M & G DRILLING COMPANY
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September 21, 2004

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, New Mexico 87504

RE: Answers to Your Questions
Application for Administrative Approval of Unorthodox Location
M & G Drilling Company's Schlosser 34 #102s
1630' FSL and 495' FWL
Unit L, Section 34, T28N, R11W
San Juan County, New Mexico
Basin Fruitland Coal

Dear Mr. Stogner:

Thank you for your questions on our NSL application. I hope the following will help clarify M & G Drilling Company's reasons for an NSL.

Question #1: Why can't this well be drilled in the northwest of section 34?

In this stand-up, west-half drilling block, we plan to drill the parent Fruitland Coal well, Schlosser 34 #102 in unit letter "F", the north half of the drilling block. We would like to drill the referenced infill Fruitland Coal well in the south half of the drilling block.

Question#2: Why can't this well be twined with Schlosser WN Fed. #5 (790' FSL & 1150' FWL) and/or Schlosser #97 (623' FSL & 1347' FWL)?

The well pads for these two wells (#5 & #97) are only 6' apart and the wells are 258' apart. The Schlosser #97 is a Pictured Cliffs well. I have learned that drilling a Fruitland Coal well near a Pictured Cliffs well or recompleting a Fruitland Coal well from an existing Pictured Cliffs well in this area of San Juan Basin often results in a relatively poor Fruitland Coal well, poor economics for the Fruitland Coal well, and the inability of the well to produce the Fruitland Coal natural resource. I believe one reason for this problem is the Fruitland Coal frac stimulation (frac gradient ~1.0 psi/ft) may take the path of least resistance into the existing, fraced Pictured Cliffs formation, which has a frac gradient of only ~0.7 psi/ft. This may result in basically a re-frac for the old Pictured Cliffs well, very little stimulation for the Fruitland Coal, and very little Fruitland Coal gas production. Therefore, it is very important to stay as far away from Pictured Cliffs wells as possible when drilling a Fruitland Coal well.

Example: The Krause #7 (M 33 28 11) was recompleted into the Fruitland Coal from the Pictured Cliffs in January 1993. It has a current production of only 120 MCF/D with a cumulative of only 252 MMCF. Its offset well, Bolack 4 #2 was drilled far from the nearest Pictured Cliffs well and first delivered in May 1993. The #2 is still making 270 MCF/D with a cumulative of 1540 MMCF.

The proven method of completing the Fruitland Coal in this area of San Juan Basin is a large foam frac. The attached log from the Schlosser #97 PC (N 34 28 11) indicates only 3 or 4 feet between the bottom of the basal coal and the top of the Pictured Cliffs sand. It is easy to see how a foam frac, which has a height of at least 30 feet above and below the perforated interval could frac into the Pictured Cliffs.

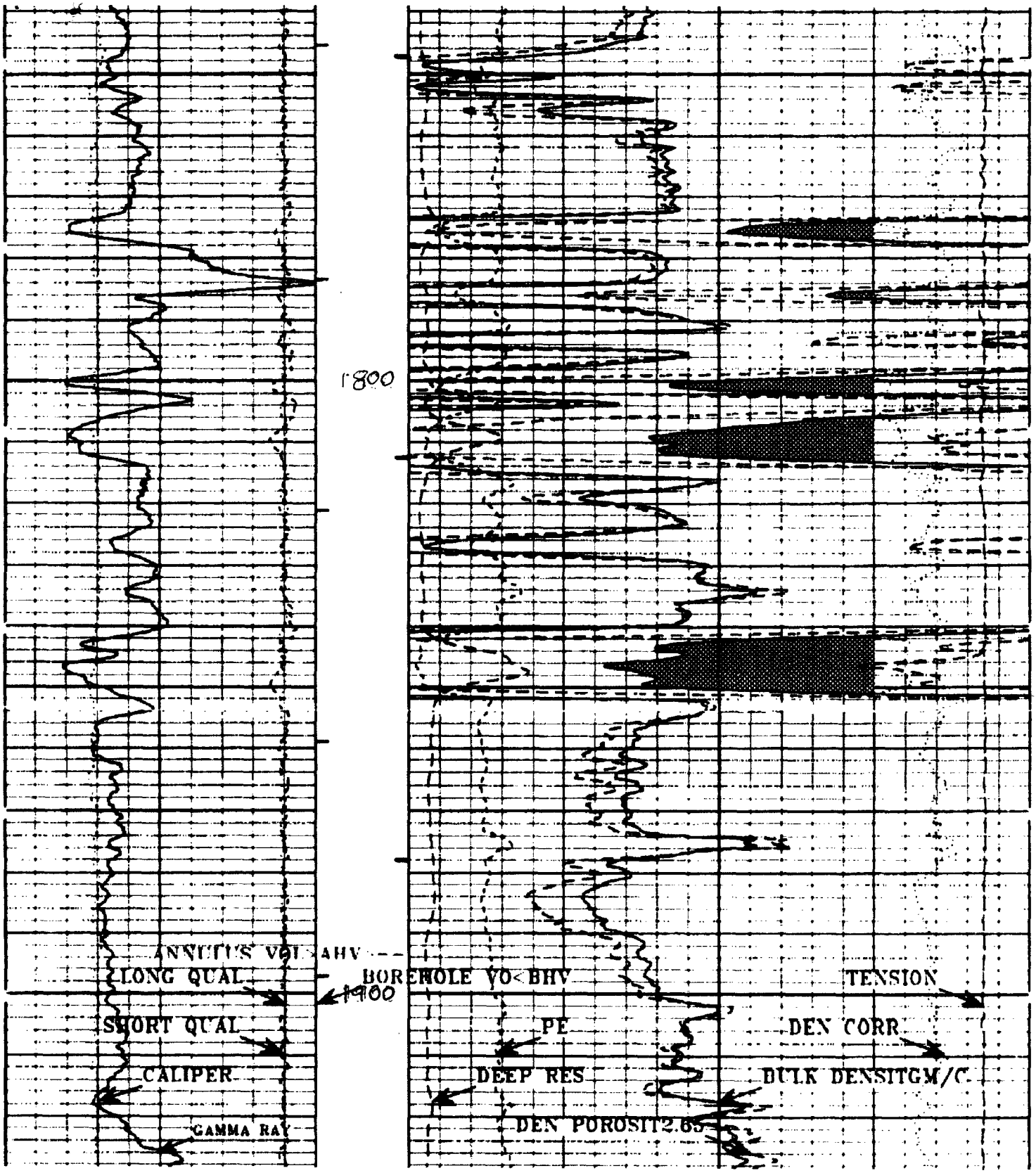
M & G Drilling Company believes there is a large risk involved in drilling a Fruitland Coal well in unit letter "N" of section 34, near the Schlosser #97 PC. The other standard areas of the south half of the drilling block encountered enormous topographic problems. We therefore request your Administrative Approval for the unorthodox location based on the above additional information. Should you need anything further, please feel free to contact me at (505) 327-4573.

Best Regards,

Mike Pippin
Petroleum Engineer
Agent – M & G Drilling Company

Enclosure

cc: Steve Hayden



SCHLOSSER #97 PC N 34 28 11

BASE OF COAL ~1852'

TOP OF PC ~1855'