

DB

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



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TREASURER

February 9, 1995

Ron Mayhew
Exxon Company USA
P. O. Box 1600
Midland, Texas 79702-1600

RE: Avalon Delaware Voting

Dear Ron,

As you did in your fax dated February 8, I wish to clarify the philosophy related to Avalon voting. Also, this note tries to bring you up to date on relevant activities here at Yates.

Bob Fant and I met with Peyton Yates for an hour or more Monday evening. I met with Randy Patterson, Land Manager, for a long time on Tuesday morning and Randy met with Peyton yesterday before he left for the Dallas Federal Reserve meeting. It is now clearer to me where Exxon and Yates agree and disagree on the approach to the problem.

These are three philosophical areas where clarity might help:

1. Veto - I told you and Yates Management agrees that a minority owner of 15 percent or less should not be able to veto action. Yates Management believes that a minority owners of 20 percent should be able to veto action since the Avalon project is expensive in our eyes. I think Exxon believes that no minority owner should ever have a veto, so we have a clear problem to address.
2. Buyouts - Yates has purchased no interests in the Avalon Delaware area whereas Exxon has purchased Mesa wells plus interests in wells operated by Yates plus interests in non-producing acreage. Recently, Exxon bought the Merit interests. It is true that Yates has made offers to a few owners. These have been rejected. Yates is simply not going to seek aggressively to increase its ownership in a project that is risky and expensive.

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3. Non Consents - Our reading of the Proposed Agreements leads me to believe that the Yates interest can not increase significantly via the non-consent procedures. If Yates chooses to pick up non-consents to the maximum extent, we gain 0.1 percent while Exxon gains 0.6 so that the Exxon ownership grows rapidly. If everyone else goes non-consent, the final tally is Exxon 86 percent and Yates 14 percent. You need to explain better what Exxon fears in this area.


At this point, Peyton Yates has said Yates would accept the following variation of your earlier proposal:

Ballots submitted for approval to Working Interest Owners will be considered approved if both of the two conditions below are met:

1. 80% of the WIO participation approves the ballot, and
2. the largest owner plus 15% of the remaining interest approve the ballot.

I think you can see that this proposal reflects the philosophy outlined above.

Sincerely,



David F. Boneau
Manager of Non-Op Properties

DFB/cvg

Attachment

xc: Peyton Yates
Randy Patterson
Janet Richardson
Bob Fant

Avalon Voting Approaches

Have been, 1/2/95
505-748-4585

Philosophy

- Exxon agrees that some significant level of WI should agree with ballots for them to be approved.
 - Yates Petroleum agrees that they should not have veto power under current ownership or the future (with considerations of acquisitions and potential for WIO's to go non-consent)
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Recommended Procedure

The following voting procedure is recommended to meet the philosophy above.

- Approval = Largest Owner + 20% of (Unit WI less Yates & Exxon), unless...
 - there are < 6 non-Yates, non-Exxon owners; then largest owner can approve
Note: Approval = Exxon plus 2.81% under current ownership (76.73%)
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Alternate Procedure

The following voting procedure can also meet the philosophy above.

- Approval = 76.7 %, unless
 - Exxon > 76.7 % or Yates > 19%; then largest owner plus 3 consenting WIOs approve, unless
 - there are < 6 non-Yates, non-Exxon owners; then largest owner can approve
-

Procedure Clarifications

The following clarifications are provided to clarify the 2 above procedures.

- Yates: The WI of the 7 companies with Avalon WI affiliated with Yates Petroleum Company
 - If 1 or more of the Yates 7 companies and/or another Yates Petroleum affiliate acquires additional WI, then this WI is added to Yates WI
 - Non-consent WI will be added to the voting WI of the WIOs who carry them
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Avalon Voting Approach, Continued

Largest WIOs The largest WIO voting groups are listed below in Columns 1 & 2.

Column 3 shows Cumulative WIO (excluding Yates, ANPC, and 2 Hudsons); where Ard, Premier, and Chevron/PBC with Exxon would exceed 76.5%.

Column 4 shows Cumulative WIO (excluding Yates, ANPC, and 2 Hudsons); where Tipperary, Whiting, MWJ, Devons, and Chevron/PBC would exceed 76.5%.

| 1. WIO | 2. % | 3. Cumulative w/o Yates, ANPC, Hudson (large to small) | 4. Cumulative w/o Yates, ANPC, Hudson (small to large) |
|-----------------|-------|---|---|
| Exxon | 73.92 | 73.92 | 73.92 |
| Yates et al | 12.01 | | |
| ANPC | 4.65 | | |
| Hudsons(2) | 2.71 | | |
| 1. Ard | 1.36 | 75.28 | 79.59 |
| 2. Premier | 1.02 | 76.30 | 78.23 |
| 3. Chevron/ PBC | 0.90 | 77.20 | 77.21 |
| 4. Devon(2) | 0.76 | 77.96 | 76.31 |
| 5. MWJ | 0.59 | 78.55 | 75.55 |
| 6. Whiting | 0.52 | 79.07 | 74.96 |
| 7. Tipperary | 0.52 | 79.59 | 74.44 |
| 30 others | 1.04 | | |

The table below shows WIO needed for various approval %. The rationale for needing 76.5% is that 3 of 7 largest OR 5 of 7 smallest are needed to make 76.5%.

| Approval % | WIO needed large to small | WIO needed small to large |
|------------|------------------------------|------------------------------|
| 75 | 1 | 5,6,7 |
| 75.5 | 1,2 | 5,6,7 |
| 76 | 1,2 | 4,5,6,7 |
| 76.5 | 1,2,3 | 3,4,5,6,7 |
| 77 | 1,2,3 | 3,4,5,6,7 |
| 77.5 | 1,2,3,4 | 2,3,4,5,6,7 |
| 78 | 1,2,3,4,5 | 2,3,4,5,6,7 |