



dugan production corp.

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 29, 1988

TO: WORKING INTEREST OWNERS (Address List Attached)
Section 22, Township 26 North, Range 2 West, NMPM
Rio Arriba County, NM

Gentlemen:

Dugan Production Corp. has leasehold interest comprising the NW/4 of the captioned section. It is our intention to develop this acreage with respect to the Gavilan Mancos Oil Pool on or before April 15, 1988. The Gavilan Mancos pool rules provide for 640 acre spacing units, effective as of 6-8-87, and it is Dugan Production's belief that most wells completed within the Mancos interval will drain at least 640 acres.

Amoco Production completed the Seifert Gas Com A Well No. 1 (located in the SE/4 SE/4 of the subject section) on June 28, 1987 with an initial potential pumping 54 BOPD + 120 MCFD (GOR = 2222). It is our understanding that, as of this date, Amoco has produced very little from this well. A review of production records on file at the Aztec office of the New Mexico Oil Conservation Division (NMOCD) through November 1987 reflect that 1930 barrels of oil were produced during June 1987 in an unspecified number of days. The well was shut-in July thru November awaiting a pipeline connection for gas sales. As reflected on Amoco's form C-102 filed for the Seifert Gas Com A Well No. 1, the E/2 of Section 22 has been dedicated to the well and it is our understanding that the working interest ownership is as follows:

Amoco Production	57.26562%
Kindermac Partners	36.48438%
Meridian Inc.	6.25000%

Our review of leasehold records also indicates that ownership of the W/2 of Section 22 is as follows:

Dugan Production Corp.	50.000000%
Reading & Bates Petroleum Co.	16.666665%
Hooper, Kimbell & Williams Inc.	16.666665%
Ibex Partnership	7.804365%
P.C., Ltd.	7.804365%
Carolyn Clark Oatman	0.437420%
Warren Clark Trust	0.406900%
Warren Clark Testamentary Trust	0.213620%

Letter to Working Interest Owners
January 29, 1988
Page 2

In view of Section 22 being within the boundary of the Gavilan Mancos Oil Pool and considering that the spacing for this area was set at 640 acres per well (effective 6-8-87), we propose that the working interest owners within Section 22 negotiate mutually satisfactory terms for the participation in a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 comprising all of Section 22. We believe that this is not only consistent with the Gavilan Mancos Pool Rules in effect at the time of completion of the Seifert Gas Com A Well No. 1, but also Section 70-2-18(A) of the New Mexico Statutes. Along these lines, Dugan Production has had preliminary conversations with Amoco Production Company and Amoco is currently evaluating our proposal. We are writing now to request that each working interest owner within Section 22 consider our proposal and let us know whether or not you support the voluntary establishment of a 640 acre spacing unit for the Seifert Gas Com A Well No. 1 which would entail communitizing the acreage in the E/2 with the W/2 acreage.

In view of our desire to have this matter resolved as quickly as possible, Dugan Production is requesting our counsel to set this matter for hearing before the New Mexico Oil Conservation Division on their 3-2-88 docket. It is our intention to pursue the voluntary formation of the spacing unit, and in the event we can successfully form a 640 acre spacing unit voluntarily, our applications to the NMOC in this matter will be dismissed.

Should you have questions regarding this matter, please feel free to contact either me or Rich Corcoran, our Land Manager, at the letterhead address.

Sincerely,

John D. Roe

John D. Roe
Manager of Engineering

JDR/cg

attachment - list of working interest owners

cc: Tom Kellahin

WORKING INTEREST OWNERS

Section 22, T-26N, R-2W
Rio Arriba County, NM
(Page 1 of 2)

East Half (Currently dedicated to Amoco Production
Section Company's Seifert Gas Com A Well No. 1
Located in the SESE of Sec.22,T-26N,R-2W)

Amoco Production Company
17th & Broadway
P.O. Box 800
Denver, CO 80201

Sun Exploration & Prod. Co.
Attn: Frank Syfan
P.O. Box 5940 T.A.
Denver, CO 80217-5940

Meridian, Inc.
Attn: Van Goebel
P.O. Box 4289
Farmington, NM 87499

West Half Section

NW/4 Dugan Production Corp.
Attn: Rich Corcoran
P.O. Box 208
Farmington, NM 87499

SW/4 Reading & Bates Petroleum Co.
Attn: Eric Koelling
3200 Mid-Continent Tower
Tulsa, OK 74103

Hooper, Kimball & Williams, Inc.
Attn: Greg Owens
P.O. Box 520970
Tulsa, OK 74152

Ibex Partnership
Attn: Ron Holloway
P.O. Box 911
Breckenridge, Texas 76024-0911

WORKING INTEREST OWNERS

Section 22, T-26N, R-2W
Rio Arriba County, NM
(Page 2 of 2)

PC, Ltd.
Attn: Ron Holloway
P.O. Box 911
Breckenridge, Texas 76024-0911

Carolyn Clark Oatman
P.O. Box 1846
Austin, Texas 78767

Warren Clark Trust
P.O. Box 1846
Austin, Texas 78767

Warren Clark Testamentary Trust
P.O. Box 1846
Austin, Texas 78767

wiolist2

DUGAN PRODUCTION LETTER DATED 1-29-88
 RETURN RECEIPT CARDS
 Working Interest Owners
 E/2 of Section 22, T26N, R2W, NMPM
 Rio Arriba County, NM

(Page 1 of 2)

<p>SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.</p> <p>1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. †(Extra charge)† 2. <input type="checkbox"/> Restricted Delivery †(Extra charge)†</p>	
<p>3. Article Addressed to:</p> <p>Amoco Production Co. P.O. Box 800 Denver, CO 80201</p>	<p>4. Article Number P-488 636 961</p> <p>Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
<p>5. Signature - Addressee X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent X</p>	
<p>7. Date of Delivery FEB - 2 1988</p>	

PS Form 3811, Mar. 1987

U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

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<p>3. Article Addressed to:</p> <p>Kindermac Partners Attn: Kent Craig 650 South Cherry, Suite 1225 Denver, CO 80222</p>	<p>4. Article Number P-488 636 962</p> <p>Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail STA</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
<p>5. Signature - Addressee X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent X <i>Kent Craig</i></p>	
<p>7. Date of Delivery</p>	

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<p>3. Article Addressed to:</p> <p>Meridian, Inc. Attn: Van Goebel P.O. Box 4289 Farmington, NM 87499</p>	<p>4. Article Number P-488 636 963</p> <p>Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
<p>5. Signature - Addressee X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent X <i>J.A. 1/19</i></p>	
<p>7. Date of Delivery 2-1-88</p>	

PS Form 3811, Mar. 1987

U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

TO

Sun Explor & Prod Co.
Attn: Frank Syfan
3151 South Vaughn Way, Suite 600
Aurora, Colorado 80014

REC-26N

DUGAN PRODUCTION CORP.
P. O. BOX 203
FARMINGTON, N. H. 07431
(603) 325-1821
Page 2 of 2

SUBJECT Section 22, T-26N, R-2W DATE 2-8-88

MESSAGE

Frank, Attached for your information & Review is a copy of our letter dated 1-29-88 addressed to working interest owners within Section 22 of T-26N, R-2W. It was our understanding that Kindermac Partners was a WI owner of 36.48438% in the E/2 which is dedicated to Aurora's Seifert Gas Com #1 well. McHugh has advised us that Sun had acquired the interest of Kindermac & this was confirmed by you during our phone conversation today. Please review this letter & let me know Sun's position (even tentatively) ASAP since we need to file our applications of the ocd by Tuesday 2/9/88 for the 3/2/88 hearing packet.

SIGNED Regard's, John Roe

Frank - As we discussed, I'm also sending for your info. a cc of our 1-29-88 letter sent to WIO in re re drilling on 320 NSH.

cc - Tom Kellahan

QUESTIONS? CALL 800-238-5355 TOLL FREE.

AIRBILL NUMBER 3923

cc - attach to cc of TRANSMITTAL memo to Sun re 1-29-88 letters to drill for 320 NSH Ramses Com #1

FEDERAL EXPRESS shipping form with fields for Sender's Account Number, Recipient's Name (John Roe to Frank Syfan), Address (3151 South Vaughn Way, Suite 600, Aurora, CO 80014), and various service options like Priority 1, Overnight, and Saturday delivery.

SENDER'S COPY/RETAIN FOR TRACE PURPOSES

DUGAN PRODUCTION LETTER DATED 1-29-88

RETURN RECEIPT CARDS

Working Interest Owners

W/2 of Section 22, T26N, R2W, NMPM

Rio Arriba County, NM

(Page 1 of 2)

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: Reading & Bates Petroleum Corp. Attn: Eric Koelling 3200 Mid-Continent Tower Tulsa, OK 74103	4. Article Number P-488 636 964 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery <i>2-1-88</i>	

PS Form 3811, Mar. 1987 * U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

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↑(Extra charge)↑

3. Article Addressed to: Hooper, Kimball & Williams, Inc. Attn: Greg Owens P.O. Box 520970 Tulsa, OK 74152	4. Article Number P-488 636 965 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid) 
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery <i>2-1-88</i>	

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to: Ibex Partnership Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number P-488 636 966 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery <i>2-1-88</i>	

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: PC, Ltd. Attn: Ron Holloway P.O. Box 911 Breckenridge, Texas 76024-0911	4. Article Number P-488 636 967 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Carol Blakely</i>	
7. Date of Delivery 2-1-88	

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: Carolyn Clark Oatman P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 968 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2/8/88	

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: Warren Clark Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P-488 636 969 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	
7. Date of Delivery 2-2-88	

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: Warren Clark Testamentary Trust P.O. Box 1846 Austin, Texas 78767	4. Article Number P0488 636 970 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Julie Ann</i>	