

# VANCO

January 17, 2002

## **HAND DELIVERED**

State of New Mexico  
Department of Energy, Minerals  
and Natural Resources  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

Re: 2002 Plan of Development  
North Square Lake Unit  
Eddy County, New Mexico.

Ladies and Gentlemen:

By Division Order No. R-11207, dated June 17, 1999, the Oil Conservation Division approved the North Square Lake Unit pursuant to the Statutory Unitization Act. GP II Energy, Inc. is the operator of the unit. The Division Order was ratified by a sufficient percentage of the unit owners and the unit became effective on January 1, 2000.

On August 20, 2000 the Division entered Order No. R-11435 which approved the implementation of a waterflood project in two areas within the unit area defined a Phase IA East and Phase IB West by injection through 23 proposed injection wells. The order provided that the injection authority granted for any well would expire one year after the effective date of the Order if injection had not commenced into the well. GPII obtained an extension of this order through August 10, 2002.

Pursuant to the provisions of the Unit Agreement, GPII plans to resign as operator of the Unit and Vanco Oil & Gas Corp. ("Vanco") will become successor operator. Vanco operates wells in the State of Texas and is a working interest in the unit area

Vanco submits the following Plan of Development for the North Square Lake Unit for January 1, 2002 through December 31, 2002, to include:

1. First half 2002: Perform all required remedial work for 2 injection wells pursuant to the current approved Form C-108 application;

2. First quarter, 2002: Drilling 12 producing wells on an effective 20-acre spacing pattern;
3. Upgrade surface facilities within the Unit including the installation of three central batteries with lact units and crude pipeline connections;
4. Post additional plugging bonds in the amount of \$195,000 to cover existing non-compliant wells;
5. Implement remedial work program to bring existing non-compliant wells into compliance;
6. Last 9 months of 2002: Drill 29 additional producing wells on an effective 20-acre spacing pattern during the last 9 months of 2002;
7. Implement additional injection as justified based on study and experience with initial injection wells and results of offsetting full-scale injection project.

During 2003, Vanco Oil& Gas Corp plans to upgrade existing injection facilities and convert and/or develop additional injection wells and drill 32 additional wells. A formal plan of Development will be filed for the year 2003 during December 2002.

Questions regarding this proposed Plan of Development for 2002 and 2003 should be directed to me at Post Office Box 2236, Midland, Texas 79702-2236, telephone no.: (915) 559-0005.

Very truly yours,

A handwritten signature in black ink, appearing to read 'D. Cotner', written over a horizontal line.

David Cotner  
President  
Vanco Oil & Gas Corp.