

dugan production corp.

RECEIVED

MAR 16 2005

March 16, 2005

Mr. Michael E. Stogner  
New Mexico Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Oil Conservation Division  
1220 S. Saint Francis Drive  
Santa Fe, NM 87505

Re: Supplemental information for Dugan Production Corp.'s  
Application for Administrative Approval of Unorthodox Location  
for the Alamo Com #90 (to be re-named Salge Federal A Com #91-S)  
Unit J, Section 4, T25N, R13W, 1495' FSL & 2270' FEL (E/2-320)  
**Administrative Application Reference No. pMES0-501861013**

Dear Mr. Stogner:

To further process an administrative order for the application referenced above, your letter dated March 8, 2005 and received March 11, 2005 requested the following enclosed information:

1. Settlement offer proposed to all working interest owners (Exhibit 1).
2. Settlement offer proposed to all royalty interest owners (Exhibit 2).
3. Status of settlement offer proposed to working and royalty interest owners.
3. Surveyor's response to survey error.

On January 15, 2005 a certified mailing sent to all working and royalty interest owners included a copy of the subject application for administrative approval of unorthodox location and a copy of the respective, proposed settlement offer. Signed certified mail, return receipt cards were received from the Bureau of Land Management and all affected, Fruitland Coal working and royalty interest owners (Exhibit 3).

The settlement offer proposed to all working interest owners is as follows:

1. Dugan Production Corp. has staked and begun permitting two new wells in the W/2 of Sec. 4, T25N, R13W. A new Communitization agreement will be formed.
2. Dugan Production Corp. will carry all working interest owners for the drilling and completions costs of the first well.
3. All working interest owners may participate if they so choose in the drilling and completion costs of the second well.

2/17

All working interest owners support the application and settlement offer proposed by Dugan Production Corp. In phone calls with Jamie Clark from Elm Ridge Resources and Bill Chumney representing five different Chumney and Brewer interests, strong support for Dugan's application and settlement offer were given. Their letters of support are included (Exhibit 4a. and 4b.). In a phone call on 03/14/2005, Chuck Snure land man for Questar expressed support for the application and settlement offer. A letter of support has been requested, however, Mr. Snure indicated that because Questar is such a large company, certain internal procedures need to be followed and it may take an extended period of time before we receive the letter.

Current status of the settlement offer proposed to working interest owners is as follows:

All working interest owners support the application and are in agreement on the settlement offer. Two new wells have been staked (Alamo Com #90 and #90-S). The APD's have been constructed and will be turned in to the BLM, NAPI, BIA and Navajo Nation once the archeology reports have been completed (2-weeks from now). Onsite inspections and Environmental Assessment surveys will be conducted (3-weeks from now). Final approval of the APD's is expected in approximately 12-months. Dugan Production Corp. is responsible for all drilling and completion costs on the first well. Upon completion, operating expenses will be assessed and revenues will be paid out to all working interest owners based on respective net revenue interests on a monthly basis. On the second well all working interest owners will have the option to participate in the drilling and completion costs for their net revenue interest in the well.

The settlement offer proposed to all royalty owners stated that:

As a royalty interest owner in the E/2 proration unit, you are entitled to your net revenue interest from the total gas revenue generated by the Alamo Com #90. Respective statements of Revenue through October, 2004 and Royalties due through November, 2004 for each royalty interest owner are enclosed. Once the Alamo Com #90 is renamed and placed in the E/2 proration unit Dugan Production Corp. will send out checks to balance all unpaid royalties due.

All royalty interest owners support the application and settlement offer proposed by Dugan Production Corp. In phone calls with Sterling Miller associate of Fay's Trust (01/25/05) and Ellen Ginther Reifslager representing the three different Ginther interests (01/27/2005) strong support for Dugan's application and settlement offer were given. One letter of support from Norma Williams trustee for Fay's Trust is included (Exhibit 5).

Current status of the settlement offer proposed to royalty interest owners is as follows:

All royalty interest owners support the application and are in agreement on the settlement offer. Checks have been sent out to balance all unpaid royalties due to royalty interest owners in the E/2 proration unit (3/15/05). Royalties paid were from the date of first delivery of the Alamo Com #90 (8/19/94) thru 11/30/04. Future royalties will be paid on a monthly basis to royalty interest

3/17

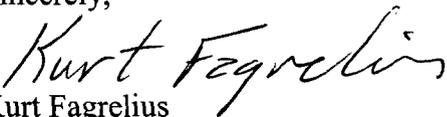
owners in the E/2 proration unit. There are no royalty owners other than the BLM in the W/2 proration unit.

The royalty interest owner, Bureau of Land Management supports the application and has provided the enclosed letter of support (Exhibit 6).

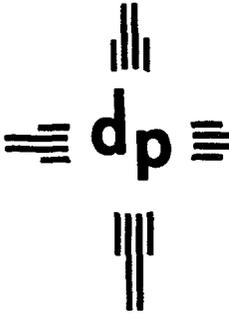
The surveyor has not been contacted for a response to this issue. This surveyor no longer works for Dugan Production Corp. and no longer works in this area.

Should you have any questions or need additional information concerning this matter, please contact me at (505) 325-1821.

Sincerely,

  
Kurt Fagrelius  
Vice President

4/17



# dugan production corp.

EXHIBIT 1.

January 14, 2005

ELIZABETH H. CHUMNEY  
C/O W.T. CHUMNEY, JR  
40 N.E. LOOP 410, SUITE 200  
SAN ANTONIO, TX 78216-5876

**—CERTIFIED MAIL, RETURN RECEIPT REQUESTED—**  
**7004 1350 0002 0327 0143**

Re: As a working interest owner in the Alamo Com #90 you are being notified of a survey error which caused the Alamo Com #90 to be drilled in the wrong location.

Dear W.T. Chumney, Jr.:

Recently, (12/17/2004) the surveyor for Dugan Production Corp. was working in the area of the Alamo Com #90 and discovered a very embarrassing survey error. Unbeknownst to Dugan Production Corp. and based on a bad survey, the Alamo Com #90 was drilled and completed (8/23/1993) in the wrong location. The original survey for the Alamo Com #90 placed the well in the SW/4 of Section 4, T25N, R13W (2510' FSL & 1850' FWL) and a W/2 proration unit was formed for the well. However, the actual location of the well is in the SE/4, Section 4, T25N, R13W (1495' FSL & 2270' FEL) placing it in the E/2 proration unit.

Dugan Production Corp. has met with the Bureau of Land Management and the New Mexico Oil Conservation Division on the matter. The methodology agreed upon to correct the situation with the governing agencies is as follows:

1. Dugan Production Corp. would file an application for a Non-Standard Location with the New Mexico Oil Conservation Division (NMOCD).
2. Dugan Production Corp. would file a Sundry Notice with the BLM to correct the location, placing it in the E/2 proration unit and change the name of the Alamo Com #90 to the Salge Federal A Com 91-S.
3. Dugan Production Corp. will stake, permit and drill two new wells in the W/2 of Section 4, T25N, R13W.
4. BLM will terminate the current Communitization agreement on the Alamo Com #90 and grant a new agreement once the replacement wells are drilled.
5. BLM will hold all leases (W/2, Sec. 4, T25N, R13W) in suspense for a term of two years while Dugan Production Corp. permits, drills and completes the replacement well and infill well.

5/17

As of the date of this letter, the Alamo Com #90 will be very close to or have already paid out. Respective statements of Revenue through October, 2004 and Joint Interest Billing through November, 2004 for each working interest owner is enclosed.

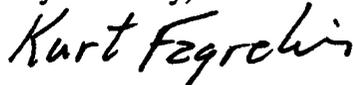
Realizing that the working interest owners who have participated in the Alamo Com #90 will no longer receive billings or revenues from this well, Dugan Production Corp. is herein proposing the following settlement offer to all affected working interest owners:

1. Dugan Production Corp. has staked and begun permitting two new wells in the W/2 of Sec. 4, T25N, R13W. A new Communitization agreement will be formed.
2. Dugan Production Corp. will carry all working interest owners for the drilling and completion costs of the first well.
3. All working interest owners may participate if they so choose in the drilling and completion costs of the second well.

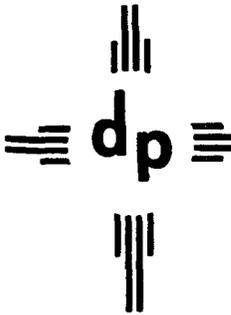
Dugan Production Corp. is embarrassed and very sorry that this situation has occurred.

After you have had time to review this material please contact me. I will provide any further explanation or materials you might need.

Very Sincerely,



Kurt Fagrelius  
Geology



# dugan production corp.

EXHIBIT 2.

January 14, 2005

ELLEN GINTHER REIFSLAGER  
C/O FIRST NATIONAL BANK  
P.O. BOX 470  
EL CAMPO, TX 77437

**--CERTIFIED MAIL, RETURN RECEIPT REQUESTED--**  
**7004 1350 0002 0327 0082**

Re: As a royalty interest owner in the E/2 Section 4, T25N, R13W you are being notified of a survey error which caused the Alamo Com #90 to be drilled in the wrong location.

Dear First National Bank:

Recently, (12/17/2004) the surveyor for Dugan Production Corp. was working in the area of the Alamo Com #90 and discovered a very embarrassing survey error. Unbeknownst to Dugan Production Corp. and based on a bad survey, the Alamo Com #90 was drilled and completed (8/23/1993) in the wrong location. The original survey for the Alamo Com #90 placed the well in the SW/4 of Section 4, T25N, R13W (2510' FSL & 1850' FWL) and a W/2 proration unit was formed for the well. However, the actual location of the well is in the SE/4, Section 4, T25N, R13W (1495' FSL & 2270' FEL) placing it in the E/2 proration unit.

Dugan Production Corp. has met with the Bureau of Land Management and the New Mexico Oil Conservation Division on the matter. The methodology agreed upon to correct the situation with the governing agencies is as follows:

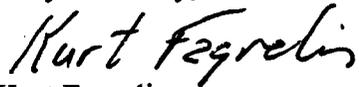
1. Dugan Production Corp. would file an application for a Non-Standard Location with the New Mexico Oil Conservation Division (NMOCD).
2. Dugan Production Corp. would file a Sundry Notice with the BLM to correct the location, placing the Alamo Com #90 in the E/2 proration unit and change the name to the Salge Federal A Com 91-S.
3. Dugan Production Corp. will stake, permit and drill two new wells in the W/2 of Section 4, T25N, R13W.
4. BLM will terminate the current Communitization agreement on the Alamo Com #90 and grant a new agreement once the replacement wells are drilled.
5. BLM will hold all leases (W/2, Sec. 4, T25N, R13W) in suspense for a term of two years while Dugan Production Corp. permits, drills and completes the replacement well and infill well.

7/17

As a royalty interest owner in the E/2 proration unit, you are entitled to your net revenue interest from the total gas revenue generated by the Alamo Com #90. Respective statements of Revenue through October, 2004 and Royalties due through November, 2004 for each royalty interest owner are enclosed. Once the Alamo Com #90 is renamed and placed in the E/2 proration unit Dugan Production Corp. will send out checks to balance all unpaid royalties due.

After you have had time to review this material please contact me. I will provide any further explanation or materials you might need.

Very Sincerely,



Kurt Fagrelis  
Geologist

8/17

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece or on the front if space permits.</li> </ul>	<p>A. Signature <i>Tom Stogner</i></p> <p>B. Received by (Printed Name) <i>Tom Stogner</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p>	<p>C. Date of Delivery <i>JAN 18 2005</i></p> <p>3. Service Type  <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.            4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes         </p>
<p>1. Article Addressed to:</p> <p><b>NM OIL CONSERVATION DIVISION ATT: MICHAEL STOGNER 1220 SOUTH ST. FRANCIS DRIVE SANTA FE, NM 87504</b></p>	<p>2. Article Number (Transfer from service label) <b>7004 1350 0002 0327 0112</b></p>	
<p>PS Form 3811, February 2004 Domestic Return Receipt 102595-02-00-1546</p>		

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece or on the front if space permits.</li> </ul>	<p>A. Signature <i>Michael Stogner</i></p> <p>B. Received by (Printed Name) <i>Michael Stogner</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p>	<p>C. Date of Delivery <i>JAN 18 2005</i></p> <p>3. Service Type  <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.            4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes         </p>
<p>1. Article Addressed to:</p> <p><b>NM OIL CONSERVATION DIVISION 1000 RIO BUAZOS ROAD AZTEC, NM 87410</b></p>	<p>2. Article Number (Transfer from service label) <b>7004 1350 0002 0327 0136</b></p>	
<p>PS Form 3811, February 2004 Domestic Return Receipt 102595-02-00-1546</p>		

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece or on the front if space permits.</li> </ul>	<p>A. Signature <i>Edmond</i></p> <p>B. Received by (Printed Name) <i>Edmond</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input checked="" type="checkbox"/> No</p>	<p>C. Date of Delivery <i>1-18-05</i></p> <p>3. Service Type  <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.            4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes         </p>
<p>1. Article Addressed to:</p> <p><b>BUREAU OF LAND MANGEMENT 1235 LA PLATA HIGHWAY FRAMINGTON, NM 87401</b></p>	<p>2. Article Number (Transfer from service label) <b>7004 1350 0002 0327 0129</b></p>	
<p>PS Form 3811, February 2004 Domestic Return Receipt 102595-02-00-1546</p>		

9/17

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

ELM RIDGE EXPLORATION CO.  
12225 GREENVILLE AVE, SUITE 950  
DALLAS, TX 75243-2104

2. Article Number  
(Transfer from service label)

7002 2410 0001 0134 2126

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-30-1048

COMPLETE THIS SECTION ON DELIVERY

A. Signature  Agent  Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1?  Yes  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

QUESTAR EXPLORATION & PRODUCTION CO.  
P.O. BOX 45601  
SALT LAKE CITY, UT 84145-0601

2. Article Number  
(Transfer from service label)

7002 2410 0001 0134 2119

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-30-1048

A. Signature  Agent  Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1?  Yes  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

WINIFRED CHUMNEY MEADEN  
C/O W.T CHUMNEY, JR  
40 N.E. LOOP 410, SUITE 200  
SAN ANTONIO, TX 78216-5876

2. Article Number  
(Transfer from service label)

7004 1350 0002 0327 0037

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-30-1048

A. Signature  Agent  Addressee

B. Received by (Printed Name) C. Date of Delivery

D. Is delivery address different from item 1?  Yes  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

10/17

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

ELIZABETH H. CHUMNEY  
 C/O W.T. CHUMNEY, JR  
 40 N.E. LOOP 410, SUITE 200  
 SAN ANTONIO, TX 78216-5876

2. Article Number (Transfer from service label)

7004 1350 0002 0327 0143

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-00-1000

COMPLETE THIS SECTION ON DELIVERY

A. Signature  Agent  Addressee  
*D. Kalinoski*

B. Received by (Printed Name) *V. KALINOSKI* C. Date of Delivery *1-18-05*

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

INDIA BREWER CHUMNEY DEMARIGN  
 C/O W.T. CHUMNEY, JR  
 40 N.E. LOOP 410, SUITE 200  
 SAN ANTONIO, TX 78216-5876

2. Article Number (Transfer from service label)

7004 1350 0002 0327 0044

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-00-1000

COMPLETE THIS SECTION ON DELIVERY

A. Signature  Agent  Addressee  
*x D. Kalinoski*

B. Received by (Printed Name) *V. KALINOSKI* C. Date of Delivery *1-18-05*

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

ESTATE OF ROBERT P. BREWER, III  
 REBECCA J.E. BREWER, IND EXEC  
 BREWER; C/O W/T CHUMNEY, JR  
 40 N.E. LOOP 410, SUITE 200  
 SAN ANTONIO, TX 78216-5876

2. Article Number (Transfer from service label)

7002 2410 0001 0134 2133

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-00-1000

COMPLETE THIS SECTION ON DELIVERY

A. Signature  Agent  Addressee  
*x D. Kalinoski*

B. Received by (Printed Name) *V. KALINOSKI* C. Date of Delivery *1-18-05*

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

11/17

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**ELLEN GINTHER REIFSLAGER  
C/O FIRST NATIONAL BANK  
P.O. BOX 470  
EL CAMPO, TX 77437**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X *Ellen Reifslager*

B. Received by (Printed Name)

*Ellen Reifslager*

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type
- Certified Mail
  - Express Mail
  - Registered
  - Return Receipt for Merchandise
  - Insured Mail
  - G.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number  
(Transfer from service label)

7004 1350 0002 0327 0082

PS Form 3811, February 2004

Domestic Return Receipt

102005-02-M-1040

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**GINTHER LIQUIDATING TRUST  
LISA DE MONTAIGU, LIQUIDATING TSTEE  
3262 WESTHEIMER ROAD, BOX 429  
HOUSTON, TX 77098**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X *Lisa Montaigu*

Agent  
 Addressee

B. Received by (Printed Name)

*Lisa Montaigu*

7/7/05

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type
- Certified Mail
  - Express Mail
  - Registered
  - Return Receipt for Merchandise
  - Insured Mail
  - G.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number  
(Transfer from service label)

7004 1350 0002 0327 0075

PS Form 3811, February 2004

Domestic Return Receipt

102005-02-M-1040

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**JAN GINTHER ROSE  
12215 RAVENMOOR DRIVE  
HOUSTON, TX 77077**

A. Signature

X *Jan Rose*

Agent  
 Addressee

B. Received by (Printed Name)

*Jan Rose*

C. Date of Delivery  
1-19-05

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type
- Certified Mail
  - Express Mail
  - Registered
  - Return Receipt for Merchandise
  - Insured Mail
  - G.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number  
(Transfer from service label)

7004 1350 0002 0327 0105

PS Form 3811, February 2004

Domestic Return Receipt

102005-02-M-1040

12/17

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

BETTY BREWER CHUMNEY  
 C/O W.T. CHUMNEY, JR  
 40 N.E. LOOP 410, SUITE 200  
 SAN ANTONIO, TX 78216-5876

2. Article Number (Transfer from service label)

7004 1350 0002 0327 0051

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1546

COMPLETE THIS SECTION ON DELIVERY

A. Signature *J. Kalinoski*  Agent  Addressee

B. Received by (Printed Name) *KALINOSKI* C. Date of Delivery *1-18-05*

D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

SENDER: COMPLETE THIS SECTION

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

FAY'S TRUST  
 NORMA WILLIAMS, TRUSTEE  
 3641 WAKEFOREST  
 HOUSTON, TX 77098

2. Article Number (Transfer from service label)

7004 1350 0002 0327 0068

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1546

COMPLETE THIS SECTION ON DELIVERY

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13/17



January 20, 2005

Kurt Fagrelus  
Dugan Production Corp.  
P. O. Box 420  
Farmington, NM 87499-0420

Re: Alamo Com #90/Salge Federal A Com 91-S

Dear Kurt:

We have reviewed your letter dated January 14, 2005 regarding the above captioned well and are in agreement with your proposed solution to this unfortunate situation.

Please keep us posted on your progress with the new well permits.

Sincerely,

James M. Clark, Jr.

January 20, 2005

Dugan Production Corp.  
Attn: Mr. Kurt Fagrelius  
709 E. Murray Drive  
Farmington, New Mexico 87499-0420

Re: Alamo Com #90 and replacement wells

Dear Mr. Fagrelius,

Thank you for visiting with me this morning by telephone to discuss the Alamo Com #90 well problem.

I understand that Dugan Production Corp. will drill two new wells in the W/2 of Section 4, T 25 N, R 13W. Dugan will pay the drilling and completion costs on the first well for the Brewer- Chumney interest. If the first well is good, we will immediately share in our portion of the income and operating expenses.

Before the second well is drilled, you will send us AFE's for the second well, giving us the opportunity to participate.

I understand that the income we have received to date from the Alamo Com #90 will not be refunded by the Brewer-Chumney group. I know that these locations are on Indian land and that it may take a year to obtain the appropriate authorizations to drill.

Thank you for working out a good solution to this problem. I hope and believe that the two new wells will be better than the Alamo Com #90. If you have any questions about this letter, please call me at (210) 736-7763.

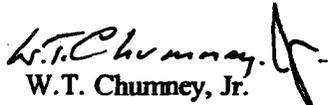
This letter was written on behalf of the following Brewer-Chumney owners:

1. Estate of Robert P. Brewer III
2. Betty Brewer Chumney
3. India Brewer Chumney deMarigny
4. Winifred Chumney Meaden
5. Elizabeth M. Chumney

Also, the address you have is correct. All correspondence should be sent:

C/O W.T. Chumney, Jr.  
40 N.E. Loop 410, Suite 200  
San Antonio, Texas 78216-5876

Very Sincerely,

  
W.T. Chumney, Jr.

2-10-05

EXHIBIT 5.

Mr. Kurt Hagelius  
Dugan Production Corp.  
Farmington, New Mexico

Dear Mr. Hagelius,

As a royalty interest owner, I, as  
Trustee of Jay's Trust agree with your  
method of correcting the survey error  
which caused Alamo Com #90 to be  
drilled in the wrong location.

Good luck in this endeavor.

Kerna M. Williams  
Trustee, Jay's Trust  
3641 Wakeforest  
Houston, Texas 77098  
713-977-6580

16/17

**Kurt Fagrelus**

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**From:** <Jim\_Lovato@nm.blm.gov>  
**To:** <kfagrelus@duganproduction.com>  
**Sent:** Monday, March 14, 2005 3:25 PM  
**Subject:** Reassignment of the Salge Federal A 91S to the E1/2 4-25N-13W

Kurt,

As a result of the survey error on the referenced well, the Bureau of Land Management for accounting and administrative purposes, fully supports the reassignment of the subject well to the E1/2 of section 4. The federal royalty will not be affected as a result of the reassignment. BLM has no opposition to the reassignment. JL

17/17