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August 5, 2000

Pete Martinez
Oil & Gas Division
Commissioner of Public Lands
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Armando Lopez
Bureau of Land Management
2909 West Second Street
Roswell, New Mexico 88201

Re: Application for approval of second expansion of unit

West Lovington Strawn Unit Area ("WLSU")
Lea County, New Mexico

Operator: Gillespie Oil, Inc.

Gentlemen:

The unit operator requests approval of the second expansion of the WLSU. Enclosed are the following:

1. Revised Exhibit "A" to the Unit Agreement.
2. Revised Exhibit "B" to the Unit Agreement.
3. Revised Exhibit "C" to the Unit Agreement (attached to the OCD's order approving the expansion as Attachment B).
4. A geologic summary of the WLSU. (Geologic maps were provided to you at the July meeting in Santa Fe.)
5. A revised plan of operations for the WLSU.
6. A listing of unit wells, with their original names and their unit designations.

7. A summary of tract participation factors in the original unit, first expansion, and second expansion.
8. Tract participation calculations for Tracts 14 and 15 for the period 11/1/97 - 4/1/99. As discussed at the July meeting, Tract 15 should have been added to the WLSU with the first expansion, effective 11/1/97, and thus there are two effective dates for the second expansion.
9. A summary of participation factors for state tracts during the life of the unit.
10. A summary of participation factors for the federal tract during the life of the unit.
11. A check for \$120.00 (to Mr. Martinez) to cover the filing fee required by the Commissioner.

Oil Conservation Division Order No. R-10864-B, previously provided to you, amended the Unit Agreement and Unit Operating Agreement as follows:

- A. Approving revised Exhibits "A" - "C" to the Unit Agreement.
- B. Revising Section 13 of the Unit Agreement, regarding the tract participation formula, as described in Attachment A to the order (copy of Attachment A enclosed).
- C. Revising Section 16 of the Unit Agreement, on outside substances, as described in Attachment C to the order (copy of Attachment C enclosed). This revision was necessary to ensure that injected volumes of gas are properly attributed to the working interest owners who paid for make-up gas during the life of the unit.
- D. Revising Article 10.4 of the Unit Operating Agreement, regarding investment adjustments, as described in Attachment D to the order (copy of Attachment D enclosed). This was done to ensure fair treatment because of payout multiples received by working interest owners of wells added to the WLSU in the first expansion.

The amendments were done in this fashion because it was easier than preparing whole new agreements.

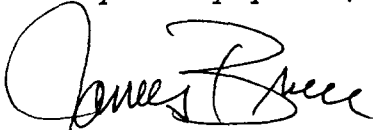
I should receive originals of the ratifications of the second expansion of the WLSU in the next day or two, and will forward them to you at that time.

We understand that Mr. Hall, representing Energen Resources Corporation, has been working with the Commissioner on a

stipulation regarding the acreage in Lot 12 of S1-16S-35E. As we described at the July meeting, the State D Well No. 8, located in the SW¼ of Lot 12, is not in communication with the WLSU, and thus cannot be attributed to the unit. The Commissioner has been receiving 100% of the royalties attributable to production from that well. Please contact Scott or me so that the stipulation may be finalized.

Please call me if you have any questions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce".

James Bruce

Attorney for Gillespie Oil, Inc.

cc: w/encl. to:

Mark Mladenka
Michael E. Stogner/OCD
William F. Carr
J. Scott Hall