



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Dugan Production Corporation

P. O. Box 420

Farmington, New Mexico 87499-0420

March 8, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Attention: **Kurt H. Fagrelus**

Re: Administrative application for an unorthodox coal gas well location due to a "surveying error" for the existing Alamo Com. Well No. 1 (API No. 30-045-28806), to be re-designated the Salge Federal "A" Com. Well No. 91-S, which is actually located 1495' FSL & 2270' FEL (Unit J) of Section 4, Township 25 North, Range 13 West, NMPM, Basin-Fruitland Coal (Gas) Pool (71629), San Juan County, New Mexico.

Dear Mr. Fagrelus:

This letter acknowledges the above-described administrative application received by the Division on January 18, 2005 and assigned **administrative application reference No. pMES0-501861013**. Please refer to this number in future correspondence with the Division.

My preliminary review indicates that the information provided in your application is not sufficient to process an administrative order at this time. On the second page of your application you state, "[u]nder separate notice, Dugan Production Corp. has proposed a settlement offer to all impacted working interest owners and royalty interest owners." Please provide me with a copy of this agreement. Also, what is its status at this time, have all parties signed the agreement, are there any changes, and are there any problems that are holding anyone up from signing?

Also, what has been the surveyor's, or the surveying company's, response to this mistake?

Since the submitted information is insufficient to review, the application was ruled as incomplete on March 8, 2005. Please submit the above stated information by Thursday, March 17, 2005.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. The additional information can be: (i) faxed to (505) 476-3462; (ii) e-mailed to "mstogner@state.nm.us"; or (iii) mailed to the address shown above.

Should you have any questions concerning this matter, please contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421. Thank you.

Sincerely

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington
William F. Carr, Legal Counsel for Dugan Production Corporation - Santa Fe

DUGAN PRODUCTION CORP.

P.O. BOX 420

FARMINGTON, NM 87499-0420

505-325-1821

505-327-4613(FAX)

DATE: March 16, 2005

TO: Michael E. Stogner

COMPANY: New Mexico Oil Conservation Division

FAX NO (505) 476-3462

You should receive 17 page(s) including this cover sheet. If you did not receive all pages or are unable to read any pages, please contact:

FROM: Kurt Fagrelus TELEPHONE NO. (505)325-1821

Hello Mr. Stogner:

Enclosed you will find additional information on the Administrative application for an unorthodox coal gas well location due to a "surveying error" for the existing Alamo Com #1 that you requested.

Administrative Application Reference No. pMES0-501861013

If you have any questions or require additional information, please call me at 505-325-1821

Very Sincerely,



Kurt Fagrelus



dugan production corp.

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

March 16, 2005

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

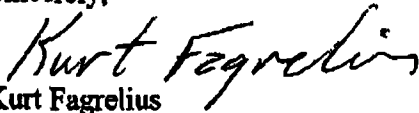
owners in the E/2 proration unit. There are no royalty owners other than the BLM in the W/2 proration unit.

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 Fagrelus
Vice President



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 wells

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.

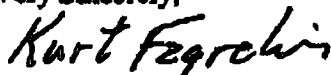
Realizing that the working interest owners who have participated in the Alamo Com #90 will no longer receive billings or revenues from this well, Dugan Production Corp. is herein proposing the following settlement offer to all affected working interest owners:

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 Fagrellius
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 Fagrelus
Kurt Fagrelus
Geologist

8/17

EXHIBIT 3.

NM OIL CONSERVATION DIVISION
ATTN: MICHAEL STOGNER
1235 SOUTH ST. FRANCIS DRIVE
SANTA FE, NM 87504

7004 1350 0002 0327 0112

NM OIL CONSERVATION DIVISION
1808 RIO BLAZOS ROAD
AZTEC, NM 87410

7004 1350 0002 0327 0112

BUREAU OF LAND MANAGEMENT
1235 LA PLATA HIGHWAY
FARMINGTON, NM 87401

7004 1350 0002 0327 0129

9/17

ELM RIDGE EXPLORATION CO.
12225 GREENVILLE AVE, SUITE 850
DALLAS, TX 75243-2104

7002 2490 0001 0134 2126

QUESTAR EXPLORATION & PRODUCTION CO.
P.O. BOX 49801
SALT LAKE CITY, UT 84145-0801

7002 2490 0001 0134 2126

WIMFRED CHUMNEY MEADEN
C/O W.T. CHUMNEY, JR
40 N.E. LOOP 410, SUITE 200
SAN ANTONIO, TX 78216-8578

7004 1350 0002 0327 0037

10/17

ELIZABETH H. CHUMNEY
C/O W.T. CHUMNEY, JR.
40 N.E. LOOP 410, SUITE 200
SAN ANTONIO, TX 78216-5576

7002 2410 0001 0194 2133

DEBRA BREWER CHUMNEY DEMARION
C/O W.T. CHUMNEY, JR.
40 N.E. LOOP 410, SUITE 200
SAN ANTONIO, TX 78216-5576

7002 2410 0001 0194 2133

ESTATE OF ROBERT P. BREWER, III
REBECCA J.E. BREWER, MD EXEC
BREWER; C/O W.T. CHUMNEY, JR.
40 N.E. LOOP 410, SUITE 200
SAN ANTONIO, TX 78216-5576

7002 2410 0001 0194 2133

11/17

ELLEN GANTHER REIFLAGER
C/O FIRST NATIONAL BANK
P.O. BOX 478
EL CAMPO, TX 77437

7004 1350 0002 0327 0082

GANTHER LIQUIDATING TRUST
LISA DE MONTAGU, LIQUIDATING TSTEE
3582 WESTHEIMER ROAD, BOX 429
HOUSTON, TX 77068

7004 1350 0002 0327 0075

JAN GANTHER ROSE
12215 RAVENMOOR DRIVE
HOUSTON, TX 77077

7004 1350 0002 0327 0085

12/17

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

7004 1350 0002 0327 0051

FAY'S TRUST
NORMA WILLIAMS, TRUSTEE
3841 WAKEFOREST
HOUSTON, TX 77098

7004 1350 0002 0327 0068

**EXHIBIT 4a.**

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.

14/17

EXHIBIT 4b.

January 20, 2005

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

Re: Alamo Com #90 and replacement wells

Dear Mr. Fagrelus,

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.
W.T. Chumney, Jr.

15/17

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 Corn #90 to be
drilled in the wrong location.

Good luck in this endeavor.

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

16/17

EXHIBIT 6.

Kurt Fagrellus

From: <Jim_Lovato@nm.blm.gov>
To: <kfagrellus@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

3/14/2005

TRANSACTION REPORT

P. 01

MAR-16-2005 WED 09:55 AM

FOR:

RECEIVE

DATE	START	SENDER	RX TIME	PAGES	TYPE	NOTE	M#	DP
MAR-16	09:41 AM	505 327 4613	13' 39"	12	RECEIVE	OK		

Stogner, Michael

From: Kurt Fagrelus [kfagrelus@duganproduction.com]
Sent: Wednesday, March 16, 2005 10:27 AM
To: mstogner@state.nm.us
Subject: Administrative Application Reference No. pMES0-501861013

Hello Mr. Stogner:

I have had trouble faxing the attached information to you so I decided to give the e-mail method a shot. I was unable to scan pages 9 - 13. These pages are copies of all signed, certified mail, return receipt cards from the BLM and all affected, Fruitland Coal working and royalty interest owners. Please give me a call or e-mail to confirm receipt of everything. I will put a hard copy of all information in the mail today.

Sincerely, Kurt Fagrelus

This email has been scanned by the MessageLabs Email Security System.
For more information please visit <http://www.messagelabs.com/email>

3/16/2005

DUGAN PRODUCTION CORP.

P.O. BOX 420
FARMINGTON, NM 87499-0420
505-325-1821
505-327-4613(FAX)

DATE: March 16, 2005

TO: Michael E. Stogner

COMPANY: New Mexico Oil Conservation Division

FAX NO (505) 476-3462

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FROM: Kurt Fagrelus TELEPHONE NO. (505)325-1821

Hello Mr. Stogner:

Enclosed you will find additional information on the Administrative application for an unorthodox coal gas well location due to a "surveying error" for the existing Alamo Com #1 that you requested.

Administrative Application Reference No. pMES0-501861013

If you have any questions or require additional information, please call me at 505-325-1821

Very Sincerely,



Kurt Fagrelus

1/17

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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.

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C/O W.T. Chumney, Jr.
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San Antonio, Texas 78216-5876

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W.T. Chumney, Jr.

15/17

2-10-05

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Bermington, New Mexico

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Trustee, Jay's Trust
3641 Wakeforest
Houston, Texas 77098
713-977-6580

EXHIBIT 6.

Kurt Fagrelus

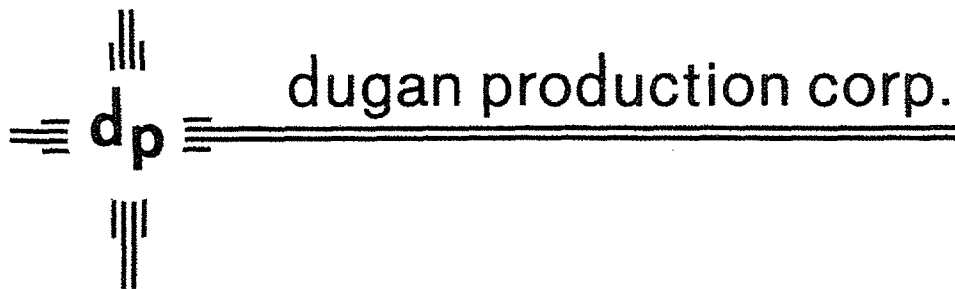
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Subject: Reassignment of the Salge Federal A 91S to the E1/2 4-25N-13W

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17/17

3/14/2005



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

March 16, 2005

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Application for Administrative Approval of Unorthodox Location
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Unit J, Section 4, T25N, R13W, 1495' FSL & 2270' FEL (E/2-320)
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2/17

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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).

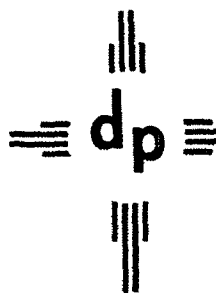
The surveyor has not been contacted for a response to this issue. This surveyor no longer works for Dugan Production Corp. and no longer works in this area.

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

Sincerely,


Kurt Fagrelus
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 Fagrelus

Kurt Fagrelus
Geology



dugan production corp.

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:

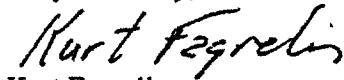
1. Dugan Production Corp. would file an application for a Non-Standard Location with the New Mexico Oil Conservation Division (NMOCD).
2. Dugan Production Corp. would file a Sundry Notice with the BLM to correct the location, placing the Alamo Com #90 in the E/2 proration unit and change the name to 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 Fagrelus
Geologist

8/17

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p>1. Check box if you are a member of the National Wildlife Federation (NWF) <input type="checkbox"/></p> <p>2. Check box if you are a member of the National Audubon Society (NAS) <input type="checkbox"/></p> <p>3. Check box if you are a member of the National Conservation Council (NCC) <input type="checkbox"/></p> <p>4. Check box if you are a member of the National Wildlife Federation (NWF) <input type="checkbox"/></p> <p>5. Check box if you are a member of the National Audubon Society (NAS) <input type="checkbox"/></p> <p>6. Check box if you are a member of the National Conservation Council (NCC) <input type="checkbox"/></p>	<p>1. Check box if you are a member of the National Wildlife Federation (NWF) <input type="checkbox"/></p> <p>2. Check box if you are a member of the National Audubon Society (NAS) <input type="checkbox"/></p> <p>3. Check box if you are a member of the National Conservation Council (NCC) <input type="checkbox"/></p> <p>4. Check box if you are a member of the National Wildlife Federation (NWF) <input type="checkbox"/></p> <p>5. Check box if you are a member of the National Audubon Society (NAS) <input type="checkbox"/></p> <p>6. Check box if you are a member of the National Conservation Council (NCC) <input type="checkbox"/></p>
<p>NAME (PRINT) _____</p> <p>ADDRESS (PRINT) _____</p> <p>CITY (PRINT) _____</p> <p>STATE (PRINT) _____</p> <p>ZIP (PRINT) _____</p>	<p>NAME (PRINT) _____</p> <p>ADDRESS (PRINT) _____</p> <p>CITY (PRINT) _____</p> <p>STATE (PRINT) _____</p> <p>ZIP (PRINT) _____</p>

U.S. DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WILDLIFE CONSERVATION DIVISION

EXHIBIT 3.



January 20, 2005

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

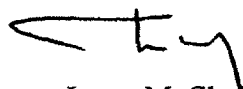
Re: Alamo Com #90/Salge Federal A Com 91-S

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.

14/17

DUGAN PRODUCTION CORP.

P.O. BOX 420
FARMINGTON, NM 87499-0420
505-325-1821
505-327-4613(FAX)

DATE: March 16, 2005

TO: Michael E. Stogner

COMPANY: New Mexico Oil Conservation Division

FAX NO (505) 476-3462

You should receive 17 page(s) including this cover sheet. If you did not receive all pages or are unable to read any pages, please contact:

FROM: Kurt Fagrelius TELEPHONE NO. (505)325-1821

Hello Mr. Stogner:

Enclosed you will find additional information on the Administrative application for an unorthodox coal gas well location due to a "surveying error" for the existing Alamo Com #1 that you requested.

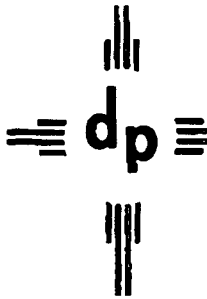
Administrative Application Reference No. pMES0-501861013

If you have any questions or require additional information, please call me at 505-325-1821

Very Sincerely,



Kurt Fagrelius



dugan production corp.

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

March 16, 2005

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 Fagrelus
Vice President



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.

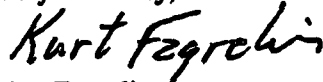
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1. Dugan Production Corp. has staked and begun permitting two new wells in the W/2 of Sec. 4, T25N, R13W. A new Communitization agreement will be formed.
2. Dugan Production Corp. will carry all working interest owners for the drilling and completion 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 Fagrelus
Geology

EXHIBIT 2.



dugan production corp.

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:

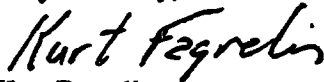
1. Dugan Production Corp. would file an application for a Non-Standard Location with the New Mexico Oil Conservation Division (NMOCD).
2. Dugan Production Corp. would file a Sundry Notice with the BLM to correct the location, placing the Alamo Com #90 in the E/2 proration unit and change the name to 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 Fagrelus
Geologist

8/17

EXHIBIT 3.

NM OIL CONSERVATION DIVISION
 ATT: MICHAEL STOGNER
 1220 SOUTH ST. FRANCIS DRIVE
 SANTA FE, NM 87504

11 7004 1350 0002 0327 0112

NM OIL CONSERVATION DIVISION
 1000 RIO EUAZOS ROAD
 AZTEC, NM 87410

7004 1350 0002 0327 0136

BUREAU OF LAND MANAGEMENT
 1235 LA PLATA HIGHWAY
 FRAMINGTON, NM 87401

7004 1350 0002 0327 0129

9/17

ELM RIDGE EXPLORATION CO.
12225 GREENVILLE AVE, SUITE 950
DALLAS, TX 76243-2104

7002 2430 0001 0134 2126

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

7002 2430 0001 0134 2126

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

7004 1350 0002 0327 0037

10/17

SENDER: COMPLETE THIS SECTION

COMPLETE THIS SECTION ON DELIVERY

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

7004 1350 0002 0367 0043

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

7004 1350 0002 0327 0044

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

7002 2410 0001 0134 2133

11/17

SENDER: COMPLETE THIS SECTION

RECIPIENT: COMPLETE THIS SECTION

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

7004 1350 0002 0327 0082

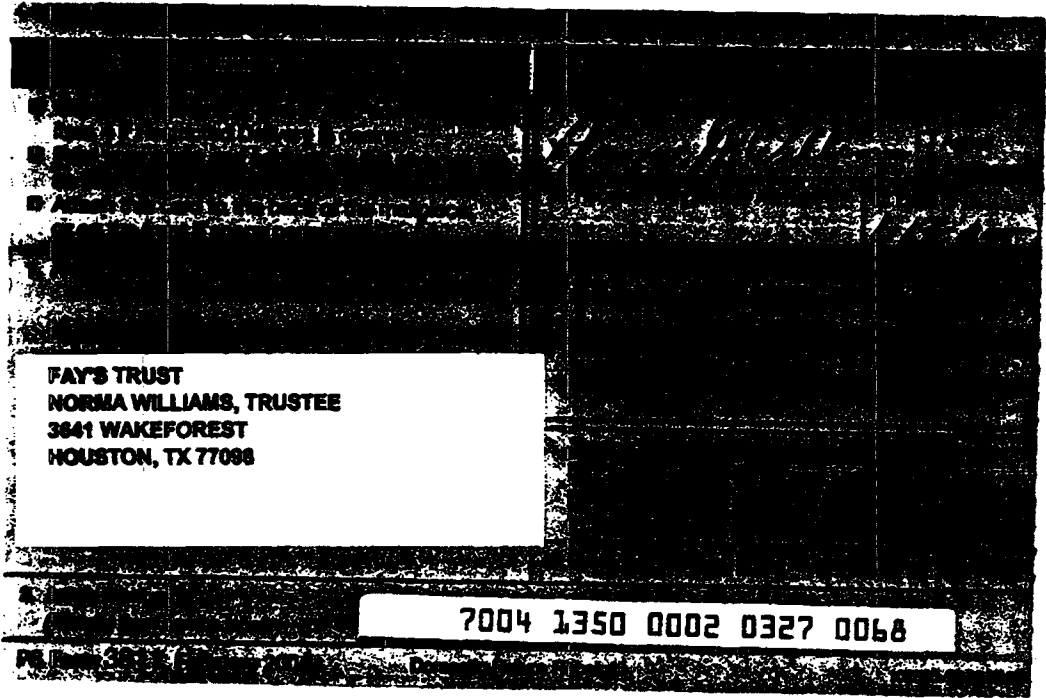
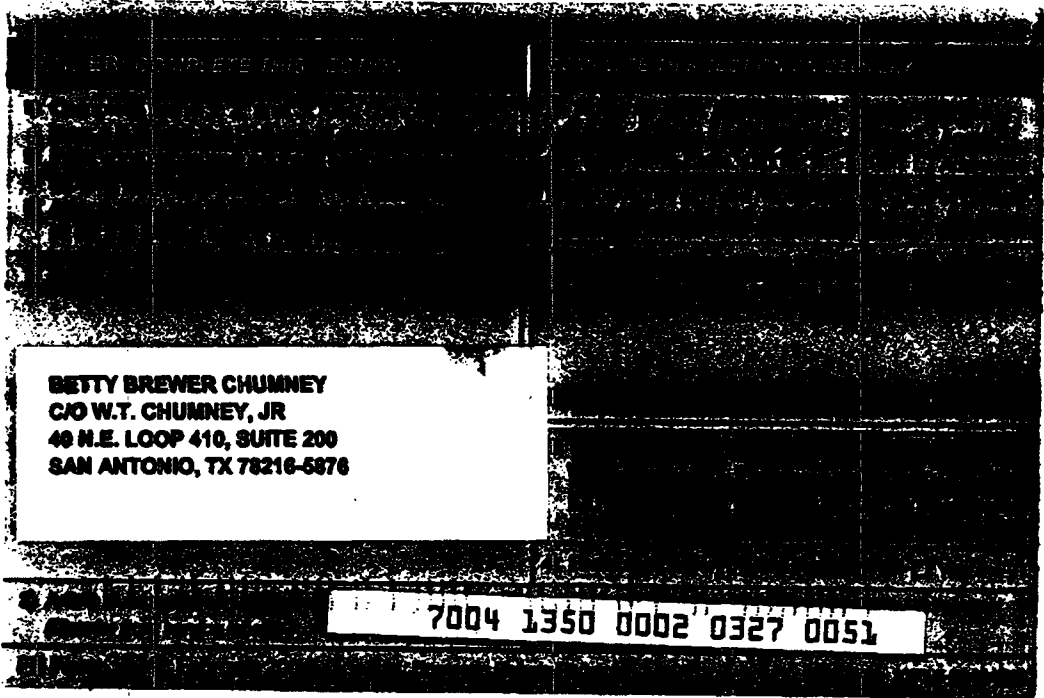
GINTHER LIQUIDATING TRUST
LISA DE MONTAIGU, LIQUIDATING TSTEE
3282 WESTHEIMER ROAD, BOX 429
HOUSTON, TX 77098

7004 1350 0002 0327 0075

JAN GINTHER ROSE
12215 RAVENMOOR DRIVE
HOUSTON, TX 77077

7004 1350 0002 0327 0085

12/17



**EXHIBIT 4a.**

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.

14/17

EXHIBIT 4b.

January 20, 2005

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

Re: Alamo Com #90 and replacement wells

Dear Mr. Fagrelus,

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.
W.T. Chumney, Jr.

15/17

EXHIBIT 5.

2-10-05

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

Dear Mr. Hagelius,

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

Good luck in this endeavor.

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

16/17

Kurt Fagrelus

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

3/14/2005