

March 16, 1988

Dugan Production Corp.

Exhibit No. 3



dugan production corp.

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 29, 1988

TO: WORKING INTEREST OWNERS (Address List Attached)
 Section 22, Township 26 North, Range 2 West, NMPM
 Rio Arriba County, NM

Gentlemen:

Dugan Production Corp. has leasehold interest comprising the NW/4 of the captioned section. It is our intention to develop this acreage with respect to the Gavilan Mancos Oil Pool on or before April 15, 1988. The Gavilan Mancos pool rules provide for 640 acre spacing units, effective as of 6-8-87, and it is Dugan Production's belief that most wells completed within the Mancos interval will drain at least 640 acres.

Amoco Production completed the Seifert Gas Com A Well No. 1 (located in the SE/4 SE/4 of the subject section) on June 28, 1987 with an initial potential pumping 54 BOPD + 120 MCFD (GOR = 2222). It is our understanding that, as of this date, Amoco has produced very little from this well. A review of production records on file at the Aztec office of the New Mexico Oil Conservation Division (NMOCD) through November 1987 reflect that 1930 barrels of oil were produced during June 1987 in an unspecified number of days. The well was shut-in July thru November awaiting a pipeline connection for gas sales. As reflected on Amoco's form C-102 filed for the Seifert Gas Com A Well No. 1, the E/2 of Section 22 has been dedicated to the well and it is our understanding that the working interest ownership is as follows:

Amoco Production	57.26562%
Kindermac Partners	36.48438%
Meridian Inc.	6.25000%

Our review of leasehold records also indicates that ownership of the W/2 of Section 22 is as follows:

Dugan Production Corp.	50.000000%
Reading & Bates Petroleum Co.	16.666665%
Hooper, Kimbell & Williams Inc.	16.666665%
Ibex Partnership	7.804365%
P.C., Ltd.	7.804365%
Carolyn Clark Oatman	0.437420%
Warren Clark Trust	0.406900%
Warren Clark Testamentary Trust	0.213620%

Letter to Working Interest Owners
January 29, 1988
Page 2

In view of Section 22 being within the boundary of the Gavilan Mancos Oil Pool and considering that the spacing for this area was set at 640 acres per well (effective 6-8-87), we propose that the working interest owners within Section 22 negotiate mutually satisfactory terms for the participation in a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 comprising all of Section 22. We believe that this is not only consistent with the Gavilan Mancos Pool Rules in effect at the time of completion of the Seifert Gas Com A Well No. 1, but also Section 70-2-18(A) of the New Mexico Statutes. Along these lines, Dugan Production has had preliminary conversations with Amoco Production Company and Amoco is currently evaluating our proposal. We are writing now to request that each working interest owner within Section 22 consider our proposal and let us know whether or not you support the voluntary establishment of a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 which would entail communitizing the acreage in the E/2 with the W/2 acreage.

In view of our desire to have this matter resolved as quickly as possible, Dugan Production is requesting our counsel to set this matter for hearing before the New Mexico Oil Conservation Division on their 3-2-88 docket. It is our intention to pursue the voluntary formation of the spacing unit, and in the event we can successfully form a 640 acre spacing unit voluntarily, our applications to the NMOCDD in this matter will be dismissed.

Should you have questions regarding this matter, please feel free to contact either me or Rich Corcoran, our Land Manager, at the letterhead address.

Sincerely,

John D. Roe

John D. Roe
Manager of Engineering

JDR/cg

attachment - list of working interest owners

cc: Tom Kellahin

WORKING INTEREST OWNERS

Section 22, T-26N, R-2W
Rio Arriba County, NM
(Page 1 of 2)

East Half (Currently dedicated to Amoco Production
Section Company's Seifert Gas Com A Well No. 1
Located in the SESE of Sec.22,T-26N,R-2W)

Amoco Production Company
17th & Broadway
P.O. Box 800
Denver, CO 80201

Sun Exploration & Prod. Co.
Attn: Frank Syfan
P.O. Box 5940 T.A.
Denver, CO 80217-5940

Meridian, Inc.
Attn: Van Goebel
P.O. Box 4289
Farmington, NM 87499

West Half Section

NW/4 Dugan Production Corp.
Attn: Rich Corcoran
P.O. Box 208
Farmington, NM 87499

SW/4 Reading & Bates Petroleum Co.
Attn: Eric Koelling
3200 Mid-Continent Tower
Tulsa, OK 74103

Hooper, Kimball & Williams, Inc.
Attn: Greg Owens
P.O. Box 520970
Tulsa, OK 74152

Ibex Partnership
Attn: Ron Holloway
P.O. Box 911
Breckenridge, Texas 76024-0911

WORKING INTEREST OWNERS

Section 22, T-26N, R-2W
Rio Arriba County, NM
(Page 2 of 2)

PC, Ltd.
Attn: Ron Holloway
P.O. Box 911
Breckenridge, Texas 76024-0911

Carolyn Clark Oatman
P.O. Box 1846
Austin, Texas 78767

Warren Clark Trust
P.O. Box 1846
Austin, Texas 78767

Warren Clark Testamentary Trust
P.O. Box 1846
Austin, Texas 78767

wiolist2

DUGAN PRODUCTION LETTER DATED 1-29-88
RETURN RECEIPT CARDS
Working Interest Owners
E/2 of Section 22, T26N, R2W, NMPM
Rio Arriba County, NM
(Page 1 of 2)

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested. 1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. 2. <input type="checkbox"/> Restricted Delivery †(Extra charge)†	
3. Article Addressed to: Amoco Production Co. P.O. Box 800 Denver, CO 80201	4. Article Number P-488 636 961 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X	
7. Date of Delivery FEB - 2 1988	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested. 1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. 2. <input type="checkbox"/> Restricted Delivery †(Extra charge)†	
3. Article Addressed to: Kindermac Partners Attn: Kent Craig 650 South Cherry, Suite 1225 Denver, CO 80222	4. Article Number P-488 636 962 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Kent Craig</i>	
7. Date of Delivery	

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3. Article Addressed to: Meridian, Inc. Attn: Van Goebel P.O. Box 4289 Farmington, NM 87499	4. Article Number P-488 636 963 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>J. A. 119</i>	
7. Date of Delivery 2-1-88	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

T
O

Sun Exploration Prod. Co.
Attn: Frank Syfan
3151 South Vaughn Way, Suite 600
Aurora, Colorado 80014

DUGAN PRODUCTION CORP.
P. O. BOX 203
FARMINGTON, N. M. 87401
(505) 325-1821
Page 2 of 2

SUBJECT Section 22, T-26N, R-2W
DATE 2-8-88

MESSAGE

Frank, Attached for your information & Review is a copy of our letter dated 1-29-88 addressed to working interest owners within Section 22 of T-26N, R-2W. It was our understanding that Kindermac Partners was a WI owner of 36.48438% in the E/2 which is dedicated to Aurora's Seifert Gas Com #1 well. McHugh has advised us that Sun had acquired the interest of Kindermac & this was confirmed by you during our phone conversation today. Please review this letter & let me know Sun's position (even tentatively) ASAP since we need to file our applications of the OGD by Tuesday 2/9/88 for the 3/2/88 hearing Docket.

SIGNED
Rogers,
John Roe

Frank - As we discussed, I'm also sending for your info. a cc of our 1-29-88 letter sent to WIO in re drilling on 320 NSH.

cc - Tom Kellahan

FEDERAL EXPRESS		QUESTIONS? CALL 800-238-5355 TOLL FREE.		AIRBILL NUMBER 003923076	
Sender's Federal Express Account Number 111-111111		AIRBILL NUMBER 003923076		2/8/88	
From (Your Name) John Roe		Your Phone Number (Very Important) (505) 325-1821		To (Recipient's Name) Frank Syfan	
Company DUGAN PRODUCTION CORP.		Department/Floor No.		Company Sun Exploration & Production Company	
Street Address 704 100 NICHOLS BLVD		City Aurora, CO		Exact Street Address (Box or P.O. Box or P.O. Zip Codes Will Delay Delivery And Result In Extra Charge.) 3151 South Vaughn Way, Suite 600	
State NM		ZIP Required For Correct Invoicing 87401		State CO	
City Farmington		ZIP Street Address Zip Required 80014		City Aurora, CO	
YOUR BILLING REFERENCE INFORMATION (FIRST 24 CHARACTERS WILL APPEAR ON INVOICE.) WIO Sec. 22, T26N R2W				HOLD FOR PICK-UP AT THIS FEDERAL EXPRESS LOCATION: Street Address (See Service Guide or Call 800-238-5355) City State	
PAYMENT <input checked="" type="checkbox"/> Add Sender <input type="checkbox"/> Bill Recipient's FedEx Acct. No <input type="checkbox"/> Bill 3rd Party FedEx Acct. No <input type="checkbox"/> Bill Credit Card <input type="checkbox"/> Cash				Federal Express Use Base Charges Declared Value Charge Origin Agent Charge Other Total Charges	
SERVICES CHECK ONLY ONE BOX <input type="checkbox"/> PRIORITY 1 Overnight Delivery Using Your Packaging <input checked="" type="checkbox"/> OVERNIGHT DELIVERY USING OUR PACKAGING <input type="checkbox"/> Counter Pick Overnight Envelope <input type="checkbox"/> Overnight Box 12" x 17" x 3" <input type="checkbox"/> Overnight Tube 36" x 6" x 6" * Declared Value Limit \$100. <input type="checkbox"/> STANDARD AIR Delivery not later than second business day SERVICE COMMITMENT PRIORITY 1 - Delivery is scheduled early next business morning in most locations. It may take two or more business days if the destination is outside our primary service area. STANDARD AIR - Delivery is generally next business day or not later than second business day. It may take three or more business days if the destination is outside our primary service area.		DELIVERY AND SPECIAL HANDLING CHECK SERVICES REQUIRED <input type="checkbox"/> HOLD FOR PICK-UP (P.O. Box or Section 114 is right) <input checked="" type="checkbox"/> DELIVER WEEKDAY <input type="checkbox"/> DELIVER SATURDAY (Extra charge) <input type="checkbox"/> DANGEROUS GOODS (P.O. Box and Standard Air Packaging only. Extra charge) <input type="checkbox"/> CONSTANT SURVEILLANCE SERVICE (CSS) (Extra charge (See last Complete Section 5) <input type="checkbox"/> DRY ICE <input type="checkbox"/> OTHER SPECIAL SERVICE <input type="checkbox"/> SATURDAY PICK-UP (Extra charge)		PACKAGES WEIGHT YOUR DECLARED VALUE (See right) OVER SIZE 1 LBS 2 LBS 3 LBS 4 LBS Total Total Total Received At 1 Regular Stop 2 On-Call Stop 3 Drop Box 4 B.S.C. 5 Station Federal Express Corp. Employee No. 1577-1 Date/Time For Federal Express Use 2-8-88 11:00	
DO NOT SHIP CASH OR CURRENCY		YOUR DECLARED VALUE DAMAGE OR LOSS We are liable for no more than \$100 per package in the event of physical loss or damage unless you file a higher Declared Value to the left and document higher actual loss in the event of a claim. We charge 30¢ for each additional \$100 of declared value up to the maximum shown in our Service Guide. Declared value restrictions are shown on the back of the Sender's Copy of this airbill. We make no expressed or implied warranties. DELAY There is always a risk of late delivery or non-delivery in the event of a late delivery Federal Express will, at your request and with some limitations, refund all transportation charges paid. See back of Sender's Copy of this airbill for further information. CONSEQUENTIAL DAMAGES We will not be responsible or liable for any loss or damage resulting from delay, non-delivery or damage to a package, except as noted above. This includes loss of sales, income, interest, profits, attorney fees and other costs, but is not limited to these items. Such damages are called consequential damages.		PART #108001 FEC-S-751-1000 REVISION DATE 10/86 PRINTED U.S.A. NCRE	

W/2 of Section 22, T26N, R2W, NMPM
Rio Arriba County, NM
(Page 1 of 2)

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★ U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

PS Form 3811, Mar. 1987

★ U.S.G.P.O. 1967-178-268

DOMESTIC RETURN RECEIPT

PS Form 3811, Mar. 1987

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DOMESTIC RETURN RECEIPT

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1. ☐ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: PC, Ltd. Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number P-488 636 967 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Carol Blakely</i>	
7. Date of Delivery 2-1-88	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

WIO - W/2
Sec. 22, T26N, R2W
Rio Arriba, NM
Page 2 of 2

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1. ☐ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: Carolyn Clark Oatman P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 968 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2/8/88	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

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1. ☐ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: Warren Clark Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 969 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2-2-88	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

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1. ☐ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: Warren Clark Testamentary Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P0488 636 970 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	