



Gruy Petroleum Management Co.

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A subsidiary of Magnum Hunter Resources, Inc. • An American Stock Exchange Company • "MHR"

May 31, 2001

New Mexico Oil Conservation Division
811 South 1st Street
Artesia, NM 88210-2834
Attn: Tim/Bryan

Re: Kenwood Shugart Federal No. 1
Sec. 29-T18S-R31E
Eddy County, New Mexico



Gentlemen:

Pursuant to your request we are writing this letter to explain the nature of the agreement between EOG Resources and Gruy Petroleum Management Co. regarding the drilling of the referenced well.

The permits for EOG's Canadian 6 Federal No. 1 and Gruy's Neste Kenwood Federal No. 1 were submitted to the BLM at approximately the same time. EOG received their permit first and Gruy participated in the successful drilling of the Canadian 6 well. We have had discussions with EOG concerning the drilling of our well, the Neste Kenwood Federal No. 1, and both companies have agreed to the following:

1. If EOG wishes to participate in the drilling of the Neste Kenwood Federal No. 1, then EOG will drill and operate the well
2. If EOG elects not to participate in the drilling of the Neste Kenwood Federal No. 1, then Gruy will drill and complete the well, and EOG will operate.

We hope the above information is sufficient for the assignment of an API No. If additional information is needed, please feel free to write or call the undersigned at 972-443-6489.

Yours truly,

Zeno Farris
Manager, Operations Administration