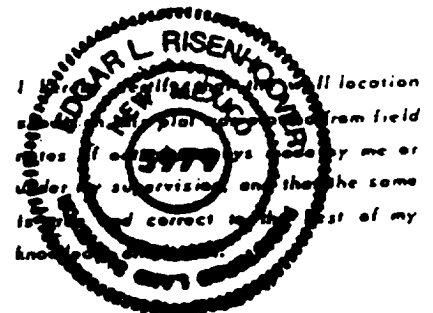
Geologist

Company

Dugan Production Corp.

Date

10-23-90



Date Surveyed

February 8, 1988

Registered Professional Engineer
and/or Land Surveyor

Edgar L. Risenbrouwer
Certificate No. 5979

District I
PO Box 1960, Hobbs, NM 88241-1960
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Attachment
No. 3
Pg 2 of 6

Form C-102
Revised October 18, 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 30-045-28492-29831		¹ Pool Code 87190	¹ Pool Name WAW Fruitland Sand/Pictured Cliffs
⁴ Property Code 013851	⁴ Property Name Leah Marie		⁴ Well Number 2
⁷ OGRID No. 006515	⁴ Operator Name Dugan Production Corp.		⁹ Elevation 6200' (est)

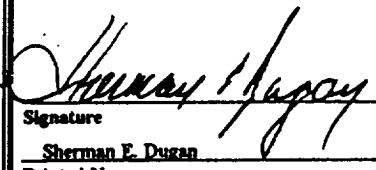
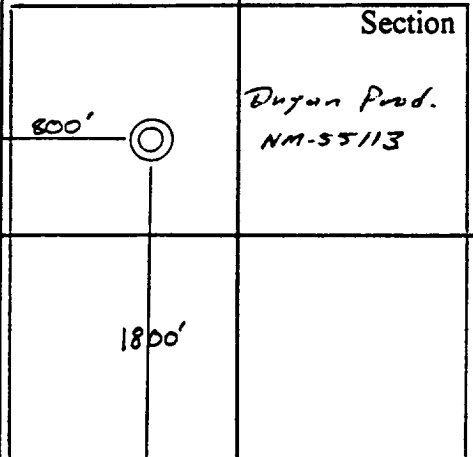
¹⁰ Surface Location

UL or lot no. L	Section 23	Township 26N	Range 12W	Lot Idn	Feet from the 1800	North/South line SOUTH	Feet from the 800	East/West line WEST	County SAN JUAN
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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
¹² Dedicated Acres 160		¹² Joint or Infill		¹² Consolidation Code		¹² Order No.			

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 Agent Title 8/31/98 Date
	Section 23 Dugan Prod. NM-55113			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. JULY 23, 1990 Date of Survey Signature and Seal of Professional Surveyor: ORIGINAL SIGNED BY Edgar L. Risenhoover #5979

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brazos 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

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WELL LOCATION AND ACREAGE DEDICATION PLAT

1 APT Number 30 045 30314		2 Pool Code 87190		3 Pool Name Waw Fruitland Sand/PC	
4 Property Code 013851		5 Property Name Leah Marie			6 Well Number 3
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6217'

10 Surface Location

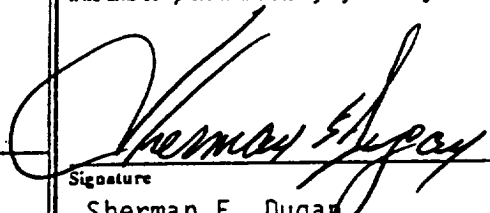

UL or lot no. E	Section 23	Township 26N	Range 12W	Lot Idn	Feet from the 1700	North/South line North	Feet from the 950	East/West line West	County San Juan
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11 Bottom Hole Location If Different From Surface

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 160	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

<div>16</div> <div>1700'</div> <div>950'</div> <div>Dugan Prod. NM-55113</div> <div>Section 23</div>				<div>17 OPERATOR CERTIFICATION</div> <div>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</div> <div></div> <div>Signature Sherman E. Dugan</div> <div>Printed Name Vice-president</div> <div>Title July 12, 2000</div> <div>Date</div>	
				<div>18 SURVEYOR CERTIFICATION</div> <div>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.</div> <div>April 7, 2000</div> <div>Date of Survey</div> <div>Signature and Seal of Surveyor</div> <div></div> <div>Edgar L. Risenhoover</div> <div>5979</div> <div>Certificate No.</div>	

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

State of New Mexico
Energy, Minerals & Natural Resources Department

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PO Box 2088
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Attachment
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WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 30315		2 Pool Code 87190		3 Pool Name WAW Fruitland Sand/PC	
4 Property Code 013851		5 Property Name Leah Marie #4			6 Well Number 4
7 OGRID No. 006515		8 Operator Name Dugan Production Corporation			9 Elevation 6258'

10 Surface Location

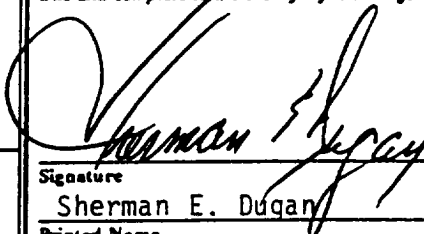

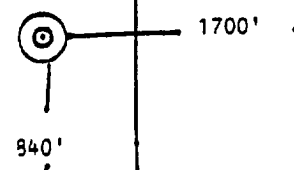
UL or lot no. 0	Section 23	Township 26N	Range 12W	Lot Idn	Feet from the 840'	North/South line South	Feet from the 1700	East/West line East	County San Juan
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11 Bottom Hole Location If Different From Surface

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 160	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

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 July 24, 2000 Date	
Section 23		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. July 18 Date of Survey Signature and  Edgar L. Risenhoover Certificate Number	
Dugan Prod. NM-55113			
			

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
811 South First, Artesia, NM 88210
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1000 Rio Brazos Rd., Aztec, NM 87410
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2040 South Pacheco, Santa Fe, NM 87505

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Attachment
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WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30-045- 24811		2 Pool Code 87190		3 Pool Name WAW Fruitland SD/PC	
4 Property Code		5 Property Name Mitzi			6 Well Number 1
7 OGRID No. 006515		8 Operator Name Dugan Production Corp.			9 Elevation 6174'

10 Surface Location

UL or lot no. A	Section 23	Township 26N	Range 12W	Lot Idn	Feet from the 900	North/South line North	Feet from the 900	East/West line East	County San Juan
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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
12 Dedicated Acres 160		13 Joint or Infill		14 Consolidation Code		15 Order No.			

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>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</p> <p><i>Sherman E. Dugan</i></p> <p>Signature</p> <p>Sherman E. Dugan</p> <p>Printed Name</p> <p>Vice-President</p> <p>Title</p> <p>July 18, 2000</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>Original signed 1/20/1981 by Fred B. Kerr, Jr.</p> <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor</p> <p>Certificate Number 3950</p>	
Section		23		DPC NOG-9909-1356	

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

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
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Attachment
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WELL LOCATION AND ACREAGE DEDICATION PLAT

1 API Number 30 045 300 93		1 Pool Code 71629		1 Pool Name Basin Fruitland Coal	
1 Property Code 013851		1 Property Name Mitzi Com			1 Well Number 90
1 OGRID No. 006515		1 Operator Name Dugan Production Corporation			1 Elevation 6242' 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
G	23	26N	12W	G	2510	North	1380	East	San Juan

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

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
320		C	

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		<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.</p> <p><i>Sherman E. Dugan</i></p> <p>Signature Sherman E. Dugan Printed Name Vice-President Title Date</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>March 2, 1998</p> <p>Date of Survey</p> <p>Signature and Seal</p> <p><i>Edgar L. Risenhoover</i></p> <p>EDGAR L. RISENHOVER NEW MEXICO 5979 PROFESSIONAL SURVEYOR</p> <p>Certificate Number 5979</p>

ATTACHMENT 4 - PAGE 2 OF 4
Dugan Production Corp.

<u>Well Name</u>	<u>Pool</u>	<u>Location</u>	<u>Spacing Unit</u>
Leah Marie No. 1	Basin Fruitland Coal	NENW 23, T-26N, R12W	W/2 - 320A
Leah Marie No. 2	WAW FR Sand/PC	NWSW 23, T-26N, R12W	SW/4 - 160A
Leah Marie No. 3	WAW FR Sand/PC	SWNW 23, T-26N, R-12W	NW/4 - 160A
Leah Marie No. 4	WAW FR Sand/PC	SWSE 23, T-26N, R-12W	SE/4 - 160A

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
	<u>Gross</u>	<u>Net</u>
<u>Working Interest</u>		
Dugan Production Corp.	100.0000	87.5000
P. O. Box 420		
Farmington, NM 87499-0420		
<u>Royalty</u>		
USA - Bureau of Land Management	0.0000	12.5000
1235 La Plata Hwy., Suite A		
Farmington, NM 87401		
 TOTAL WELL	<hr/> 100.0000	<hr/> 100.0000

ATTACHMENT 4 - PAGE 3 OF 4
Dugan Production Corp.
Mitzi No. 1
WAW Fruitland Sand - Pictured Cliffs Pool
Well Location: NENE 23, T-26N, R-12W
Spacing Unit: NE/4 (160A)
San Juan County, New Mexico

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
<u>Working Interest</u>	<u>Gross</u>	<u>Net</u>
Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420	100.0000	83.3333
<u>Royalty</u> Navajo Allotment No. 59730 c/o Farmington Indian Minerals Office 1235 La Plata Hwy., Suite B Farmington, NM 87401	0.0000	16.6667
TOTAL WELL	100.0000	100.0000

ATTACHMENT 4 - PAGE 4 OF 4
Dugan Production Corp.
Mitzi Com No. 90
Basin Fruitland Coal Pool
Well Location: SWNE 23, T-26N, R-12W
Spacing Unit: E/2 (320A)
San Juan County, New Mexico

<u>INTEREST OWNER</u>	<u>INTEREST%</u>	
<u>Working Interest</u>	<u>Gross</u>	<u>Net</u>
Dugan Production Corp. P. O. Box 420 Farmington, NM 87499-0420	100.0000	85.4167
<u>Royalty</u>		
USA - Bureau of Land Management 1235 La Plata Highway, Suite A Farmington, NM 87401	0.0000	6.2500
Navajo Allotment No. 59730 c/o Farmington Indian Minerals Office 1235 La Plata Hwy., Suite B Farmington, NM 87401	0.0000	8.3333
TOTAL WELL	100.0000	100.0000

ATTACHMENT 5 - PAGE 1 OF 1
PROPOSED ALLOCATION PROCEDURES
DUGAN PRODUCTION CORP.'S
PROPOSED LEAH MARIE GAS GATHERING SYSTEM
CDP GAS SALES METER: NWSW 23-26N-12W (New El Paso Meter)
SAN JUAN COUNTY, NEW MEXICO

Base Data:

W = Gas Volume (MCF) from allocation meters at individual wells during allocation period.

X = Gas Volume (MCF) from CDP Sales Meter during allocation period.

Y = BTU's from CDP Sales Meter during allocation period.

Allocation Period is typically a calendar month and will be the same for all wells.

1. Individual Well Gas Production = A + B + C + D + E

A = Allocated Sales Volume, MCF. = $(W / \text{SUM } W) \times X$

B = On lease fuel usage, MCF. Determined from equipment specification and operating conditions.

C = Purged and/or vented gas from well and/or lease equipment, MCF. Calculated using equipment specifications and pressures.

D = Allocated fuel from gathering system equipment, MCF. The total fuel required to operate gathering system equipment will be allocated to the individual wells benefiting from the equipment using allocation factors determined by $W / \text{SUM } W$ for the wells involved.

E = Allocated volume of gas lost and/or vented from the gathering system and/or gathering system equipment, MCF. The total volume will be determined using industry accepted procedures for the conditions existing at the time of the loss. All volumes corresponding to liquid condensation within the gathering system will also be determined. The total volume lost and/or vented will be allocated to the individual wells affected using factors determined by $W / \text{SUM } W$.

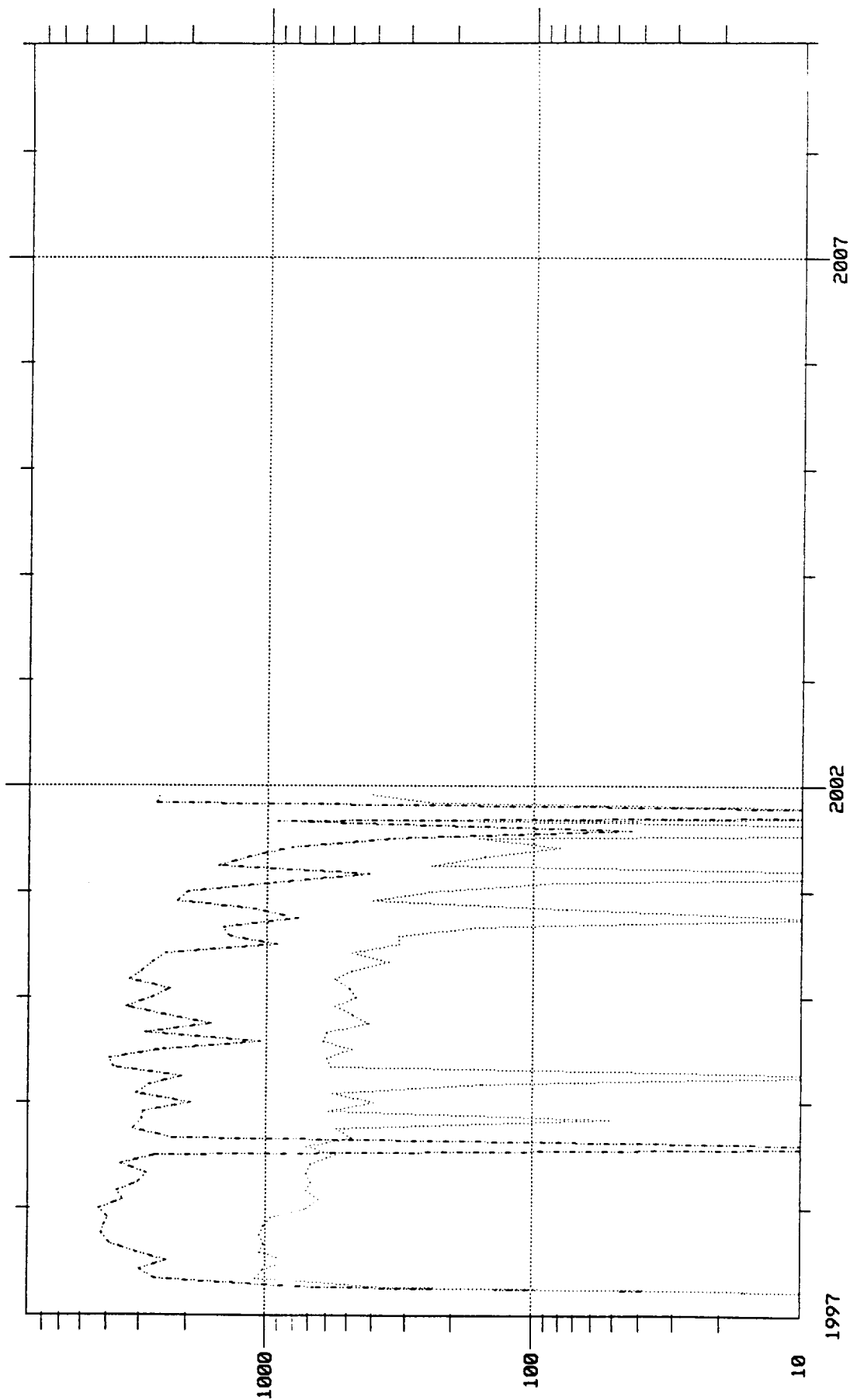
2. Allocated Individual Well BTU's = $((W \times \text{Individual well BTU}) / \text{Sum } (W \times \text{individual well BTU})) \times Y$.

Individual well gas heating values to be determined in accordance with BLM regulations (currently On shore Order No. 5).

Production
Oil
Gas
Water

Attachment
No. 6
Pg 1 of 1

DUGAN PRODUCTION CORP.
Production Rate vs Time
Bbl/Mo or Mcf/Mo vs Months
Leah Marie No. 1
Basin Fruitland Coal (C-23-26N-12W)



2002
cumulative production as of 1-1-02
Reported Oil Production = 0 Bbls
Reported Gas Production = 131802 Mcf
Reported Water Production = 26808 bbl