

May 27, 2004

Mr. Tim Gum  
New Mexico Oil Conservation Division  
1301 W. Grand Ave.  
Artesia, New Mexico 88210

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OCB-ARTESIA

Re: Roulette AXR State #1

30-005-63410

Dear Mr. Gum:

Yates Petroleum Corporation has received from your office an approved Application for Permit to Drill the Roulette AXR State #1 well. Yates accepts this APD in the form presented and will comply with the requirements contained therein so that we may continue with our drilling operations. However, Yates acceptance of the APD shall not be construed as a waiver of any rights to challenge a requirement contained in future APD's that we feel is not supported by sound engineering or operational practices. Specifically, we are concerned with the requirement to cement the casing string back to cover the Glorietta formation, which is not a fresh water zone. We reserve the right to challenge this requirement in the future.

Respectfully,

  
Jeremiah Mullen  
Yates Petroleum Corporation