



dugan production corp.

August 18, 2011

Richard Ezeanyim, Engineering Bureau Chief
NM Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Dugan's Application dated 6/24/11
WAW Gathering System
San Juan County, New Mexico

Dear Richard,

For your consideration in the captioned application, attached is a copy of the Bureau of Land Management's (BLM) approval dated 7/29/11. Please note that the BLM's approval represents 100% of the royalty interest (active and P&A wells). **There are no fee, Indian or state royalty interests.**

It appears that the BLM sent a copy of their approval directly to the Aztec NMOCD office, therefore we are not also submitting a copy of the approval to the Aztec office.

Should you have any questions, or need additional information, please let me know.

Sincerely,

John D. Roe



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Farmington Field Office
1235 La Plata Highway, Suite A
Farmington, New Mexico 87401



IN REPLY REFER TO:
3162.7-3:
WAW Gathering System

COPY

July 29, 2011

John Roe
Dugan Production Corp.
P.O. Box 420
Farmington, NM 87499-0420

Dear Mr. Roe:

Reference is made to your application dated June 24, 2011, requesting approval to add two additional wells to the WAW Gathering System and provide a gathering system update. The WAW gathering system was originally approved on January 26, 1984, and included 32 wells. Your update indicates that there are currently 18 wells, including the two requested additions. The two wells that were added since the original approval was issued are the Faith No. 1, located in F, Section 19, T., 27N., R. 13W., (API # 3004523107) and the Faith No.4, located in K, Section 18, T., R27N., 13W., (API # 3004525587). The Central Delivery Point (CDP) is located at the following location:

Unit A section 35, T.27N., R.13W., on federal oil and gas lease NMNM33407, at Enterprise Field Services meter No. 03847.

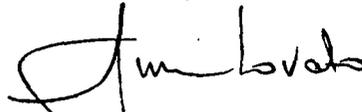
Your application to include these additional wells is hereby approved. In addition, the original application dated January 26, 1984, is hereby amended and subject to the following conditions outlined below:

- Liquid hydrocarbons produced at the CDP must be allocated back to each well in proportion to the well's allocated gas production. Fuel used at the CDPs must also be allocated back to each contributing well in proportion to each well's allocated gas production.
- Allocation must be made on an MMBTU basis.
- Measurement of gas at the CDP must be conducted in accordance with the requirements outlined in Onshore Order No. 3, Site security, Onshore Order No. 4, Oil Measurement, Onshore Order No. 5, Gas Measurement and NM NTL 2008-01, Electronic Flow Measurement.

- In order to prevent waste and conserve natural gas, periodic review of each well's venting procedures must be conducted in accordance with the requirements outlined in NTL-ADO-93-1.
- No other wells can be added to this system of measurement and sales without the prior approval of this office.
- Contact this office in the event of any lost hydrocarbons between the wells and the CDP.

This office reserves the right to rescind this approval if similar violations occur in the future or if the public interests are not being served. In addition, failure to operate this facility in accordance with the conditions outlined above may subject this approval to revocation. If you have any questions regarding the above, please contact me at (505) 599-6367.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lovato". The signature is written in a cursive style with a large initial "J".

Jim Lovato
Senior Technical Advisor
Petroleum Management Team

cc:
NMOCD, Aztec