



dugan production corp.

October 6, 1997

Caulkins Oil Company
P.O. Box 340
Bloomfield, NM 87413

Attention: Mr. Bobby Berquer

RE: Well Proposal
Mona Lisa # 2
Township 26 North, Range 7 West
Section 14: S½
Rio Arriba County, New Mexico

Gentlemen:

Dugan Production Corp. (DPC) is proposing to drill a Mesaverde- Dakota Well to an estimated depth of 7,000 feet, located 1,620' FSL and 1,850' FEL of Section 14, Township 26 North, Range 7 West, Rio Arriba County, New Mexico.

The acreage falls within the Mesaverde and Dakota Pools which require 320.00 acre spacing units per well. Our proposed spacing will be the S½ of Section 14, in which you own 50.00% interest by virtue of Federal lease NM-03381.

As a working interest owner in the proposed spacing unit, we invite you to participate with DPC in drilling said well and request you execute and return one copy of the signature pages to the enclosed Operating Agreement, along with the AFE totaling \$420,500 to drill, complete and equip the captioned well for production. It is our understanding that a rig will be available in approximately 30 days so your earliest attention to this request is appreciated.

Thank you for your early attention to this matter. If there should be any questions, please feel free to contact me.

Sincerely,

David M. Poage
Land Manager

NMOCD Case Nos. 11897 & 11899
January 8, 1998
Dugan Production Corp.
Exhibit No. 3