

# LANCE OIL & GAS COMPANY, INC.

PO Box 70



Kirtland, New Mexico 87417

August 16, 2005

30-045-31792

At

Dugan Production Corp.  
Mr. Thomas A. Dugan, President  
PO Box 420  
Farmington, NM 87499

Re: Downhole commingle splits on Federal I Com #102

Dear Mr. Dugan:

June 14, 2005 Lance Oil & Gas Company, Inc. gave notification to Dugan Production Corp. and NMOCD of Lance's objection to the downhole commingling splits requested by Dugan Production Corp. for the subject Well. At this time Lance hereby rescinds our objection to the 53% Basin Fruitland Coal and 47% Harper Hill Fruitland Sand-PC splits proposed by Dugan; however a review of data in six (6) months is requested. If the data collected during the six (6) month review period indicates that there should be an adjustment of the splits it is requested that a new downhole commingle split be proposed based on current data.

Dugan hereby agrees to furnish Lance all data collected during the 6 month review period and take into consideration any data gathered by Lance through their efforts to garner a scientific and accurate methodology for calculating gas production from the Fruitland Coal and Pictured Cliffs formations.

Signed and agreed to this 17<sup>th</sup> day of AUGUST, 2005.

Dugan Production Corp.

Lance Oil & Gas Company, Inc.

By:

As:

John Alexander  
VIC & PRESIDENT

By: Anne Jones

Sr. Landman

Anne Jones



CC: OCD Aztec

Phone (505) 598-5601