

UnitSource INCORPORATED

PAUL S. CONNER

UNITIZATION

December 5, 1994

25

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO: ROYALTY AND OVERRIDING ROYALTY INTEREST OWNERS

RE: **West Lovington (Strawn) Unit Area**
Lea County, New Mexico

Ladies and Gentlemen:

Charles B Gillespie, Jr., has contracted UnitSource Incorporated to assist in the formation of the West Lovington (Strawn) Unit Area, which is a 1,457.05 acre secondary recovery unit covering the Strawn Formation under the lands shown on the enclosed map of the Unit Area (Exhibit "A").

We are presently contacting all working and royalty interest owners within the unit and are inviting them to commit their interest to the Unit Agreement. Therefore, for your consideration we are enclosing the following:

1. Copy of the West Lovington (Strawn) Unit Agreement with Exhibits "A", "B" and "C" thereto
2. Six (6) copies of the Ratification and Joinder instrument to the West Lovington (Strawn) Unit Agreement and a self addressed, stamped envelope.

We request that you review the enclosed Exhibits and advise of any discrepancies regarding your ownership in the oil and gas rights within the unit.

A technical review by the unit operator and working interest owners in the West Lovington field has recently completed an engineering study to investigate the benefits and economic feasibility of waterflooding the Strawn reservoir.

gas injection

gas injections

The parties have concluded that a ~~waterflood of the~~ West Lovington Field would be economically advantageous, improve the efficiency of the field and recover a substantial amount of oil that would otherwise be unrecoverable under continued primary operations.

natural gas

~~A waterflood~~, or secondary recovery program, involves injecting ~~water at high pressure~~ into the producing formation through selected wells to supplement the natural energy of the reservoir and force oil trapped in the rock to the pumping units of the producing wells. This process displaces oil across property or lease lines which makes it necessary to unitize all properties in a way that they can be treated and operated as a single property. The working and royalty interest owners then share in the oil produced from the entire unit area based upon their unit participation.

Unit participation is determined by allocating to each property or tract a percentage of the unit's overall production based upon a formula negotiated by the working interest owners within the unit. The formula allows equitable sharing in the increased unit production because it represents the best estimate of the amount of recoverable oil under each tract prior to unitization. The percentage of the unit's overall production which is allocated to the various tracts is shown on Exhibit "C" attached to the unit agreement.

Prior to approving the West Lovington (Strawn) Unit Agreement, the Bureau of Land Management and the New Mexico Oil and Gas Conservation Division will review the Engineering Study and unit documents to determine whether the participation formula is fair and equitable and protects the rights of all owners within the unit. Another review of the unit documents and participation formula will occur at a public hearing before the New Mexico Oil and Gas Conservation Division. You will be notified pursuant to state statute when this matter will be presented before the New Mexico Oil and Gas Conservation Division.

As a royalty interest owner you will benefit from the projected increase in the amount of oil recovered and the increase in the rate of recovery but will not be responsible for any costs associated with the waterflood project.

Should you have any questions regarding the unit agreement, the purpose of the unitization project, or other related matters, please contact the undersigned at our letterhead address or telephone.

West Lovington (Strawn) Unit Area
page 3

Please approve the unitization of the West Lovington Field by signing all copies of the enclosed Ratification and Joinder Instrument before a Notary Public and return five (5) copies to UnitSource Incorporated, consultant for Charles B. Gillespie, Jr. in the enclosed self-addressed stamped envelope.

We would appreciate your consideration and approval of the West Lovington (Strawn) Unit by returning the executed ratification and joinder instrument prior to December 31, 1994.

Sincerely,

UNITSOURCE INCORPORATED


Paul S. Conner

psc
Enclosures

UnitSource INCORPORATED

PAUL S. CONNER

UNITIZATION

December 27, 1994

TO: ROYALTY AND OVERRIDING ROYALTY INTEREST OWNERS

RE: **West Lovington (Strawn) Unit Area**
Lea County, New Mexico

Ladies and Gentlemen:

Reference is made to my letter of December 5, 1994, with which you were provided a copy of the West Lovington (Strawn) Unit Agreement, Exhibits "A" and "B" thereto, and six (6) ratification and joinder instruments for your execution. Please note that even though Charles B. Gillespie, Jr. considered several options, including waterflood operations, the West Lovington (Strawn) Unit Area will be maintained through natural gas injection and not waterflooding as stated in my previous letter. I apologize for this error and request that you note your records according.

In addition, after review of the proposed unit agreement for operations under the West Lovington (Strawn) Unit Area, the Bureau of Land Management (BLM), Roswell, New Mexico, has requested several minor changes to the language in the unit agreement. In that regard, enclosed please find a revised copy of the West Lovington (Strawn) Unit Agreement and a list of the specific changes for your convenience. Your interest in the unit has not been affected by the revisions so if you have returned executed ratification and joinders it will not be necessary to re-executed another set. If you have not yet returned your executed ratification and joinder instruments, I respectfully request that this matter receive your special attention, as it is still the goal to have the West Lovington (Strawn) Unit Agreement approved by the BLM and the State of New Mexico as soon as possible.

Sincerely,

UNITSOURCE INCORPORATED



Paul S. Conner

Enclosures

UnitSource INCORPORATED

PAUL S. CONNER

UNITIZATION

December 29, 1994

Certified Mail
Return Receipt Requested

TO: NOTICE OF UNITIZATION TO INTEREST OWNERS

RE: **West Lovington (Strawn) Unit Area**
Lea County, New Mexico

Ladies and Gentlemen:

Charles B. Gillespie, Jr. has applied to the New Mexico Oil Conservation Division for statutory (compulsory) unitization of the West Lovington (Strawn) Unit Area. A copy of the Application [without Exhibit D (Unit Agreement) and Exhibit E (Unit Operating Agreement) thereto] is enclosed, together with a copy of Mr. Gillespie's Application for a Pressure Maintenance Project and to Qualify the Project for the Recovered Oil Tax Rate. The Unit Agreement and/or Unit Operating Agreement have previously been mailed to you by Mr. Gillespie and/or UnitSource Incorporated. Mr. Gillespie's records indicate that each of you owns an interest within the proposed Unit Area. Certain of you have not agreed to voluntarily commit your interests to the Unit. This Application will be heard at 8:15 a.m. on Thursday, January 19, 1995, at the Division's offices at 2040 South Pacheco Street, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this matter at a later date.

Very Truly Yours,

UNITSOURCE INCORPORATED



Paul S. Conner

pc
Enclosures

UnitSource INCORPORATED

PAUL S. CONNER

UNITIZATION

May 10, 1995

TO: ROYALTY AND OVERRIDING ROYALTY INTEREST OWNERS

RE: **West Lovington (Strawn) Unit Area**
Lea County, New Mexico

Ladies and Gentlemen:

Reference is made to my letter of December 5, 1994, with which you were provided a copy of the West Lovington (Strawn) Unit Agreement, Exhibits "A" and "B" thereto, and six (6) ratification and joinder instruments for your execution.

Please note that since our last correspondence, Charles B. Gillespie, Jr. drilled and completed two additional unit wells; the Klein No. 1, located in the NW/4NE/4 of Section 33, and the Snyder No. 2, located in the SW/4SW/4 of Section 34, Township 15 South, Range 35 East, Lea County, New Mexico. These wells were drilled to further define the limits of the West Lovington Pool, and resulted in the successful completion of both wells. As a result of the data obtained from the wells, the Tract Participation (Exhibit "C") has been revised. There have also been several revisions to Exhibits "A" and "B" to the West Lovington Strawn Unit Agreement.

In that regard please find revised copies of Exhibits "A", "B" and "C" to the West Lovington Strawn Unit Agreement. The unit agreement remains unchanged.

We have been advised by Counsel representing Gillespie-Crow, Inc. that in light of the revisions it will be necessary to re-execute ratification and joinder instruments. Therefore, enclosed you will find for your execution another set of six (6) copies of Ratification and Joinder of Unit Agreement along with a self-addressed, stamped envelope.

Please approve the unitization of the West Lovington Pool by signing all copies of the enclosed joinder instruments, have your signature acknowledged by a Notary Public, and return five (5) executed copies to UnitSource Incorporated, Consultant for Gillespie-Crow, Inc. in the enclosed self-addressed stamped envelope.

West Lovington Unit Area
Page 2, May 10, 1995

Please be advised that we would appreciate receipt of your re-executed joinder instruments prior to May 29, 1995, so that these instruments can be filed with the New Mexico Conservation Division, at the Hearing scheduled for June 1, 1995. We have previously received many of your executed ratification's from our first request, and thank you for your cooperation. We apologize for any inconvenience re-executing the enclosed joinder instruments may cause, however approval of the West Lovington Strawn Unit Agreement will result in the production of addition oil which would not have been recovered without gas injection.

Sincerely,

UNITSOURCE INCORPORATED

A handwritten signature in black ink, reading "Paul S. Conner", with a long horizontal flourish extending to the right.

Paul S. Conner

Enclosures

UnitSource INCORPORATED

PAUL S. CONNER

UNITIZATION

May 10, 1995

Certified Mail
Return Receipt Requested

TO: NOTICE OF UNITIZATION TO INTEREST OWNERS

RE: **West Lovington (Strawn) Unit Area**
Lea County, New Mexico

Ladies and Gentlemen:

Gillespie-Crow, Inc. has applied to the New Mexico Oil Conservation Division for statutory (compulsory) unitization of the West Lovington (Strawn) Unit Area. A copy of the Application was previously sent to you together with a copy of Mr. Gillespie's Application for a Pressure Maintenance Project and to Qualify the Project for the Recovered Oil Tax Rate. The Unit Agreement and/or Unit Operating Agreement have previously been mailed to you by Mr. Gillespie and/or UnitSource Incorporated. Mr. Gillespie's records indicate that each of you owns an interest within the proposed Unit Area. Certain of you have not agreed to voluntarily commit your interests to the Unit. This Application is now scheduled to be heard at 8:15 a.m. on Thursday, June 1, 1995, at the Division's offices at 2040 South Pacheco Street, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this matter at a later date.

Very Truly Yours,

UNITSOURCE INCORPORATED



Paul S. Conner

pc
Enclosures