



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**  
Governor  
**Joanna Prukop**  
Cabinet Secretary

December 29, 2005

**Mark E. Fesmire, P.E.**  
Director  
Oil Conservation Division

**Gruy Petroleum Management Company**  
c/o **William F. Carr**  
**Holland & Hart, LLP**  
**P. O. Box 2208**  
**Santa Fe, New Mexico 87504-2208**

Dear Mr. Carr:

Reference is made to the following: (i) your application filed on behalf of the operator, Gruy Petroleum Management Company ("Gruy"), and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on November 23, 2005 (*administrative application reference No. pSEM0-532747348*); (ii) your conversations with Mr. Michael E. Stogner, Engineer with the Division in Santa Fe, on Wednesday, December 7, 2005 and on Friday, December 9, 2005; and (iii) the Division's records in Hobbs and Santa Fe, including the files on Division Administrative Order NSP-1639 (L) and in Division Cases No. 12015 and 12017 (see Division Order No. R-11476 dated November 1, 2000).

**The Division Director Finds That:**

(1) Gruy is proposing to drill its Rhodes Federal Unit Well No. 87 (**API No. 30-025-37602**) 1850 feet from the South line and 900 feet from the West line (Unit L) of Section 8, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, and complete this well in the Yates-Seven Rivers interval.

(2) The Rhodes (Yates-Seven Rivers) Pool (**52250**), an oil pool in the Yates and Seven Rivers formations, was discovered in the late 1920's and the horizontal limits for this pool, as currently defined, include the following-described lands in Lea County, New Mexico:

**TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM**

Section 8:	N/2 SW/4, SW/4 SW/4, and NW/4 SE/4
Section 17:	W/2 W/2 and W/2 SE/4
Section 20:	N/2 and SE/4
Section 21:	SW/4 NE/4, W/2, and SE/4
Section 22:	W/2 SW/4, SE/4 SW/4, and SW/4 SE/4
Section 26:	W/2 and SE/4
Sections 27 and 28:	All
Sections 34 and 35:	All.

**Gruy Petroleum Management Company**

**Division Administrative Application Reference No. pSEM0-532747348**

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(3) Currently, the Rhodes (Yates-Seven Rivers) Pool is subject to the statewide rules and regulations, as promulgated by Rule 104.B (1), which provides for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit. Under Division Rule 505.A the pool-wide depth bracket allowable for the Rhodes (Yates-Seven Rivers) Pool is 80 barrels of oil per day. By Division Order No. R-520, issued in Case No. 673 and dated August 12, 1954, the limiting gas/oil ratio ("GOR") factor for this pool was established as 10,000 cubic feet of gas to one barrel of oil; therefore, the casinghead gas allowable is 800 MCF per day for each 40-acre oil spacing and proration unit.

(4) The Rhodes-Yates-Seven Rivers Gas Pool (**83810**) was created by Division Order No. R-6891, issued in Case No. 7416 on February 1, 1982 and made effective retroactive to January 1, 1982. The vertical limits include the Yates and Seven Rivers formations. The horizontal limits for this pool currently include the following described lands in Lea County, New Mexico:

**TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM**

Sections 4 and 5:	All
Section 6:	E/2
Section 8:	N/2, SE/4 SW/4, NE/4 SE/4, and S/2 SE/4
Section 9:	All
Section 10:	W/2
Section 14:	W/2
Sections 15 and 16:	All
Section 17:	NE/4, E/2 W/2, and E/2 SE/4
Section 21:	N/2 NE/4 and SE/4 NE/4
Section 22:	N/2, NE/4 SW/4, N/2 SE/4, and SE/4 SE/4
Section 23:	W/2 and SE/4
Section 26:	NE/4.

(5) Currently, the Rhodes-Yates-Seven Rivers Gas Pool is an "unprorated gas pool" not subject to Division Rule 605, but is subject however to: (i) Division Rule 104.C (3), which requires standard 160-acre gas spacing units comprising a single governmental quarter section with wells to be located no closer than 660 feet from outer boundary of such unit nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary; and (ii) Division Rule 104.D (3), which restricts the number of producing wells within a single 160-acre gas spacing unit within a non-prorated pool to only one unless otherwise permitted by special pool rules or authorized after notice and hearing, which the Rhodes-Yates-Seven Rivers Gas Pool is not. Gas wells within this pool are allowed to produce at capacity.

**Gruy Petroleum Management Company**

**Division Administrative Application Reference No. pSEM0-532747348**

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(6) You state in your application for Gruy that “[I]f the Rhodes Federal Unit Well No. 87 is completed as an oil well, the spacing and set back requirements of Division Rules [for the Rhodes (Yates-Seven Rivers) Pool] are met and the well will be at a standard location on a standard 40-acre oil well unit;” however, in anticipation that this well will be completed as a gas well, Gruy is seeking administrative approval: (i) of an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool; and (ii) to establish a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool comprising the NW/4 SW/4 (Unit L) of Section 8.

(7) Within the SW/4 of Section 8; the N/2 SW/4 (Units “K” and “L”) and the SW/4 SW/4 (Unit “M”) is within the prescribed boundary of the Rhodes (Yates-Seven Rivers) [Oil] Pool, and the remaining 40 acres comprising the SE/4 SW/4 (Unit “N”) is within the Rhodes-Yates-Seven Rivers Gas Pool [see Finding Paragraphs No. (2) and (4) above].

(8) Gruy currently operates the Rhodes Federal Unit Well No. 85 (API No. 30-025-31358), located 660 feet from the South line and 1780 feet from the West line (Unit N) of Section 8, a gas well that is subject to Division Administrative Order NSP-1639 (L), dated November 25, 1991, which order established a non-standard 40-acre oil spacing unit in the Rhodes-Yates-Seven Rivers Gas Pool and approved the location as an unorthodox gas well location therein.

(9) Division Rule 506.A reads as follows: *“In allocated pools containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit oil allowable for the pool. In the event the division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2,000 cubic feet of gas for each barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule.”*

(10) Division Rule 506.B (2) reads as follows: *“Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool.”*

(11) Since both Division Rules 506.A and 506.B (2) apply in this instance, any gas production from Gruy’s proposed Rhodes Federal Unit Well No. 87 and resulting standard 40-acre oil spacing and proration unit will be subject to the Rhodes (Yates-Seven Rivers) [Oil] Pool’s casinghead gas allowable of 800 MCF per day [see Finding Paragraph No. (3) above].

(12) Gruy’s requests for a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool comprising the NW/4 SW/4 (Unit L) of Section 8 for its proposed Rhodes Federal Unit Well No. 87 to be drilled at an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool is deemed unnecessary and should therefore be **dismissed**.

**Gruy Petroleum Management Company**

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**December 29, 2005**

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**It Is Therefore Ordered That:**

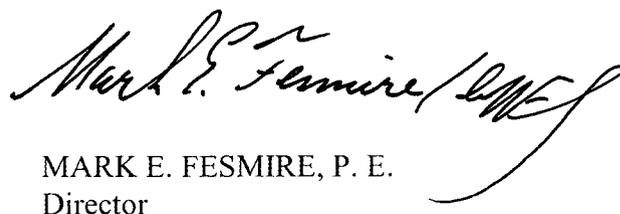
(1) The administrative application for Gruy Petroleum Management Company (*administrative application reference No. pSEM0-532747348*): (i) for an unorthodox gas well location in the Rhodes-Yates-Seven Rivers Gas Pool (83810) for its proposed Rhodes Federal Unit Well No. 87 (API No. 30-025-37602), to be drilled 1850 feet from the South line and 900 feet from the West line (Unit L) of Section 8, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico; and (ii) to establish a non-standard 40-acre gas spacing unit within the Rhodes-Yates-Seven Rivers Gas Pool for this well to comprise the NW/4 SW/4 of Section 8, deemed unnecessary, is hereby **dismissing** and is being returned at this time.

(2) Should it be necessary, Gruy shall amend any forms on file for this well with the Division's district office in Hobbs, New Mexico referencing the correct pool name as the Rhodes (Yates-Seven Rivers) Pool (52250).

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
MARK E. FESMIRE, P. E.  
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs  
U. S. Bureau of Land Management – Carlsbad  
U. S. Bureau of Land Management – Roswell  
U. S. Bureau of Land Management – Santa Fe  
File: Division Administrative Order NSP-1639 (L)  
Division Case No. 12015  
Division Case No. 12017





November 23, 2005

**HAND-DELIVERED**

Mark E. Fesmire, P. E.  
Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

*5:00 PM  
12-7-2005  
Met w/ Bill  
Carr concerning  
this application  
discussed this  
w/ Bill Carr on  
12-9-05  
12:00 noon*

Re: Application of Gruy Petroleum Management Co. for Administrative Approval of an Unorthodox Gas Well Location and an 80-acre Non-Standard Gas Spacing Unit for its Rhodes Federal Unit Well 87 located 1850 feet from the South line and 900 feet from the West Line of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Dear Mr. Fesmire:

Gruy Petroleum Management Co. pursuant to the provisions of Division Rule 104 F (2) adopted on January 18, 1996, seeks administrative approval of an unorthodox gas well location for its Rhodes Federal Unit Well No. 87 to be drilled to the Rhodes Yates-Seven Rivers formation, Rhodes Yates-Seven Rivers Gas Pool, at an unorthodox well location 1850 feet from the South line and 900 feet from the West line of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico. Attached as **Exhibit A** is the Application for Permit to Drill the Well (Federal Form 3160-3) and the Acreage Dedication Plat for the Well showing the survey location for the well and the proposed dedicated acreage.

Gruy Petroleum Management Co. also seeks administrative approval pursuant to the provisions of Division Rule 104 D (2)(b) and (c) adopted on January 18, 1996, of a non-standard 40-acre gas spacing and proration unit in the Rhodes Yates-Seven Rivers formation, Rhodes-Yates Seven Rivers (Gas) Pool for its Rhodes Federal Unit Well No. 87 comprised of the NW/4 SW/4 of Section 8, Township 26 South, Range 37 East, N.M.P.M., Lea County, New Mexico. The Rhodes Federal Unit Well No. 87 will be drilled on a tract under which the Rhodes Yates Seven-Rivers (Gas) Pool with standard 160-acre spacing overlaps the Rhodes Yates Seven-Rivers (Oil) Pool with standard 40-acre spacing.



If the Rhodes Federal Unit Well No. 87 is completed as an oil well, the spacing and setback requirements of Division Rules are met and the well will be at a standard location on a standard 40-acre oil well unit.

If the well is completed as a gas well, Gruy must obtain approval of a non-standard unit and an unorthodox location.

This unorthodox gas well location is necessary for geological reasons. Attached as **Exhibit B** is a Yates Formation Net Porosity Isopach Map that shows the thinning of the of the porosity in this formation to the north and west of the proposed location. The location is also desired because the structure in the Yates formation is lower to the West. Approval of the proposed location will increase the feet of porosity in the well and improve its structural position in the reservoir. Approval of this application will therefore increase Gruy's opportunity to efficiently recover the reserves under this tract.

Attached as **Exhibit C** is a plat that shows the subject spacing unit for this well and all adjoining spacing units or leases. Attached to this plat is a list that shows that all offsetting and spacing and proration units are operated by Gruy Petroleum Management Co. If the Rhodes Federal Unit Well No. 87 is a gas well, the unorthodox gas well location will only encroach on acreage operated by Gruy Petroleum Management Co. in which the ownership is identical to the ownership under the drill site. Accordingly, there are no affected parties to whom notification of this application for unorthodox well location should be provided.

This non-standard gas unit is comprised of a single quarter-quarter section and therefore lies within a single quarter section. All of the oil and gas minerals in the SW/4 of Section 8 are owned by either Gruy<sup>1</sup> or Robert A. Armstrong<sup>2</sup> and the ownership in this acreage is common. Although the ownership of all gas rights is common in the SW/4 of Section 8, Robert A. Armstrong, as Armstrong Energy Corporation and as Scolado, LLC, owns leasehold oil rights in this acreage. This is acreage that, if this is a gas well, would be included in a standard 160-acre spacing unit. Robert A. Armstrong, the only other interest owner in the SW/4 of Section 8 and an owner of an interest in the mineral estate in acreage that will be excluded from a standard 160-acre unit, has executed waivers of objection that are attached hereto as **Exhibit D**. There is no other owner of interest in the mineral estate that could be

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<sup>1</sup> Mineral interest under the SW/4 of Section 8 is owned by Gruy Petroleum Management Company and Prize Energy Resources, LP which are wholly owned subsidiaries of Cimarex Energy Co.

<sup>2</sup> Robert A. Armstrong owns mineral interests under the SW/4 of Section 8 as Armstrong Energy Corp. or as leasehold owner for Scolado, LLC. Armstrong is the owner of all of these rights and is agent for Scolado, LLC.

HOLLAND & HART<sup>LLP</sup>



excluded from this non-standard unit and, therefore, no other owners of interest to whom notice of this application must be provided.

Your attention to this application is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr".

William F. Carr

Attorney for Gruy Petroleum Management Co.

Enclosures

cc: Mr. Zeno Farris  
Gruy Petroleum Management Co.  
600 East Las Colinas Blvd.  
Suite 1100  
Irving, Texas 75039

SUBMIT IN TRIPPLICATE\*

FORM APPROVED  
OMB NO. 1004-0136  
Expires: February 28, 1995

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

(Other instructions on reverse side)

5. LEASE DESIGNATION AND SERIAL NO.

NMLC 030177-A

6 IF INDIAN, ALLOTTEE OR TRIBE NAME

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK  
DRILL  DEEPEN

7. UNIT AGREEMENT NAME

1b. TYPE OF WELL  
OIL WELL  GAS WELL   
SINGLE ZONE  MULTIPLE ZONE

Rhodes Federal Unit

2. NAME OF OPERATOR  
Gruy Petroleum Management Co.

8. FARM OR LEASE NAME, WELL NO.

Rhodes Federal Unit No. 87

3. ADDRESS AND TELEPHONE NO.  
P.O. Box 140907 Irving TX 75014 972-401-3111

9. API WELL NO.

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements \*)  
1850' FSL & 900' FWL

10. FIELD AND POOL, OR WILDCAT

Rhodes; Yates-7 Rivers (Gas)

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
Approximately 4 miles south of Jal, New Mexico

11. SEC. T. R. M., BLOCK AND SURVEY OR AREA

Section 8-T26S-R37E

15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, T.O.  
(Also to nearest drlg. unit line, if any) 900'

12. COUNTY OR PARISH

Lea NM

16. NO. OF ACRES IN LEASE 200  
17. NO. OF ACRES ASSIGNED TO THIS WELL 40  
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 1480'

13. STATE

21. ELEVATIONS (Show whether DF, RT, GR, etc.)  
2971' GR

22. APPROX. DATE WORK WILL START

12-01-05

23. PROPOSED CASING AND CEMENTING PROGRAM				
SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	J-55 8 5/8"	24#	975'	600 sx circ to surf
7 7/8"	J-55 5 1/2"	15.5#	4000'	1150 sx circ to surf

The proposed well will be drilled to a depth of 4000' and completed as a Rhodes; Yates-7 Rivers (Gas) producer. From the base of the surface pipe through the running of production casing, the well will be equipped with a 3000 psi BOP system.

IN ABOVE SPACE, DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED Zeno Farris TITLE Mgr. Ops. Admin. DATE 09-02-05

(This space for Federal or State office use)  
PERMIT No. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.  
CONDITIONS OF APPROVAL, IF ANY:

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

\*See Instructions On Reverse Side  
Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

DISTRICT I  
1625 N. FRENCH DR., HOBBS, NM 98240

DISTRICT II  
1301 W. GRAND AVENUE, ARTESIA, NM 98210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION  
1220 SOUTH ST. FRANCIS DR.  
Santa Fe, New Mexico 87505

Form C-102  
Revised JUNE 10, 2003  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number		Pool Code	Pool Name	
			Rhodes; Yates-7 Rivers (Gas)	
Property Code	Property Name			Well Number
	RHODES FEDERAL UNIT			87
OGRID No.	Operator Name			Elevation
162683	GRUY PETROLEUM MANAGEMENT CO			2971'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	8	26-S	37-E		1850	SOUTH	900	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
40	N	U	

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

Rhodes Federal Unit #87

GEODETIC COORDINATES  
NAD 27 NME  
Y=385786.0 N  
X=854222.9 E  
LAT.=32°03'19.74" N  
LONG.=103°11'24.01" W

**OPERATOR CERTIFICATION**

*I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.*

*Zeno Farris*  
Signature

Zeno Farris  
Printed Name

Mgr Operations Admin  
Title

September 7, 2005  
Date

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**SURVEYOR CERTIFICATION**

*I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.*

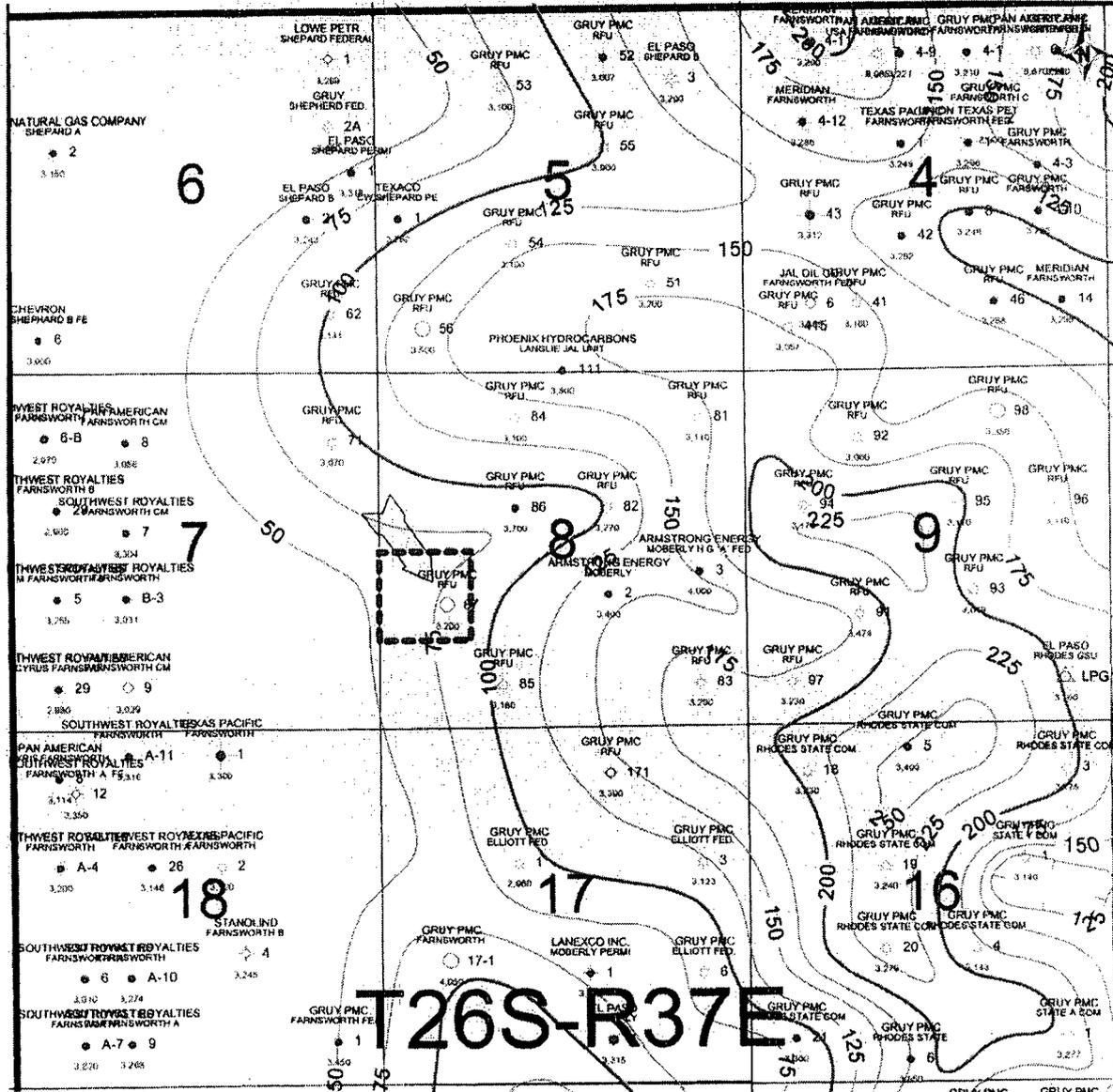
AUGUST 17, 2005  
Date Surveyed

LA  
Signature & Seal of Professional Surveyor

*Gary P. Edson*  
Professional Surveyor

05.11.1256  
Certificate No. GARY EDSON 12041

Standard 640-acre Section



STRA 10/4/2005 11:27:27 AM

Gruy Petroleum Management Company

RHODES YATES-SEVEN RIVERS GAS POOL

Yates Net Porosity Isopach (>= 6%)

Rhodes Federal Unit No. 87 Yates Test

POSTED WELL DATA

Operator  
Well Name  
● Well Number  
WELL - TD

REMARKS  
Lea County, New Mexico  
Contour Interval = 25 feet  
Showing 40 Acre Proration Unit Outline

By: K. T. Nordstog



October 4, 2005

EXHIBIT B



**List of Offset SPUs**  
**Application for Unorthodox Well Location**  
 Gruy Petroleum Management Co.  
 Rhodes Federal Unit No. 087  
 Rhodes; Yates-7 Rivers (Gas) Pool

OFFSET SPU	COLOR CODE	Well Name	Location	OPERATOR	ACREAGE DESCRIPTION	ACRES
1	Orange	Rhodes Federal Unit No. 84	C-8-26S-37E	Gruy Petroleum Management Co.	NW/4 Sec 8-T26S-R37E	160
		Rhodes Federal Unit No. 86	F-8-26S-37E			
2	Yellow	Rhodes Federal Unit No. 87 Proposed	L-8-26S-37E	Gruy Petroleum Management Co.	NW/4 SW/4 Sec 8-T26S-R37E	40
3	Pink	No Rhodes; Yates-7 Rivers (Gas) Wells	K-8-26S-37E	Gruy Petroleum Management Co.	NE/4 SW/4 Sec 8-T26S-R37E	40
4	Blue	Rhodes Federal Unit No. 85	N-8-26S-37E	Gruy Petroleum Management Co.	SE/4 SW/4 Sec 8-T26S-37E	40
5	Green	No Rhodes; Yates-7 Rivers (Gas) Wells	M-8-26S-37E	Gruy Petroleum Management Co.	SW/4 SW/4 Sec 8-T26S-R37E	40

**NW/4 SW/4 Section 8, Township 26S, Range 37E  
Rhodes Federal Unit No. 87 – 1800' FSL & 990' FWL  
Lea County, New Mexico, Containing 40 acres**

**RE: Rhodes Federal Unit No. 87 Non-Standard Spacing Unit.**

**Notification of Offset Operators:**

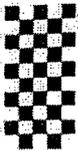
Gruy Petroleum Management Co.  
P. O. Box 140907  
Irving, TX 75014-0907

**Notification of Oil Rights Operator**

Armstrong Energy Corp.  
P.O. Box 1973  
Roswell, NM 88202

Magnum Hunter Production, Inc. owns 100% of the leasehold in the Gruy Petroleum Management Co. operated properties.

Magnum Hunter Production, Inc. and Gruy Petroleum Management Co. are wholly owned subsidiaries of Cimarex Energy Co.



OCT. 10. 2005 9:23AM

NO. 5989 P. 2



**Gruy Petroleum Management Co.**

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6450  
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907  
A subsidiary of Cimarex Energy Co. • A NYSE Listed Company • "XEC"

October 10, 2005

Armstrong Energy Corporation  
500 N Main St. Suite 1000  
Roswell, NM 88201  
Atten: Mr. Robert G. Armstrong

RE: Rhodes Federal Unit No. 87 Rhodes; Yates Seven-Rivers (Gas) Pool  
Non Standard Spacing and Unorthodox Well Location Exception

Dear Mr. Armstrong:

Gruy Petroleum Management Co. is proposing to drill the referenced Rhodes Federal Unit No. 87 well in the NW/4SW/4 of Section 8-26S-37E at 1850' FSL & 900' FWL as a Rhodes; Yates Seven-Rivers gas test. The Rhodes; Yates Seven-Rivers (Gas) Pool with standard 160 acre spacing and the Rhodes; Yates Seven-Rivers (Oil) Pool with standard 40 acre spacing overlap in this area. The proposed RFU 87 is located on acreage in the Rhodes Oil Pool. In this regard, any gas spacing unit greater than 40 acres for this well would sever acreage from the Rhodes Oil Pool offsetting your H. G. Moberly "A" Federal No. 1 well located in the NW/4SE/4 of Section 8-26S-37E. If the RFU 87 is completed as an oil well, the spacing and setbacks are standard and orthodox for the Rhodes Oil Pool. However if the well is completed as a gas well, the spacing and setbacks are non standard and unorthodox for the Rhodes Gas Pool. Therefore it is necessary for us to apply for exceptions to the spacing and setback requirements for the Rhodes Gas Pool.

As leasehold owner of oil rights and agent for Scolado, LLC in our proposed gas spacing unit we request you execute this letter in the space provided below, indicating your waiver of protest to our exceptions. We have a rig scheduled for mid to late October, and your cooperation in this matter would be greatly appreciated.

Well information, including logs and drilling reports, will be furnished to you.

Sincerely,

*Zeno Farris*

Zeno Farris  
Manager, Operations Administration  
Permian Basin Region

Signature:

*Robert G. Armstrong*

Printed Name:

ROBERT G. ARMSTRONG

Title:

PRES

Date:

10-10-05



**Gruy Petroleum Management Co.**

600 East Las Colinas Blvd. • Suite 1100 • Irving, TX 75039 • (972) 401-3111 • Fax (972) 443-6460  
Mailing Address: P.O. Box 140907 • Irving, TX 75014-0907  
A subsidiary of Conoco Energy Co. • A NYSE Listed Company • "XEC"

October 10, 2005

Armstrong Energy Corporation  
500 N Main St. Suite 1000  
Roswell, NM 88201  
Attn: Mr. Robert G. Armstrong

RE: Rhodes Federal Unit No. 87 Rhodes Yates Seven-Rivers (Gas) Pool  
Non Standard Spacing and Unorthodox Well Location Exception

Dear Mr. Armstrong:

Gruy Petroleum Management Co. is proposing to drill the referenced Rhodes Federal Unit No. 87 well in the NW/4SW/4 of Section 8-263-37E at 1650' FSL & 900' FWL as a Rhodes Yates Seven-Rivers gas well. The Rhodes Yates Seven-Rivers (Gas) Pool with standard 160 acre spacing and the Rhodes Yates Seven-Rivers (Oil) Pool with standard 40 acre spacing overlap in this area. The proposed RFU 87 is located on acreage in the Rhodes Oil Pool. In this regard, any gas spacing unit greater than 40 acres for this well would sever acreage from the Rhodes Oil Pool affecting your H. G. Mobley "A" Federal No. 1 well located in the NW/4SE/4 of Section 8-263-37E. If the RFU 87 is completed as an oil well, the spacing and setbacks are standard and orthodox for the Rhodes Oil Pool. However if the well is completed as a gas well, the spacing and setbacks are non standard and unorthodox for the Rhodes Gas Pool. Therefore it is necessary for us to apply for exceptions to the spacing and setback requirements for the Rhodes Gas Pool.

As leasehold owner of oil rights and agent for Scolado, LLC in our proposed gas spacing unit we request you execute this letter in the space provided below, indicating your waiver of protest to our exceptions. We have a dg scheduled for mid to late October, and your cooperation in this matter would be greatly appreciated.

Well information, including logs and drilling reports, will be furnished to you.

Sincerely,  
*Zeno Farris*  
Zeno Farris  
Manager, Operations Administration  
Permian Basin Region

	ARMSTRONG ENERGY CORPORATION	SCOLADO, LLC
Signature:	<i>[Signature]</i>	<i>[Signature]</i>
Printed Name:	ROBERT G. ARMSTRONG	THOMAS K. SCROGGIN
Title:	PRES.	MANAGING MEMBER
Date:	10-10-05	10-10-05