

Continued:

The proposed operation is described in detail on the attached diagrams, maps and exhibit.

A map (sheet 1 of 3) is enclosed showing the unit agreement numbers and location of all wells that will contribute production to the proposed commingling/common storage facility. A list of the Federal leases is included in the attached copy of Hallwood's 2000 Plan of Development Operations. All unitized/communitized areas, producing zones/pools are also clearly illustrated.

A schematic diagram is also attached which clearly identifies all equipment that will be utilized (see Sheet 3 of 3).

The measuring facility is located at NW of SE ¼, Sec. 14, T21S, R25E, adjacent to the Catclaw Draw Unit No. 7 well in Eddy County New Mexico. BLM will be notified if there is any future change in the facility location.

Details of the proposed method of allocating production to contributing sources is as follows:

Hallwood's Catclaw Draw Gas Gathering System is now a 10- well gathering system with a central L-36 Waukasha (500 HP) and Ariel 4-throw, 2-stage compressor. The 10 individual wells are metered at each well location via Hallwood meters. These charts are mailed to Charts, Ltd. in Midland, Texas on a regular basis and integrated gas volumes are determined by Charts, Ltd.

The individual meter volumes (integrated) are totaled, then an allocation factor is determined from each well's volume divided by the total wellhead volume. This allocation factor is applied to the amount sales volume gas from GPM's central delivery point to determine the individual well sales volume. The difference between GPM's total central delivery point volume of gas and the total wellhead volume of gas is fuel gas used in the process of operating separators, the compressor and dehydrator. The previously mentioned allocation factor is also used to allocate fuel gas proportionately to each well.

The working interest owners will be notified of the proposal by copy of this letter.

The proposed commingling of production is in the interest of conservation and will not result in reduced royalty or improper measurement of production.

The proposed commingling is necessary for continued operation of the above referenced Federal leases. With the exception of the Nan-Bet Com #1 commingling and off-lease gas measurement has been occurring in this unit since 1989.

We understand that the requested approval will not constitute the granting of any right-of-way or construction rights not granted by the lease instrument. And, we will submit within 30 days an application for right-of-way approval to the BLM's Realty Section in your office if we have not already done so.