D.J. SIMMONS, INC.

June 7th, 2001

CERTIFIED MAIL-RETURN RECEIPT

Forcenergy Onshore, Inc.
C/O Forest Oil Corporation
1600 Broadway, Suite 2200
Denver, Colorado 80202

T. H. McElvain Oil & Gas Limited Partnership
1050 17th Street, Suite 1800
Denver, Colorado 80265

Dugan Production Corporation
709 East Murray Drive
Farmington, New Mexico 87499

RE: Two Well Proposal
Bishop Federal #25-1 Well
Bishop Federal #25-2 Well
Township 25 North – Range 3 West, NMPM
Section 25: NE/4
Rio Arriba County, New Mexico

Gentlemen:

D. J. Simmons, Inc. ("Simmons") is proposing the drilling of two (2) test wells. One in the NE/4 of Section 25, the other in the SE/4 of Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico to test all productive formations between the surface of the earth and one hundred feet below the top of the Burro Canyon formation. Well spacing for all formations except the Fruitland Coal and Mesaverde is 160 acres. The Fruitland Coal and Mesaverde spacing is 320 acres. Simmons' main objective is the Dakota formation, however, Simmons is proposing an E/2 unit in the event the Mesaverde is commercially productive.

D.J. Simmons, Inc. P.O. Box 1469 Farmington, New Mexico 87499
1009 Ridgeway Place, Suite 200 87401
(505) 326-3753 FAX (505) 327-4659

The Unit percentages in and to the E/2 of Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico are as follows:

D. J. Simmons, Inc.	75.000%
Forcenergy Onshore, Inc.	12.500%
T. H. McElvain Oil & Gas Limited Partnership	9.375%
Dugan Production Corporation	3.125%
	100.000%

Lease ownership as follows:

Section 25: NE/4 and the N/2SE/4

D. J. Simmons, Inc.	100.000%

Section 25: S/2SE/4

Forcenergy Onshore, Inc.	50.000%
T. H. McElvain Oil & Gas Limited Partnership	37.500%
Dugan Production Corporation	12.500%
	100.000%

The location for the proposed Bishop Federal #25-1 is in the NE/4 and the location for the Bishop Federal #25-2 is the NW/4SE/4, both in Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico. These wells will be permitted as Dakota tests. The locations have been staked, and the permitting process with the BLM and the New Mexico OCD has begun.

Simmons offers you the options to either participate or farmout your interest in the Mesaverde formation only, and only at such time as Simmons completes that zone for the First Test Well (Bishop Federal #25-1). The Bishop Federal #25-2 would be drilled as a Gallup/Dakota test with partners participating as to their interests. Enclosed herewith for your perusal is Simmons well procedures and AFEs for the subject wells. Should the wells be productive in the Mesaverde formation, and you chose to participate or farmout, Simmons will provide you with a Joint Operating Agreement 610-1982 with a 100/300/300 percent non-consent and a COPAS 1984 Accounting Procedure with a Overhead-Fixed Rate of $350/$3,500 per well. In addition, you will be provided with information concerning the drilling and completion of the Bishop Federal #25-1and #25-2 wells. Simmons would also entertain the purchase of your rights as to the Mesaverde formation only, at a fair market value.

As you are obviously aware, McElvain Oil & Gas Properties, Inc. is proposing the formation of a S/2 Section 25 spacing unit and is in conflict with this proposal. The matter is currently before the New Mexico OCD for a decisions. In the event the OCD should rule in favor of the McElvain proposal, Simmons would propose the formation of a N/2 Section 25 spacing unit for the Mesvarede in the Bishop Federal #25-1. Obviously, the ability to commingle or re-complete the Mesaverede as to the Bishop Federal #25-2 would be lost.

In that time is of the essence, your early reply would be most appreciated.

D. J. Simmons, Inc.

A. B. Geren, Jr., President

enclosures

D.J. SIMMONS, INC.

Drilling Plan

Well Name: Bishop Federal 25-2

Surface Location: 2175 FSL x 1813 FEL, Section 12, T29N, R9W
Rio Arriba County, NM

Bottom Hole Location: Same

Formation: Gallup/Dakota

Elevation: 7187' GL

Geology:

Formation	Top Measured Depth	Probable Content
San Jose	Surface	
Ojo Alamo	3235	salt water
Fruitland	3335	gas/water
Pictured Cliffs	3510	gas
Chacra	3945	gas
MesaVerde	5197	gas
Menefee	5294	gas
PointLookout	5710	gas
Mancos	5948	gas/oil
Gallup	6677	gas/oil
Graneros	7802	gas/oil
Dakota	7909	gas/oil
Burro Canyon	8079	gas/water

Logging Program: Spectral Density, Epithermal Neutron, Induction Log from TD to surface casing shoe.

Drilling Fluid Program:

Interval	Fluid Type	Weight	Viscosity	Fluid Loss
0' – 600'	fresh water spud mud	8.4 – 9.0 ppg	30 - 50 sec	no control
600' – 5197'	2% KCL / PHPA polymer	8.4 – 9.0 ppg	30 - 50 sec	no control
5197' – TD	2% KCL / PHPA polymer	8.4 – 9.0 ppg	30 – 50 sec	10

D.J. Simmons, Inc. P.O. Box 1469 Farmington, New Mexico 87499
3005 Northridge Dr. 87401
(505) 326-3753 FAX (505) 327-4659

Casing Program:

Interval	Hole Diameter	Csg Size	Wt.	Grade	Thread
0' – 600'	12 ¼"	9 5/8"	32 ppf	J-55	LTC
0' – 6200'	7 7/8"	5 1/2"	15.50 ppf	J-55	LTC
6200' – 7500'	7 7/8"	5 1/2"	17 ppf	J-55	LTC
7500' – 8150'	7 7/8"	5 1/2"	17 ppf	N-80	LTC

Tubing Program: 0 – 8100', 2 3/8", 4.7 ppf, J55, EUE

BOPE and Wellhead Specifications and Testing:

From surface casing shoe to TD: 9 5/8" 3000 psi threaded casing head with two 2" outlets. 11", 3000 psi double gate BOP and 3000 psi choke manifold (see figures 1 and 2). Pressure test BOPE to 3000 psi and 9 5/8" surface casing to 600 psi prior to drilling surface casing shoe.

For completion operations: 7" x 2 3/8", 3000 psi tree assembly. 7 1/16", 3000 psi double gate BOP system (see figure 3).

General Operation:

- Actuate pipe rams once each day during drilling operations. Actuate blind rams once each trip.
- An upper Kelly cock valve, with handle, will be available on the rig floor to fit each drilling string.
- BOP pit level drill will be conducted weekly for each drilling crew.
- All BOP tests and drills will be recorded in the daily drilling report.
- Blind and pipe rams will be equipped with extension hand wheels.

Cementing Program:

9 5/8" Surface Casing String: Run casing with saw tooth guide shoe on bottom, insert float valve one joint from bottom, and install bowspring centralizers as per Onshore Order #2. Cement with 350 sks class 'G' with ¼ #/sk flocele and 3% CaCl2 (413 cf slurry, 100% excess to circulate to surface).

5 ½" Production Casing String: Run casing with float shoe on bottom, float collar one joint from bottom and centralizers every other joint from TD to 3700'. Install stage collars at 5800' and 3800'. Cement in three stages. Stage 1 (8225' – 5800'); 350 sks class 'G' 50/50 poz with, 2% gel, ¼ #/sk flocele, 5 #/sk gilsonite. Stage 2 (5800' – 3800'); 400 sks class 'G' 50/50 poz with 2% gel, ¼ #/sk flocele, 5 #/sk gilsonite. Stage 3 (4100' – 0'); 670 sks class 'G' 50/50 poz with 2% CaCl2, 6% gel, ¼ #/sk flocele, 5 #/sk gilsonite. Precise slurry volumes to be calculated from open hole log caliper plug 25% excess. Top of cement to be at surface.

Special Drilling Operations:

No special operations are anticipated

Additional Information:

- This well is to be completed in the Gallup and Dakota formations.
- No abnormal temperature or pressure, or other hazards are anticipated.
- LCM will be added to the mud system as required to maintain circulation.
- Estimated formation pressures:
    - Fruitland Coal 300 psi
    - Pictured Cliffs 300 psi
    - MesaVerde 600 psi
    - Gallup 650 psi
    - Dakota 800 psi

Completion Information:

The completion procedure will be prepared after open hole logs are analyzed. The well will probably be completed by hydraulic frac in two to three stages.

Prepared by: Robert R. Griffee
Operations Engineer
Date: 06/07/01

Bishop Federal 25-2 Drilling and Completion AFE page 1

Description: 8150' Gallup/Dakota test. Assumes standard drilling rig is utilized.
AFE assumes completion in both the Gallup and Dakota formations with a two stage frac.

Prepared by: R. Griffee

Dry Hole Cost

Cost Code	Item	Description	Intangible	Tangible	Total
Preparation					
101	Permitting	permitting, survey, and archaeology	$10,000.00		$10,000.00
102	Dirtwork	blading, location preparation, anchors	$5,500.00		$5,500.00
103	Reclamation	dirtwork, water disposal	$1,500.00		$1,500.00
Drilling Rig Costs					
110	Rig Mobilization		$25,000.00		$25,000.00
111	Daywork Drilling Cost	10 days @ $7500 per day	$75,000.00		$75,000.00
112	Footage Drilling Cost				
113	Turnkey Drilling Cost				
Drilling Equipment					
120	Drilling Bits		$15,000.00		$15,000.00
121	Drilling Tools	reamers, stablizers, rental drill pipe, etc.			
122	Rental Equipment		$1,600.00		$1,600.00
Services					
133	Trucking	hauling pipe & materials, hot shot services	$10,000.00		$10,000.00
134	Water	water cost and hauling charges	$25,000.00		$25,000.00
135	Fuel	drilling contractor to provide			
136	Mud	mud, chemicals, soap, etc.	$5,500.00		$5,500.00
137	Air Drilling Services				
138	Directional Services				
139	Fishing Services				
140	Safety Services	H2S monitoring, etc.			
141	Wireline Services				
142	Contract Labor	roustabout services, casing crews, welders, etc.	$10,000.00		$10,000.00
143	Inspection Services				
144	Down-hole Tools				
148	Other Services				
Cementing					
150	Primary Cementing	surface casing	$3,500.00		$3,500.00
151	P&A Cementing		$5,100.00		$5,100.00
152	Remedial Cementing				
Design and Supervision					
160	Engineering/Geology Design				
161	Field Supervision		$8,000.00		$8,000.00
162	Operator Overhead				
163	Outside Operated Overhead				
Formation Evaluation					
170	Open Hole Logging		$30,000.00		$30,000.00
171	Drill Stem Testing				
172	Coring	coring, and core analysis			
173	Mud Logging				
174	Field Geologist				
175	Flow Testing				
176	Laboratory Services				
Tangible Items					
180	Conductor Casing				
181	Surface Casing	600', 9 5/8", 32 ppf, J55 @ $8.71/ft		$7,680.00	$7,680.00
182	Intermediate Casing				
183	Intermediate Casing				
184	Float Equipment	shoe, DV collar, centralizers, etc.		$1,150.00	$1,150.00
185	Casing Tools	liner hanger, etc.			
186	Pipe Inspection	casing and tubing strings			
187	Well Head Equipment			$1,500.00	$1,500.00
Miscelleneous					
190					
		Total Dry Hole Cost	$230,700.00	$10,330.00	$241,030.00

Completion Costs page 2

Cost to run Production Casing and complete with two stage frac in both the Gallup and Dakota

prepared by: R. Griffee

Cost Code	Item	Description	Intangible	Tangible	Total
Preparation					
201	Permitting				
202	Dirtwork	blading, location preparation, anchors	$1,500.00		$1,500.00
203	Reclamation	dirtwork, water disposal			
Completion Rig Costs					
210	Rig Mobilization		$2,800.00		$2,800.00
211	Hourly or Daily Cost		$25,680.00		$25,680.00
212	Expendables	swab cups, line, etc.	$1,800.00		$1,800.00
213					
Workover Equipment					
220	Bits and Mills		$650.00		$650.00
221	Workover tools				
222	Rental Equipment		$2,000.00		$2,000.00
Services					
233	Trucking	hauling pipe & materials, hot shot services	$14,500.00		$14,500.00
234	Water	water cost and hauling charges	$20,000.00		$20,000.00
234	Fuel	for air drilling equipment			
236	Mud	mud, chemicals, soap, etc.			
237	Air Drilling Services				
238	Directional Services				
239	Fishing Services	fishing tools, etc. Mills			
240	Safety Services	H2S monitoring, etc.			$0.00
241	Wireline Services	CBL, correlation, squeeze perforating, etc.	$6,500.00		$6,500.00
242	Contract Labor	roustabout services, casing crews, welders, etc.	$2,500.00		$2,500.00
243	Inspection Services				
244	Down-hole Tools	test packers, bridgeplugs, cement retainers	$15,000.00		$15,000.00
245	Stimulation Services	acidizing, frac, etc.	$100,000.00		$100,000.00
246	Misc Pumping Services	CO2, Nitrogen, etc.			
247	Hydrotesting Services				
248	Other Services				
Cementing					
250	Primary Cementing	cementing of new production string	$45,000.00		$45,000.00
251	P&A Cementing				
252	Remedial Cementing				
Design and Supervision					
260	Engineering/Geology Design				
261	Field Supervision		$6,400.00		$6,400.00
262	Operator Overhead				
263	Outside Operated Overhead				
Formation Evaluation					
270	Cased Hole Logging	for formation evaluation			
271	Drill Stem Testing				
272	Coring	coring, and core analysis			
273	Mud Logging				
274	Field Geologist				
275	Flow Testing	flow test, pressure build up, etc.			
276	Laboratory Services	gas, oil, & water analysis			
Tangible Items					
280	Production Casing	8150' of 5 1/2" 15.50 and 17 ppf casing		$55,488.50	$55,488.50
281	Tubing	8050' of 2 3/8" EUE		$16,905.00	$16,905.00
282	Tubing				
283	Tubing String equipment			$1,100.00	$1,100.00
284	Float Equipment	shoe, DV collar, centralizers, etc.		$15,000.00	$15,000.00
285	Casing Tools	liner hanger, etc.			
286	Pipe Inspection	casing and tubing strings			
287	Well Head Equipment			$5,400.00	$5,400.00
288	Permanent Packers	permanent production packers, bridgeplugs, etc.			
289	Miscelleneous Pipe and Fittings			$1,500.00	$1,500.00
Miscelleneous					
290					
		Completion Cost Total	$244,330.00	$95,393.50	$339,723.50

Production Equipment page 3

Costs to set Production Tanks, Separator, and prep location. prepared by: R. Griffee
Does not include pipeline or pumping unit costs

Cost Code	Item	Description	Intangible	Tangible	Total
Tangible Items					
501	Production Tanks			$ 17,500.00	$17,500.00
502	Flow Lines, Valves, and Fittings			$ 5,000.00	$5,000.00
503	Pumping Equipment - Surface	pumping unit			
504	Pumping Equipment - Downhole	rods, pump, etc			
505	Production Units	heater treater / separator		$ 35,000.00	$35,000.00
506	Metering Equipment				
507	Wellsite Compression				
508	Buildings				
509	Miscellenous			$ 5,000.00	$5,000.00
Installation and Construction					
520	Contract Labor		$ 20,000.00		$20,000.00
		Production Equipment Total	$ 20,000.00	$ 62,500.00	$ 82,500.00

AFE Summary

Cost Code	Item	Description	Intangible	Tangible	Total
	Dry Hole Cost		$230,700.00	$10,330.00	$241,030.00
	less P&A Cementing Cost		-$5,100.00	$0.00	-$5,100.00
	Completion Cost		$244,330.00	$95,393.50	$339,723.50
	Production Equipment Cost		$ 20,000.00	$ 62,500.00	$ 82,500.00
	Total Estimated Well Cost		$489,930.00	$168,223.50	$658,153.50
	excluding pipeline and pumping unit				