

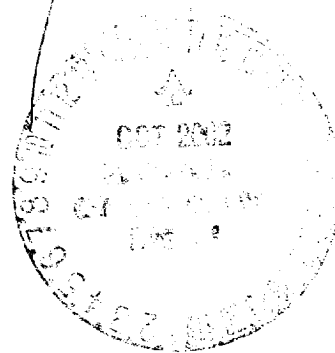
MERRION

OIL & GAS

October 14, 2002

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

RE: Administrative Order DHC – 2986-A
Allocation of Production
Osborn 1 - API #30-045-09297
Section 22, T30N, R12W
San Juan County, New Mexico



Dear Mr. Chavez:


Pursuant to the subject order, I am requesting your approval of the allocation of production for the subject commingled well. Please indicate your approval by signing and returning a copy of this letter to my attention.

This well was originally completed in the Fruitland Sand Formation and was subsequently commingled with the Fruitland Coal. In May, the last month of production from just the sand, the well made 21 MCFD and 0 BWD. After the workover, the well stabilized making 331 MCFD and 80 BWD from both zones in September. Subtracting the two, it appears the Fruitland Coal added 310 MCFD and 80 BWD. On that basis, the following allocations are recommended:

| <u>Zone</u> | <u>Gas</u> | <u>Water</u> |
|----------------------------|--------------|--------------|
| Flora Vista Fruitland Sand | 6.3% | 0% |
| Basin Fruitland Coal | <u>93.7%</u> | <u>100%</u> |
| | 100% | 100% |

If additional data suggests that these allocations need to be changed in the future, we will submit a revision in our proposed allocation methodology. Please call me at 327-9801 ext. 114 if you have any questions or concerns.

Yours truly,


George Sharpe
Manager, Oil & Gas Investments

APPROVED this _____
day of _____, 2002.

By: _____

xc:Well File