



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

April 4, 2000

Campbell, Carr, Berge & Sheridan, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: Mr. William F. Carr

Re: GP II Energy Inc.
North Square Lake Unit
Division Order No. R-11207

Dear Mr. Carr:

I have received your letter dated March 27, 2000, which outlines your concerns over possible actions the Division may take regarding the statutorily unitized North Square Lake Unit, currently operated by GP II Energy, Inc ("GP II"). It is my understanding that your client, GP II, will file an application for approval of a waterflood project. It is important for GP II to file its application promptly to assuage the following concerns:

Issue No. 1: Non-Compliance With a Division Request

Cases No. 12113 and 12112, the applications of GP II for statutory unitization of the North Square Lake Unit and approval of a waterflood project within the North Square Lake Unit, respectively, were heard by the Division on February 4, 1999. On May 17, 1999, the Division sent a letter to GP II stating its serious concerns over the integrity of the data presented on Division Form C-108 (Application to Inject) in Case No. 12112. The Division's letter further states, "GP II is requested to file an application to re-open Case No. 12112 at such time as the applicant is prepared to appear and present a revised Form C-108 complete with all corrections and all data elements necessary to process the application." On or about this time, you conveyed to the Division that any further delays in processing the application for statutory unitization could seriously jeopardize GP II's efforts to acquire funding for this project, and therefore you requested that the Division issue an order in the statutory unitization case. In response to your request, the Division issued Order No. R-11207, dated June 17, 1999, which statutorily unitized the North Square Lake Unit. Although the Division's May 17th letter did not contain a deadline, it was assumed that GP II would file an amended application within a reasonable period of time. Over nine months have passed since Order No. R-11207 was issued and GP II has made no effort to re-open Case No. 12112 to present evidence supporting the proposed waterflood project. The Division believes that it has provided GP II sufficient time and ample opportunity to correct its data and re-open Case No. 12112.

In your letter dated March 6, 2000, in which you updated the Division on current operations within the North Square Lake Unit, you advised us that 22 wells within the unit have been restored to production and that ten well locations have been staked for the drilling of new producing wells. Your letter further states that the information obtained from the drilling of these wells will enable GP II to "take a concentrated look at these two portions of the reservoir and will assist GP II in the preparation of a revised Form C-108 which will be submitted to the Division with an amended request for approval of waterflood operations in these two initial injection areas." The Division questions the relevancy and necessity of this data for the filing of a revised Form C-108. We are further concerned that your proposal will further delay, possibly for an extended period of time, the re-opening of Case No. 12112 and the filing of a revised Form C-108.

Issue No. 2: Ultimate Approval of a Waterflood Project

From the time Case No. 12112 was heard, the Division has had serious concerns regarding approval of a waterflood project within the North Square Lake Unit. The Division's concerns stem from its initial review of GP II's Form C-108, which demonstrates that there are a large number of wells within this unit that may not have been properly plugged and abandoned, and that there are a large number of wells that may not be cased, cemented and completed so as to confine injected fluid to the proposed injection interval. It certainly appears, upon an initial review, that GP II will be required to perform extensive remedial work on wells within the North Square Lake Unit prior to commencing injection operations. Moreover, it is not inconceivable that due to the vintage and condition of the wellbores in the unit, the proposed waterflood project may ultimately be denied. It was the Division's hope that any questions regarding the feasibility of waterflood operations within the North Square Lake Unit would be resolved earlier by the filing of a revised Form C-108.

Issue No. 3: Continued Operations Under a Statutory Unitization Order

The purpose of statutory unitization is to allow for the continued development of an area by means of pressure maintenance or secondary or tertiary recovery operations. An area cannot be approved for statutory unitization and maintained in this state in the absence of an order approving secondary recovery operations. Generally, statutory unitization and secondary recovery applications are heard and approved simultaneously by the Division. When the Division approved the statutory unitization of the North Square Lake Unit, it did not anticipate nor could it foresee that GP II would delay re-opening Case No. 12112. The Division cannot allow GP II to continue operating the North Square Lake Unit under a statutory unitization order for an indefinite period of time in the absence of an order approving secondary recovery operations.

Issue No. 4: Complaints From Various Interest Owners in the Unit

The Division has received complaint letters (copies enclosed) from the following interest owners in the North Square Lake Unit:

Beth McDonald	Letter dated February 25, 2000
Tommy McDonald	Letter received March 6, 2000
Vicki Osborne/Oklahoma Exploration Company	Letter dated February 17, 200
Losee, Carson, Haas & Carroll, P.A. on behalf of Chase Oil Corporation	Letter dated February 18, 2000

As you can see from the letters, these interest owners have valid concerns regarding the current operations within the GP II-operated North Square Lake Unit. In addition, I have had conversations with Mr. Ernest Carroll of Losee, Carson, Haas & Carroll, who indicated that Chase Oil Corporation is prepared to appear at a Division hearing and present testimony in this case.

In light of the Division's concerns, GP II must file its application for approval of a waterflood project by May 1, 2000.

If you should have any questions, please contact me at (505) 827-8184.

Sincerely,



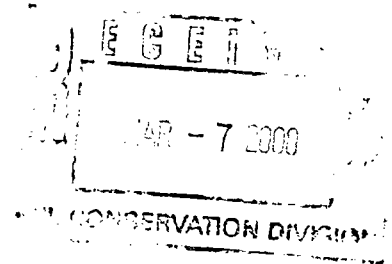
David Catanach
Engineer/Examiner

Xc: OCD-Artesia
Case File 12112 ✓
Lori Wrotenbery

Beth McDonald
8000 Montgomery, NE, #816
Albuquerque, NM 87109

February 25, 2000

Mr. David Catanach
Oil Conservation Division
2040 S. Pacheco St
Santa Fe, NM 87505



RE: Case No. 12112 & 12113

Dear Mr. Catanach:

I recently received a statement for "operating expenses" from GP II. The first contact I had with this company as an Assignment I received in the mail, with no explanation attached. I did not sign the Assignment, and the next communication I received was a statement for expenses. The statement does not include any details, simply an item labelled "Operating Expenses", which is wildly inflated in the current oil market. It seems that my interests in the Square Lake Field have been unitized without my knowledge or consent.

I was not aware that it was legal to unitize properties without prior notification of all the parties involved. Is there any way that I can protest this action, or at least refuse to pay for operating expenses that do not exist until provided with detailed billing statements showing actual work being done on the unit? In discussing this situation with other operators in the same position, it appears that GPII has formed the unit with the intention of billing in advance in order to raise enough money to fulfill the obligations of the Unit as required by the OCD. It is my position that if GP II does not have the money to operate the Unit, they should not be allowed to dun me for advances in order to operate. I have also been informed that this Unit was formed because of lease line producer applications being turned down by the OCD, and that there are no plans to actually waterflood this unit during the year 2000.

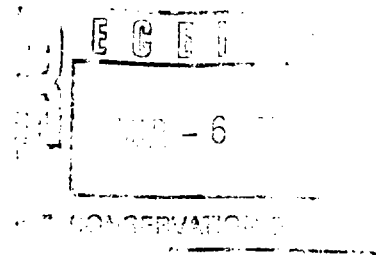
Since I have not ever been contacted directly by GP II regarding this unitization, I feel that GP II is attempting to defraud me of my interest. In this situation, I have been left with an obligation to pay "expenses" that do not exist, or risk losing even what little ownership in my diluted interest remains.

Please research this unitization to see if it was legally done, and if not, I request that the Unit be dissolved.

Sincerely,

Beth McDonald

FI-RO CORPORATION
RR4 6228 DEVONIAN
ROSWELL,NM.88201



MR.DAVID CATANACH
OIL CONSERVATION DIVISION
2040 S. PACHECO ST.
SANTA FE,NM.87505

RE:GPII ENERGY,INC.

MR CATANACH

SOMETIME OVER A YEAR AGO , A PETROLEUM ENGINEER NAMED LEE, CALLED AND ASK IF WE WOULD PARTICIPATE IN A WATER FLOOD UNIT ,TAKING OUR KENNEDY FEDERAL LEASE. I TOLD HIM WE WOULD NOT PARTICIPATE IN THE UNIT BUT WOULD SELL HIM OUR WELLS FOR \$125000 ,INCLUDING RIG,TRUCK AND OTHER SPARE EQUIPMENT, MR LEE CALLED BACK AND SAID MR SIRGO WANTED TO BUY OUR WELLS. THE NEXT THING WE HEARD WAS WHEN WE GOT A N INVOICE FOR OPERATING EXPENSES. NOW WITH NOTHING BEEN DONE THE OPERATING EXPENSES WERE OVER \$38000.00 ,WE WOULD LIKE TO BE EXCLUDED FROM THE UNIT. AS WE NEVER AGREED TO ANYTHING BUT TO SELL OUR WELLS AND THIS DOES NOT MEAN WE WOULD BE INCLUDED IN OPERATING EXPENSES.I DON'T KNOW IF YOU ARE THE ONE TO STOP OUR WELLS FROM BEING TAKEN, AND BEING BILLED FOR TAKING THEM,BUT IF YOU ARE I WOULD REALLY APPRECIATE YOU DOING SO,IF NOT WOULD YOU PLEASE LET ME KNOW WHO COULD HELP.

I REALLY APPRECIATE YOUR TAKING TIME TO READ THIS LETTER.IF I CAN DO ANYTHING TO SPEED THIS ALONG,PLEASE CONTACT US AT :

TOMMY MCDONALD
RR4 6228 DEVONIAN
ROSWELL,NM.88201

PHONE 505-623-3029 FAX 505-624-2615
EMAIL < KEGNASTY@YAHOO.COM >

OKLAHOMA EXPLORATION COMPANY

(214) 522-2053

DALLAS, TEXAS 75205

5121 McKINNEY

February 17, 2000

Mr. David Catanach
Oil Conservation Division
State of New Mexico
2040 South Pachoco Street
Santa Fe, NM 87504

RE: Case No. 12113,
Order No. R-11207

Dear David:

Per my telephone conversation with you several weeks ago, I am writing to you regarding our concerns with GP II Energy and the unitization in Eddy County, New Mexico, Case No. 12113, Order No. R-11207.

We do not believe that we have had proper notice of their filings and that they have not followed the proper procedures in forming this unit. Likewise, they operate the lease (the LOE FEDERAL) in which we own 66% working interest and have not followed the terms of the Joint Operating Agreement in this matter either.

We recently received a pre-billing for the North Square Lake Unit which was formed and it appears that they are proceeding with the Unit development, even though you informed me that if the waterflood plan is not approved, the Unit will be dissolved. It appears GP II Energy is premature in this matter.

We have also heard of problems GP II Energy has in Lea County, New Mexico in which they formed a unit and have had liens filed against them there, etc.

We have concerns regarding their business dealings and their reputation and do not believe the waterflood plan should be approved. Please let me know if you have any questions.

Sincerely,



Vicki Osborn

VO/ms

cc: Ron Laning - Mack Energy
FAX: 505-746-9539

LAW OFFICES

LOSEE, CARSON, HAAS & CARROLL, P. A.

ERNEST L. CARROLL
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ROSWELL OFFICE
400 N. PENN., SUITE 870
ROSWELL, NM 88201
PHONE (505) 623-5154

PLEASE DIRECT ALL CORRESPONDENCE
TO OUR ARTESIA OFFICE

FEB 22 2000

February 18, 2000

Mr. David Catanach
Oil Conservation Division
2040 S. Pacheco St.
Santa Fe, NM 87505

Re: Case No. 12112 & 12113

Dear Mr. Catanach:

As a follow-up to our recent telephone conversation about Chase Oil Corporation, Webb Oil Company, and Square Lake Partners's concerns about the intentions of GP II Energy, Inc. with respect to the two applications, I would like to report to you that I have had additional conversations with my client, Chase Oil Corporation, and they ask that I write to you to request your looking into what is actually happening out here, and the intentions of GP II Energy, Inc. Manny Sirgo (Square Lake Partners) was in Chase Oil's offices February 10th. Mr. Sirgo informed Chase Oil that they had no plans to inject during the year 2000, and that they would only be drilling ten producers. Mr. Sirgo did state during that conversation that the reason they were prompted to form the unit was Mr. Stogner's refusal to approve their lease line producer applications. Chase Oil has also received a recent joint interest billing which shows very excessive management fees being charged by GP II Energy for the unit.

We do not feel that approval of GP II Energy's request for a unit should stand if there is no intention to actually begin waterflood operations out there, and would request that the OCD hold a show-cause hearing, so as to actually determine what GP II Energy's intentions are. The possibilities are boundless as to what the motivations of GP II Energy's might actually be, and most of those possibilities can affect correlative rights in ways that were not approved by the OCD.

Your consideration of this request is greatly appreciated. If I can be of further service, please advise.

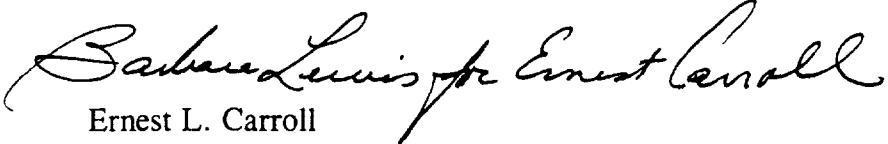
Mr. David Catanach

-2-

February 18, 2000

Yours very truly,

LOSEE, CARSON, HAAS & CARROLL, P.A.


Ernest L. Carroll

ELC:bal

cc: Mr. Ron Lanning