



HARVEY E. YATES COMPANY

A MEMBER COMPANY OF HEYCO ENERGY GROUP

May 23, 2007

WALKER WORKING INTEREST UNIT OWNERS

(See attached mailing list)

RE: Walker 18 Fed. Com. #1
1650' FNL & 660' FWL, Sec. 18
T-18S R-32E, N.M.P.M.
Lea County, New Mexico

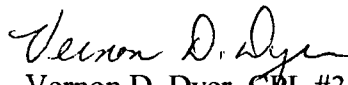
Ladies and Gentlemen:

By letter dated May 8, 2007, Harvey E. Yates Company (HEYCO) proposed the drilling of the above caption well to the Morrow Formation at a depth of 12,700'. In the letter, HEYCO enclosed three (3) items, one being a worksheet indicating the ownership in the N/2 Section 18, T-18S R-32E. There is a mistake in the worksheet as the amount indicated for drilling and completing the well is incorrect. I have prepared a new worksheet with the correct amount and I have set the worksheet where it is easier to read.

I must also explain, the interest indicated on the aforementioned worksheet is from the take-off of the Brokerage firm as best as can be determined. However, this interest is subject to change, as I am having a title opinion prepared at this time. Once it is complete, I will furnish a copy to all the Working Interest Owners (WIO's) for your review, make the change, if any, in your working interest and to help clear up any title requirements.

I wish to thank you for your cooperation on this matter and we are still looking for a spud date July the 20 of this year. If you have any questions, please feel free to contact me at 505-623-6601 or by email at vdyer@heycoenergy.com.

Yours very truly,


Vernon D. Dyer, CPL #3174
Senior Landman

Oil Conservation Division
Case No. _____
Exhibit No. 2

ADDRESSES OF PARTIES FOR NOTICE PURPOSES:

The names and addresses of each party in the Contract Areas to this agreement are set out herein below:

HARVEY E. YATES COMPANY
EXPLORERS PETROLEUM CORP.
SPIRAL, INC.
HEYCO EMPLOYEES, LTD.
P. O. Box 1933
Roswell, New Mexico 88202-1933

REDCLIFF RESOURCES, L. C.
Attn: Kathy Macha
P. O. Box 4848
Wichita Falls, Texas 76308-4848

DEVON ENERGY PROD. CO. LP
20 N. Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

ST. MARY LAND & EXPLORATION CO.
Attn: Scott Hammond
580 Westlake Park Blvd., #600
Houston, TX 77079

XTO ENERGY INC.
Attn: NOJV Mgr.
810 Houston St., Suite 2000
Fort Worth, Texas 76102

COG OPERATING LLC
550 W. Texas, Suite 1300
Midland, TX 79701

CURRY & THORNTON
905 Forth Worth Club Bldg.
Fort Worth, TX 76102-4911

LARRY ARNOLD
P. O. Box 2253
Hobbs, NM 88240

CLAYTON BARNHILL
P. O. Box 1354
Roswell, NM 88202-1354

SEALY H. CAVIN
P. O. Box 1125
Roswell, NM 88202-1125

JOHN N. BENEDICT
P. O. Box 1378
Boerne, TX 78006

LORI LYNN SCOTT
648 Petroleum Bldg.
Roswell, NM 88203

SUSAN MURPHY
648 Petroleum Bldg.
Roswell, NM 88201

HAMMERSMITH REALTY, INC.
45 Beaverbrook Crescent
St. Albert
Alberta, Canada

PRM 96, LLC
3922 Bach Blvd.
Roswell, NM 88201

PRIME ENERGY ASSET & INCOME FUNDS
Income Fund LP AA-3
Income Fund LP AA-4
9821 Katy Freeway, #1050
Houston, Texas 77024-6009
Attn: Glinda B. Collins

OCCIDENTAL PERMIAN LTD.
Attn: Leslyn Wallace
P. O. Box 50250
Midland, Texas 79710-0250

PATRICIA ANN BRUNSON
P. O. Box 1353
Springdale, Arkansas 72764-1353

ARLOMA CORPORATION
Attn: Jerry James
231 Third Street
Marietta, Ohio 45750

THE ALLAR COMPANY
P. O. Box 1567
Graham, TX 76450

THE GROSS FAMILY LTD. PRT.
P. O. Box 358
Roswell, NM 88202

CHESAPEAKE EXPLORATION LTD.
P. O. Box 18496
Oklahoma City, OK 73154-0496

MORDKA ENTERPRISES, INC.
1800 North Grady
Tucson, AZ 85715

PERMIAN BASIN INVESTMENT CORP.
200 W. 1st
Roswell, NM 88203

SEALY H. CAVIN JR.
3235 Calle de Deborah NW
Albuquerque, NM 87014

INNOVATIONS INC.
100 N. Pennsylvania St.
Roswell, NM 88203

ORION, LLC
2720 Spring Circle Road
Holladay, UT 84117

KALOB, LLC
2720 Spring Circle Road
Holladay, UT 84117

[illegible]

Land: Walker



HARVEY E. YATES COMPANY

A MEMBER COMPANY OF HEYCO ENERGY GROUP

May 8, 2007

VIA FAX & U.S.MAIL

WALKER UNIT WORKING INTEREST OWNERS
(See attached mailing list)

RE: **Walker 18 Fed. Com. #1**
1650' FNL & 660' FWL, Sec. #18
T-18S R-32E, N. M. P. M.
Lea County, New Mexico

Ladies and Gentlemen:

Harvey E. Yates Company (HEYCO) proposes the drilling of a 12,700' Morrow test to be located in the NW/4 Section 18, T-18S R-32E, Lea County, New Mexico. HEYCO encloses herewith the following items concerning this proposal:

1. A Joint Operating Agreement (JOA) covering the N/2 Section 18, T-18S R-32E naming HEYCO as the Operator.
2. A worksheet indicating the ownership in the covered acreage (N/2 Sec. 18) by Contract Areas "A", "B" & "C".
3. An AFE covering the proposed well in the amount of \$2,543,197.00 for a completed well.

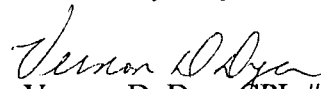
While I am requesting all parties to execute the JOA, I am only requesting the parties in Area "C" to execute the AFE.

Primary objectives for the well are the lower and middle Morrow sands. The proposed total depth of 12,700' TVD will penetrate the entire Morrow section and the top portion of the Upper Mississippian. Morrow sand reservoirs are typically stratigraphic in nature, trapped either by porosity and permeability pinch-outs or by sand thinning (depositional or erosional) to an absence point/line. Morrow distributary channels in this area trend in a north-northeast/south-southwest orientation. Morrow sand accumulations in the Shugart Field areas to the south can be extended northeast by isopach mapping into the prospect area. The nearest Morrow producers are ~1-3/4 mile away. To the north HEYCO drilled the Pearsall 6 Fed Com. #1 in 2001. Cumulative production from the Lower Morrow for this well through 1/1/07 is 1.1 BCF and 42 MBO. To the east Mewbourne drilled the SF 17 #1 in 2003, it has a cumulative production to date of 144 MMCFG; and to the south, the Mewbourne Gernimo 24 Fed #1 has produced 76

MMCFG since March of 2006. Three to four miles west is the closest analog and densely drilled producing area. Cedar Lake, East Field has produced 18.8 BCFG from the Middle Morrow from 18 wells and Shugart, North has produced 45.5 BCFG, mainly Lower Morrow, from 38 wells. Strawn and Lower Wolfcamp carbonates could contain secondary oil & gas pays uphole. Strawn production has been established in the both the Mewbourne SF 17 Fed wells with the #2 having a cumulative production to date of 77 MBO and 209 MMCFG.

After you have reviewed the enclosures, please indicate your election on this proposal by checking below the proper selection. If you elect not to join in the proposal, please consider a Farmout of your interest at the terms indicated below. After you have made your election, please return this letter to the sender by FAX @ 505-627-2427 and follow by U.S. Mail to the address above. It is HEYCO's intent to drill this well on or before September 15, 2007. If you have any questions concerning this proposal, please contact Vernon D. Dyer, Landman or Gordon Yahney, Geologist at 505-623-6601.

Yours very truly,


Vernon D. Dyer, CPL #3174

Elect to _____ Join _____ NOT Join in the Walker 18 Fed. Com. #1

Elect to _____ Farmout our interest for this well; retaining a 25% ORRI inclusive of all royalties and ORRI of record at the time of the Farmout and there will NOT be a Back-in.

Company

by _____

Printed Name

its: _____

HARVEY E. YATES COMPANY

LEASE NAME & NO.: WALKER 18 FEDERAL #1 AFE TYPE: NEW DRLG
 LEGAL LOCATION: 1650' FNL & 660' FWL, SEC.18, T18S, R32E DEPTH: 12,700
 COUNTY: LEA STATE: N.M

ACCOUNTING NO: 0
 AFE NO: R-2
 FORMATION: MORROW

DRILLING & COMPLETION COSTS:

920-000	INTANGIBLE DRILLING COSTS:		DRY HOLE COSTS	PRODUCING WELL COSTS
920-009	ABSTRACTS & TITLE OPINIONS		\$10,000	\$10,000
921-000	STAKING DAMAGES & LEGAL FEES		\$5,000	\$5,000
921-001	LOCATION, RIGHT OF WAY		\$68,300	\$68,300
921-002	FOOTAGE: FEET @ \$/FOOT		\$0	\$0
921-003	DAYWORK: FUEL + MOBILIZATION	\$24,500	\$1,225,000	\$1,225,000
921-004	SURFACE CASING CEMENTING & SERVICE		\$10,400	\$10,400
921-005	DRILLING MUD, ADDITIVES & WATER		\$83,500	\$83,500
921-006	MUD LOGGING UNIT, SURVEYS ETC.		\$38,850	\$38,850
921-007	INTERMEDIATE CASING CEMENTING & SERVICES		\$27,800	\$27,800
921-008	GENERAL MISC. (BOP TEST, RATHOLE...ETC)		\$4,272	\$4,272
922-000	RENTAL TOOLS & EQUIPMENT		\$37,235	\$37,235
922-001	COMPANY SUPERVISION & OVERHEAD		\$47,500	\$47,500
922-004	MISC. BITS, TOOLS & SUPPLIES		\$293,954	\$293,954
	TOTAL INTANGIBLE DRILLING COSTS		\$1,851,811	\$1,851,811

923-000	INTANGIBLE FORMATION EVALUATION:			
923-001	CORING, TOOLS & SERVICE (SIDEWALL CORES)		\$18,700	\$18,700
923-002	DST: # DST TO RUN/ \$ CHARGE		\$6,900	\$6,900
923-003	ELECTRIC LOGS, ...ETC		\$48,500	\$48,500
923-004	MISC. FORMATION EVAL.		\$5,000	\$5,000
	TOTAL INTANGIBLE FORMATION EVALUATION		\$79,100	\$79,100

924-000	INTANGIBLE COMPLETION COSTS:			
924-001	COMPLETION UNIT: DAYS & \$/DAY	10	\$4,500	\$0
924-003	MUD, WATER & ADDITIVES			\$0
924-004	CEMENT, TOOLS & SERVICES (PROD.STRING...ETC)			\$0
924-005	ELECTRIC LOGS(CBL...ETC.),TESTING			\$0
924-006	TOOL & EQUIPMENT RENTAL & TRUCKING			\$0
924-007	STIMULATION & TREATING			\$0
924-008	COMPANY SUPERVISION & OVERHEAD			\$0
925-001	BITS, TOOLS & SUPPLIES			\$0
925-002	PLUG BACK			\$0
925-003	MISCELLANEOUS			\$0
951-000	PLUGGING EXPENSE			\$0
	TOTAL INTANGIBLE COMPLETION COSTS		\$74,355	\$470,055.00

930-000	TANGIBLE DRILLING & COMPLETION COSTS:			
930-001	SURFACE CASING COSTS	(SIZE/FT)	13 3/8" 400'	\$22,000
930-002	INTERMEDIATE CASING	(SIZE/FT)	8 5/8" 3,100	\$70,300
930-003	PRODUCTION CASING	(SIZE/FT)	5 1/2" 12,700'	\$0
930-004	PRODUCTION TUBING	(SIZE/FT)	2 3/8" 12,700'	\$0
930-005	CASING HEAD			\$0
930-006	CASING SPOOL			\$0
930-007	TUBING HEAD			\$0
930-008	CHRISTMAS TREE			\$0
931-000	SUBSURFACE EQUIPMENT			\$0
931-001	MISC PIPE CONNECTIONS			\$0
931-002	PACKER & SPECIAL EQUIPMENT			\$0
931-003	MISCELLANEOUS			\$0
	TOTAL TANGIBLE DRILLING & COMPLETIONS COSTS			\$92,300

940-000	GENERAL LEASE & BATTERY EQUIPMENT:			
940-001	PUMPING UNIT (PRIME MOVER)			\$0
940-002	SEPARATORS, GAS PROD.UNITS,...ETC.			\$0
940-005	Oil & Water Tanks No. & Size	2- 500 bbls 1- 300 bbls		\$0
941-000	INSTALLATION COSTS			\$0
941-001	FLOW LINES, VALVES...ETC			\$0
941-005	MISCELLANEOUS LEASE EQUIPMENT			\$0
	TOTAL GENERAL LEASE & BATTERY EQUIPMENT COSTS			\$0

TOTAL INTANGIBLE COSTS: \$2,005,266 \$2,400,966
 TOTAL TANGIBLE COSTS: \$92,300 \$493,983
 TOTAL LEASE & BATTERY EQUIPMENT: \$0 \$110,676

TOTAL COSTS PREPARED BY:

KEITH CANNON

DATE: 10/6/2006

\$2,097,566 \$3,005,625

APPROVED BY:

COMPANY:

DATE:

"IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY, AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED, WHETHER MORE OR LESS THAN HEREIN SET OUT"

HARVEY E. YATES COMPANY

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921-001	LOCATION, RIGHT OF WAY			\$68,300	\$68,300
921-002	FOOTAGE: FEET @ \$/FOOT			\$0	\$0
921-003	DAYWORK: FUEL + MOBILIZATION	\$22,500		\$1,125,000	\$1,125,000
921-004	SURFACE CASING CEMENTING & SERVICE			\$16,450	\$16,450
921-005	DRILLING MUD, ADDITIVES & WATER			\$83,500	\$83,500
921-006	MUD LOGGING UNIT, SURVEYS ETC.			\$38,850	\$38,850
921-007	INTERMEDIATE CASING CEMENTING & SERVICES			\$33,450	\$33,450
921-008	GENERAL MISC. (BOP TEST, RATHOLE...ETC)			\$4,272	\$4,272
922-000	RENTAL TOOLS & EQUIPMENT			\$37,235	\$37,235
922-001	COMPANY SUPERVISION & OVERHEAD			\$47,500	\$47,500
922-004	MISC. BITS, TOOLS & SUPPLIES			\$280,709	\$280,709
	TOTAL INTANGIBLE DRILLING COSTS			\$1,750,266	\$1,750,266

923-000	INTANGIBLE FORMATION EVALUATION:				
923-001	CORING, TOOLS & SERVICE (SIDEWALL CORES)			\$18,700	\$18,700
923-002	DST: # DST TO RUN/ \$ CHARGE			\$6,900	\$6,900
923-003	ELECTRIC LOGS, ...ETC			\$65,600	\$65,600
923-004	MISC. FORMATION EVAL.			\$5,000	\$5,000
	TOTAL INTANGIBLE FORMATION EVALUATION			\$96,200	\$96,200

924-000	INTANGIBLE COMPLETION COSTS:				
924-001	COMPLETION UNIT: DAYS & \$/DAY	10	\$4,500	\$0	\$45,000
924-003	MUD, WATER & ADDITIVES			\$0	\$7,000
924-004	CEMENT, TOOLS & SERVICES (PROD.STRING...ETC)			\$0	\$75,100
924-005	ELECTRIC LOGS(CBL...ETC.),TESTING			\$0	\$7,000
924-006	TOOL & EQUIPMENT RENTAL & TRUCKING			\$0	\$10,700
924-007	STIMULATION & TREATING			\$0	\$247,000
924-008	COMPANY SUPERVISION & OVERHEAD			\$0	\$8,500
925-001	BITS, TOOLS & SUPPLIES			\$0	\$3,000
925-002	PLUG BACK			\$0	\$5,500
925-003	MISCELLANEOUS			\$61,320	\$61,320
951-000	PLUGGING EXPENSE			\$15,000	\$15,000
	TOTAL INTANGIBLE COMPLETION COSTS			\$76,320	\$485,120.00

930-000	TANGIBLE DRILLING & COMPLETION COSTS:				
930-001	SURFACE CASING COSTS	(SIZE/FT)	13 3/8"	970	\$31,960
930-002	INTERMEDIATE CASING	(SIZE/FT)	8 5/8"	3,100	\$71,300
930-003	PRODUCTION CASING	(SIZE/FT)	5 1/2"	12,700'	\$0
930-004	PRODUCTION TUBING	(SIZE/FT)	2 3/8"	12,700'	\$0
930-005	CASING HEAD				\$0
930-006	CASING SPOOL				\$0
930-007	TUBING HEAD				\$0
930-008	CHRISTMAS TREE				\$0
931-000	SUBSURFACE EQUIPMENT				\$0
931-001	MISC PIPE CONNECTIONS				\$0
931-002	PACKER & SPECIAL EQUIPMENT				\$0
931-003	MISCELLANEOUS				\$0
	TOTAL TANGIBLE DRILLING & COMPLETIONS COSTS				\$103,260

940-000	GENERAL LEASE & BATTERY EQUIPMENT:				
940-001	PUMPING UNIT (PRIME MOVER)			\$0	\$0
940-002	SEPARATORS, GAS PROD.UNITS,...ETC.			\$0	\$42,400
940-005	Oil & Water Tanks No. & Size 2- 500 bbls 1- 300 bbls			\$0	\$23,840
941-000	INSTALLATION COSTS			\$0	\$20,000
941-001	FLOW LINES, VALVES...ETC			\$0	\$10,000
941-005	MISCELLANEOUS LEASE EQUIPMENT			\$0	\$14,436
	TOTAL GENERAL LEASE & BATTERY EQUIPMENT COSTS			\$0	\$110,676

TOTAL INTANGIBLE COSTS: \$1,922,786 \$2,331,586
 TOTAL TANGIBLE COSTS: \$103,260 \$508,887
 TOTAL LEASE & BATTERY EQUIPMENT: \$0 \$110,676

TOTAL COSTS PREPARED BY: *BW* KEITH CANNON DATE: 8/15/2007

\$2,026,046 \$2,951,149

APPROVED BY: _____

COMPANY: _____

DATE: _____

"IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY, AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED, WHETHER MORE OR LESS THAN HEREIN SET OUT"