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FEB 21 1996

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February 19, 1996

Gillespie-Crow, Inc.
Post Office Box 2557
Midland, TX 79702

Attn: William R. Crow, President

Re: Chandler Well No. 1
330' FSL and 1650' FEL
State 28 Well No. 1
330' FSL and 2310' FWL
Section 28, Township 15 South, Range 35 East
Lea County, New Mexico

Gentlemen:

Your letter of January 2, 1996 concerning the above referenced wells and the West Lovington Strawn Unit has been referred to me for reply.

When this unit was formed in 1995, representatives of Gillespie advised the Oil Conservation Division that state-of-the-art software programs had been utilized to map the Strawn formation, that the pool had been adequately defined by development, that the proposed unit boundaries had been determined based on extensive study and that the portion of the Strawn formation which you proposed to unitize was suitable for unitization and pressure maintenance. Based on these representations by Gillespie, Hanley has proceeded with plans to develop its offsetting acreage in this area with the above-referenced wells.

Hanley intends to run production casing below the Strawn in each well and is opposed to conducting directional surveys on these wells prior to casing the wellbore. If directional surveys are run on these wells at your request, pursuant to New Mexico Oil Conservation Division Rule 111.B, Hanley will hold Gillespie-Crow, Inc. liable for any and all damages which occur to these wells.

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Attn: William R. Crow, President
February 19, 1996
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You are advised that Hanley opposes the inclusion of these wells in the West Lovington Strawn Unit. If you attempt to expand the Unit, we will expect you to proceed in strict compliance with the provisions of the New Mexico Statutory Unitization Act.

When the wells are tested, data will be reported in accordance with the Rules and Regulations of the New Mexico Oil Conservation Division.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
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July 2, 1996

Gillespie-Crow, Inc.
PO Box 2557
Midland, Texas 79702
Attention: Bill Crow

RE: State S #1
West Lovington Strawn Unit
Lea County, New Mexico

Gentlemen:

Thank you for arranging the meeting in Midland on June 20 to discuss the proposed expansion of your West Lovington Strawn Unit (Unit) to include the State S #1. As a result of this meeting, we would like to set out our position as it stands now.

The first item we want to address is the production rate of the State S #1. We believe you had no right to choke back the well and you should immediately return it to production at the full allowable as set out by the OCD for this pool. As Operator of the well, you should be operating it on behalf of all parties in the well, not on your own behalf as Operator of the Unit. The State #1 is not a part of the Unit and choking it back only benefits you and your partners in the Unit.

As to the expansion of the Unit, we present the following ideas for your consideration:

1. We oppose having the State S put into the Unit. We believe that it does not benefit substantially from your improved recovery project.

2. If, over our objection, the Unit is expanded to include the State S #1, we propose a modification of the hydrocarbon pore volume map developed by Tom Davis of Viersen & Cochran (Attachment 1) presented at the June 20 meeting. With hydrocarbon pore volume as the only parameter, the modified Davis map (Attachment 2) would assign Tracts 12 and 13 a total of 4.8935587 percent interest in the expanded Unit. Also enclosed are Attachments 3 and 4 that show the calculations associated with the modified Davis map (Attachment 2).

3. We are convinced that we would continue to own our contractual working interest in each forty acre tract as set out in the JOA for the State S #1. Splitting the tracts due to the royalty ownership has no bearing on the working interest--every party retains their working interest as pooled under the JOA.

4. The data indicates that the "CE" well in Section 6 should remain out of the Unit. We do believe, however, that you must decide whether to include the "CE" well in the Unit at the same time as determining the fate of the State S #1.

We understand that you plan a series of pressure measurement tests that may include the State S #1. In order to better evaluate our position, we ask that you provide us with all PVT and pressure information from the Unit. We also ask that you allow a Yates representative to witness all future pressure testing at the State S #1 and at any Unit wells that relate to this matter.

We ask that you give serious consideration to these ideas and hope that we can work towards a mutually beneficial solution.

Very truly yours,

YATES PETROLEUM CORPORATION

Mecca Mauritsen
Landman

MM:bn
Enclosure(s)
cc: See attached Working Interest Owner list