



Gruy Petroleum Management Co.

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A wholly-owned subsidiary of Magnum Hunter Resources, Inc., an American Stock Exchange company

*Case 12015
12017*

Via Certified Mail

Doyle Hartman
Oil Operator
500 North Main
P.O. Box 10426
Midland, Texas 79702

Re: Rhodes Area
Lea County, N.M.

Date: July 16, 1998

Dear Mr. Hartman:

This letter is in response to your letters of May 21, 1998 and July 9, 1998. Your letters expressed your concerns about the intentions of Gruy Petroleum Management Co. and its drilling program in Lea County, New Mexico.

Please be advised that Gruy Petroleum Management Co. intends to abide by the New Mexico Oil Conservation Division rules and regulations in every aspect of its operations in the State of New Mexico. We have been working diligently to get up to speed on the permitting and application for hearing process in New Mexico.

When we received your May 21, 1998 letter to the NMOCD regarding our permitted Rhodes Federal Unit No. 103 and 159 wells, I called your office in Dallas on May 28th and left a message with your secretary that I would like to discuss the issues of concern with you. When you didn't call back we decided to postpone the drilling of the RFU No. 103 and 159 because, as you pointed out in your letter, we had not provided proper notification to the offset owners.

Instead we moved to an area where we knew who the offset owners were and scheduled the drilling of the RFU No. 415 and the Rhodes State Com No. 5 wells. Proper notification of unorthodox well locations, and simultaneous dedication were made to these owners, and we have contracted the Law Firm of Campbell, Carr, Berge & Sheridan to handle the scheduled August 6, 1998 Examiner hearing on our requests. You were not notified on the RFU No. 415 and RSC No. 5 because you are not an offset owner. However notification of our application should appear in the Statehouse Reporter in the near future.

In addition we have taken the following actions based on issues presented by you in your letters:

1. We have amended the location for the RFU No. 103 to 660 FSL and 750 FEL. It's still an unorthodox location due to the proximity of the Sid Richardson pipeline.
2. We have contracted the firm of Perry & Perry to provide a list of offset owners for all of our locations in the Rhodes area, so that proper notification can be made.
3. We have amended the proposed pool for the Rhodes State No. 6 from the Jalmat Tansil-Yates 7R to the Rhodes Yates 7R. The RSU No. 6 well is located in an orthodox location for an oil well in the Rhodes Yates 7R pool.

In summary, we have purchased and now operate approximately 300 wells in Southeast New Mexico. We like the area and intend to try to increase production through workovers, recompletions, and the drilling of development or replacement wells where appropriate. If successful, our proposed activities will have benefits for all parties involved, including increased tax revenue for the State of New Mexico as well as increased royalty revenue on the Federal leases. We have identified drilling locations in both Lea and Eddy Counties, only a portion of which are in the Rhodes area. We intend to abide by all applicable regulations and have hired local representatives to help guide us through the process.

I hope this answers some of your concerns about Gruy and its intentions. I invite you to call me to discuss any of our proposed activities at any time.

Yours very truly,



Richard R. Frazier
President

cc: ✓ Michael Stogner, Chief Hearing Officer
New Mexico Oil Conservation Commission
2040 S. Pachero
Santa Fe, NM 87505

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