

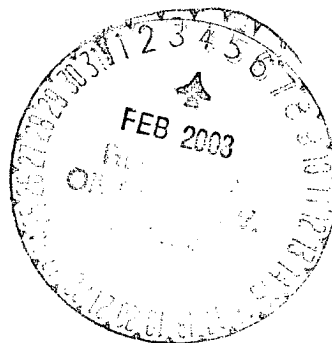
MERRION

OIL & GAS

February 3, 2003

Mr. Frank Chavez
New Mexico Oil Conservation Division
1000 Rio Brazos Rd.
Aztec, NM 87410

RE: **Administrative Order DHC - 3067**
Allocation of Production
Katy Com 2 - API # 30-045-30456
Section 26, T30N, R12W
San Juan County, New Mexico



Dear Mr. Chavez:

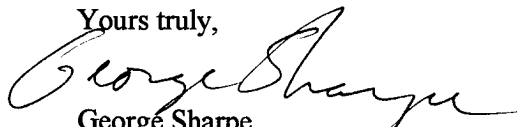
Pursuant to the subject order, I am requesting your approval of the allocation of production for the subject commingled well. Please indicate your approval by signing and returning a copy of this letter to my attention.

This well was originally completed in the Pictured Cliffs Formation and was subsequently commingled with the Fruitland Coal. In November, the last month of production from just the Pictured Cliffs, the well averaged 14 MCFD and 0 BWD. After the workover, the well stabilized making 483 MCFD and 94 BWD from both zones in December. Subtracting the two, it is estimated that the Fruitland Coal added 469 MCFD and 94 BWD. On that basis, the following allocations are recommended:

<u>Zone</u>	<u>Gas</u>	<u>Water</u>
Pictured Cliffs	2.9%	0%
Basin Fruitland Coal	<u>97.1%</u>	<u>100%</u>
	100%	100%

If additional data suggests that these allocations need to be changed in the future, we will submit a revision in our proposed allocation methodology. Please call me at 327-9801 ext. 114 if you have any questions or concerns.

Yours truly,


George Sharpe
Manager, Oil & Gas Investments

xc:Well File

APPROVED this _____
day of _____, 2003.

By: 

MERRION OIL & GAS

MONTHLY PUMPER'S REPORT

DATE: Nov-02				PUMPER: Tim				WELL: Katy #2				98390							
STOCK TANKS		WATER		RUN		RUN		DAILY PRODUCTION				CSG.		REMARKS		SUMMARY			
A SZ	Y #	FT	IN	FT	IN	BBLs	TICKET NO.	OIL	BOPD	MTR.RDG	BWPD	STAT	DIF.	GAS	PSIG.	DOWN	End. Inv.	OIL PRODUCTION	
																	(+/-) Other*		
1															19	0	12	s-12 d-205	0
2															15			0	
3															16			0	
4															16			0	
5															16			0	
6															13			0	
7															13			0	
8															13			0	
9															14			0	
10															11			0	
11															11	0	11	0	
12															10			0.00	
13															10				
14															19				
15															12				
16															7				
17															5				
18															8	0	7		
19															8				
20															5				
21															6				
22															1				
23															0				
24															0				
25															0				
26															0				
27															0				
28															0				
29															0				
30															0				
31															0				
1															0				
TOTALS:								0.00	0						248			TARGET MCF 2,400	

*** "Other" Oil Disposition Codes**

C - Circulating Oil, L - Lost

S - Sedimentation (BS&W)

WATER PRODUCTION

Mo. Wtr. Prod. 0

Avg. BWPD 0.00

Gals/Dump

GAS DATA

Selling x

Days Prod. (gas) 22

Venting

PERCENT TIME ON

ORIFICE

SPRING

CHAMBER

SIZE 0.75

FACTOR

OVERALL FACTOR

WELL DATA

Pumping

Flowing

SPM

SL

INTERMITTER TIME

HRS ON

HRS OFF

MERRION OIL & GAS

MONTHLY PUMPER'S REPORT

DATE: Dec-02				PUMPER: Tim				WELL: Katy #2				98390											
STOCK TANKS		WATER		RUN		RUN		DAILY PRODUCTION				TBG. PRESS. PSIG.		CSG. PRESS. PSIG.		HOURS		REMARKS		SUMMARY			
A SZ	Y #	FT	IN	FT	IN	BBL	TICKET NO.	OIL	BOPD	MTR.	RDG	BWPD	STAT	DIF.	GAS	MCFPD	DOWN	PSIG.	PSIG.	End. Inv.	OIL PRODUCTION		
																				(+/-) Other			
1																				0			
2																				0			
3																				0			
4																				0			
5																				0			
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28																				0			
29																				0			
30																				0			
31																				0			
1																				0			
TOTALS:								0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

GAS DATA		WATER PRODUCTION		PERCENT TIME ON		WELL DATA	
Selling	Days Prod. (gas)	Mo. Wtr. Prod.	Avg. BWPD	Mo. Wtr. Prod.	Avg. BWPD	Pumping	Flowing
x	25	2,345	93.80	2,345	93.80		
						Piston Lift	Wtr. Disp.
						SPM	SL
						INTERMITTER TIME	
						HRS ON	HRS OFF
						TARGET MCF 2,400	