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July 23, 2001

HAND DELIVERED

Lori Wrottenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

01 JUL 23 PM 2:05
OIL CONSERVATION DIV.

Re: GP II Energy, Inc.
Request for extension of Oil Conservation Order No. R-11435 which authorized a waterflood project within the Phase IA East and IB West of the North Square Lake Unit, Eddy County, New Mexico.

Dear Ms. Wrottenbery;

By Order No. R-11207 dated June 17, 1999, the Division approved the application of GP II Energy, Inc. for the statutory unitization of approximately 6,155.96 acres of state and federal located in Eddy County, New Mexico. This order was ratified by the required percentage of interest owners in the unit area and the North Square Lake became effective on January 1, 2000.

In a companion case the Division entered Order No. R-11435 approving the application of GP II Energy, Inc. to commence waterflood operations into the Grayburg and San Andres formations, Square Lake Grayburg-San Andres Pool, within Phases IA East and IB West of the Unit Area through 23 injection wells. Order paragraph (15) of Order No. R-11435 provides that the injection authority granted therein shall terminate one year after the effective date of this order if GPII has not commenced injection operations into the well, provided however the Division, upon written request by GPII may grant an extension for good cause. The purpose of this letter is to request a one year extension of the injection authority granted by Division Order No. R-11435.

All interest of GP II is being purchased by D. H. Resource, LTD. of Midland, Texas which intends to go forward with the waterflood operations approved by the Division. D. H. Resources will become successor operator effective on vote of the working

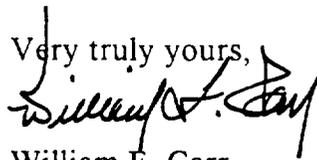
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interest owners and on approval of the Land Commissioner and the Authorized Officer of the Bureau of Land Management. Prior to commencement of operations, D.H. Resource, will file all required Oil Conservation Division forms and will comply with the Division's bonding requirements for all wells in the unit area.

If you have questions concerning this request or need additional information from GPII Energy, Inc., please advise.

Very truly yours,


William F. Carr

Attorney for GP II Energy, Inc.