



**Marathon  
Oil Company**

P.O. Box 552  
Midland, TX 79702-0552  
Telephone 915/682-1626

December 20, 1996

**CERTIFIED MAIL & RETURN  
RECEIPT REQUESTED**

Attn: Janet Richardson, CPL  
YATES PETROLEUM CORPORATION  
105 South 4th St.  
Artesia, NM 88210

Re: Marathon Oil Company Travis Area  
Jim Bowie "11" Federal #1  
S/2 Section 11, T-18-S, R-28-E, N.M.P.M.,  
Eddy County, New Mexico

Gentlemen:

Marathon Oil Company (Marathon), as Operator, hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation, anticipated total depth being 10,800'. Furthermore, Marathon shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The S/2 of the captioned Section 11 will be dedicated as the proration unit for the well.

The above well will be located approximately 1000' FSL & 700' FEL of Section 11, T-18-S, R-28-E, Eddy County, New Mexico. An AFE is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

A Joint Operating Agreement will be provided for your review and execution upon receipt of the executed AFE, or by prior written request.

In the event you do not wish to participate, Marathon respectfully requests you elect one of the following options as to your interest:

1. Farmout all of your interest in the S/2 of Section 11 for a period of one hundred-eighty (180) days to Marathon under the following general terms:
  - (a) If any well drilled, deepened, completed or recompleted under the terms of our Farmout Agreement results in oil and/or gas production on a proration unit that includes your acreage, Marathon will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well from a depth of 500' below the top of the San Andres formation to a depth of 100' below the total depth drilled for each well, not to exceed the base of the Morrow formation.

**BEFORE THE  
OIL CONSERVATION COMMISSION**  
Case No. 11774 Exhibit No. 5  
Submitted By:  
**Marathon Oil Company**

- (b) Upon completion of the initial test well as a producer or dry hole, Marathon would have the recurring option, but not the obligation, to commence additional wells on New Mexico Oil Conservation approved proration units that include your acreage to establish oil and/or gas production under the captioned lands or land pooled therewith. If any such option is exercised, Marathon agrees to allow not more than 180 days to elapse between the completion of one well and the commencement of operations for any next well.
- (c) You will retain an overriding royalty interest equal to the difference, if any, between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burden or lawful claims upon production to which your leases may be currently subject, so that Marathon will be assigned a 75% net revenue interest in your lease(s) as to rights below a depth of 500' below the top of the San Andres formation to 100' below the total depth drilled, not to exceed the base of the Morrow formation. Such overriding royalty interest retained by you shall be subject to proportionate reduction.
- (d) Upon acceptance of our farmout proposal, you agree to furnish, at no cost to Marathon, title information such as copies of the leases covering the captioned lands, title opinions currently in your possession, title curative, letter agreements and any contracts currently in effect, etc.

Should the above general terms be acceptable to you, our formal Farmout Agreement will be provided under separate cover.

- (2) Sell all of your right, title and interest in the S/2 of Section 11, subject to title approval, for \$250 per net acre delivering an 81.25% net revenue interest to Marathon.

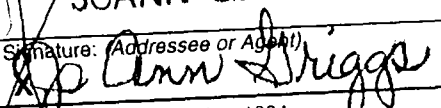
Your earliest response to this proposal would be greatly appreciated. If there should happen to be any questions, please call the undersigned at (915) 687-8476.

Very truly yours,



Randal P. Wilson, CPL  
Landman

RPW:mmc'  
Encl.

Is your RETURN ADDRESS completed on the reverse side?	<b>SENDER:</b> ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
	3. Article Addressed to: ATTN: JANET Richardson, CPL YATES Petroleum Corp. 105 South 4th St. Alamogordo, NM 88210		4a. Article Number P 175 143 230	
	4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD		7. Date of Delivery DEC 23 1996	
	5. Received By (Print Name) JOANN GRIGGS		8. Addressee's Address (Only if requested and fee is paid)	
	6. Signature (Addressee or Agent) 			

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

Region	Mid-Continent	Total Depth	10,800'
Field	Travis	Drilling Days	35
Lease	Jim Bowie "11" Federal # 1	Compl Days	10
Location	1,000' FSL & 700' FEL Sec. 11-18S-28E, Eddy County, New Mexico	AFE	665896

Source	Quantity	Feature	Cond	A
DRILLING COSTS - TANGIBLE				
		Drive Pipe	81-7	
Purchase		Conductor Pipe- 20", PE	81-8	
Purchase	575	Surface Pipe- 13-3/8", 48#, H-40, 8rd, STC	81-9	\$9,000
Purchase	2700	Casing, Int. String No. 1- 9-5/8"	81-11	\$30,000
		Casing, Intermediate String No. 2	81-12	
		Drilling Liner	81-19	
		Drilling Liner Hanger and Tieback Equipment	81-22	
Purchase		Drilling Wellhead Equipment	81-80	\$4,500
Purchase		Miscellaneous Materials	81-217	\$1,000
TOTAL DRILLING - TANGIBLE				\$44,500
DRILLING COSTS - INTANGIBLE				
Contract		Surveying, Location & Access	81-2	\$500
Contract		Well Location & Access	81-5	\$15,000
Contract		Daywork Drlg. - \$5650/24 hour day incl. Fuel	81-36	\$27,500
Contract	11500	Footage Basis Drlg. - Dry Hole Drilling	81-37	\$230,000
		Turnkey Drilling	81-38	
		Drilling Rig Mob/Demob	81-39	
Contract		Blowout Prevention Equipment	81-41	
		Drill Pipe & Collars	81-44	
		Drilling & Service Tools	81-45	
		Drilling Services	81-50	
		Snubbing Units, Company	81-62	
		Snubbing Units, Contract	81-68	
Contract		Mud System/Solids Control	81-40	\$4,000
Contract		Mud and Mud Services	81-71	\$25,000
		Bits	81-69	
		Stabilizers, Hole Openers, Underreamers	81-70	
		Oil	81-72	
		Grease	81-72	
		Fuel, Diesel (Not furnished by Contractor)	81-74	
Contract		Water	81-336	\$12,000
Contract		Casing Tools and Services	81-90	\$9,000
Contract		Cement and Cementing Service	81-91	\$25,000
Contract		Logging Services, Open Hole	81-93	\$30,000
		Logging Services, Cased Hole	81-94	
Contract		Mud Logging	81-95	\$10,000
Contract		Inspection, Pipe & Casing	81-97	\$3,500
		Directional Services	81-101	
		Coring	81-102	
Contract		Formation Testing, Open Hole	81-104	\$4,500
		Formation Testing, Cased Hole	81-105	
		Well Control Services	81-120	
Contract		Trucking/Transportation, Other	81-126	\$5,500
Contract		Well Test Equipment	81-127	\$2,500
		Fishing Tools and Services	81-133	
		Abandoning Tools and Services	81-136	
		Sidetracking, Milling Sections, Whipstocks	81-185	
Contract		Miscellaneous Materials	81-217	\$3,500
Contract		Contract Labor, Welding	81-233	\$1,000
Contract		Contract Labor, Other- \$400/24 hour day	81-237	\$15,000
Contract		Contract Services, Living Qtrs. - \$100/day	81-243	\$3,500
		Contract Services, Other	81-266	
Contract		Hydrogen Sulfide Testing- \$150/day	81-320	\$4,000
		Spill Control Equipment	81-454	
Contract		Computer Hardware- \$25/day	81-568	\$800
Contract		Commo, Field- \$50/day	81-658	\$1,800
		Regulatory Compliance	81-685	
MOC		Company Labor & Burden- \$375/day	81-750	\$13,000
		Overhead	81-770	
		Indirect Expense	81-779	
TOTAL DRILLING - INTANGIBLE				\$446,600
TOTAL DRILLING COSTS				\$491,100

Region Mid-Continent  
Field Travis  
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Location 1,000' FSL & 700' FEL Sec. 11-18S-28E,  
Eddy County, New Mexico

Total Depth 10,800'  
Drilling Days 35  
Compl Days 10  
AFE 665896

Source	Quantity	Feature	Cond	A
COMPLETION COST - TANGIBLE				
Purchase	10600	Production Casing	82-15	\$75,000
		Production Liner	82-18	
		Production Liner Hanger & Tieback Equipment	82-21	
Purchase	10600	Tubing - 2 3/8" O.D., 4.7#, L-80	82-23	\$36,000
		Wellhead Equipment (Drilling)	82-80	\$4,500
Purchase		Christmas Tree	82-87	\$9,000
Purchase		Packers	82-137	\$6,000
		Rod Pump	82-143	
		Electric Submersible Pump	82-149	
		Completion Wellhead Equipment	82-167	
TOTAL COMPLETION - TANGIBLE				\$130,500
COMPLETION COST - INTANGIBLE				
Contract		Location and Access	82-1	\$1,500
		Drilling Rig During Completion	82-34	\$11,000
Contract		Blowout Preventer	82-41	\$1,500
		Tools - Drilling & Service	82-45	
		Rig, Completion	82-48	
		Workover Units, Company	82-55	
Contract		Workover Units, Contract	82-56	\$7,500
		Snubbing Units, Company	82-62	
		Coiled Tubing Service Units, Contract	82-67	
		Snubbing Units, Contract	82-68	
		Underreamers, Stabilizers, Hole Openers	82-70	
		Lubricants	82-72	
		Fuel, Diesel	82-74	
		Casing Tools & Services- Longstring	82-90	
		Cement & Cementing Services- Longstring	82-91	\$15,000
		Logging Services, Open Hole Wells	82-93	
Contract		Logging Services, Cased Hole Wells	82-94	\$3,500
Contract		Tubular Inspection, Testing & Cleaning	82-96	\$7,000
Contract		Formation Testing	82-103	\$3,000
Contract		Formation Treating	82-113	\$4,000
Contract		Transportation, Other	82-126	\$3,500
Contract		Test Equipment - Well Testing	82-127	\$7,500
		Fishing Tools and Services	82-133	
Contract		Completion and Packer Fluids	82-180	\$1,000
Contract		Perforating	82-182	\$16,000
Contract		Wireline Services	82-183	\$1,500
		Sidetracking, Milling Sections, Whipstocks	82-185	
Contract		Miscellaneous Materials	82-217	\$3,500
Contract		Miscellaneous Services	82-218	\$7,000
Contract		Contract Labor, Laborer	82-234	\$3,000
Contract		Contract Services, Other	82-240	\$7,400
Contract		Treating Chemicals, Other	82-291	\$1,000
Contract		Salt Water Disposal & Trans Fees	82-371	\$1,000
Contract		Rental Tools & Equip.	82-585	\$4,300
		Communications - Field	82-658	
		Regulatory Compliance	82-685	
MOC		Company Labor & Burden	82-750	\$3,800
		Overhead	82-770	
		Indirect Expense	82-779	\$3,000
TOTAL COMPLETION - INTANGIBLE				\$117,500
TOTAL COMPLETION COSTS				\$248,000

Region Mid-Continent  
Field Travis  
Lease Jim Bowie "11" Federal # 1  
Location 1,000' FSL & 700' FEL Sec. 11-18S-28E,  
Eddy County, New Mexico

Total Depth 10,800'  
Drilling Days 35  
Compl Days 10  
AFE 665896

Source	Quantity	Feature	Cond	A
FACILITY COSTS				
Purchase	Line Pipe	83-27		\$1,500
Purchase	Transportation, Other	83-126		\$2,500
	Pumping Unit	83-141		
	Pumping Equipment - Rod Pump	83-143		
	Flowing/Plunger Lift Equipment	83-146		
	Submersible Pump - Electric Panel	83-149		
	Submersible Pump - Hydraulic	83-152		
	Gas Lift Equipment	83-155		
	Pumps	83-158		
Purchase	Tanks	83-170		\$10,000
Purchase	Metering Equipment	83-190		\$4,000
	Instrumentation	83-194		
	Electrical Equipment, Other	83-201		
Purchase	Valves	83-205		\$2,500
Purchase	Miscellaneous Materials	83-217		\$10,000
	Contract Labor, Electrical	83-229		
Contract	Contract Labor, Welding	83-233		\$1,000
Contract	Contract Labor, Other	83-237		\$4,000
Contract	Contract Services, Other	83-240		\$2,000
	Compressor Installation	83-365		
Purchase	Dehydration	83-376		\$10,000
	Crude Oil Treaters	83-378		
Purchase	Separator	83-380		\$10,000
	Vapor Recovery Units	83-386		
	Free Water Knockouts	83-388		
	Regulatory Compliance (Includes Permitting)	83-685		
MOC	Company Labor & Burden	83-750		\$2,000
TOTAL FACILITY COSTS				\$59,500
SUMMARY OF GROSS COSTS				
Total Drilling				\$491,100
Total Completion				\$248,000
Total Surface Equipment				\$59,500
GRAND TOTAL GROSS COSTS				\$798,600
SUMMARY OF NET COSTS				
Total Drilling				\$0
Total Completion				\$0
Total Surface Equipment				\$0
GRAND TOTAL NET COSTS				\$0
TOTAL TANGIBLE COSTS				\$234,500
TOTAL INTANGIBLE COSTS				\$564,100
TANGIBLE PERCENT OF TOTAL				29.4%

Participants Approval

Name of Company

Region	Mid-Continent	Total Depth	10,800'
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		Snubbing Units, Company	81-62	
		Snubbing Units, Contract	81-68	
Contract		Mud System/Solids Control	81-40	\$4,000
Contract		Mud and Mud Services	81-71	\$25,000
		Bits	81-69	
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		TOTAL DRILLING COSTS		\$491,100

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TOTAL TANGIBLE COSTS				\$234,500
TOTAL INTANGIBLE COSTS				\$564,100
TANGIBLE PERCENT OF TOTAL				29.4%

Participants Approval



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Contract		Water	81-336	\$12,000
Contract		Casing Tools and Services	81-90	\$9,000
Contract		Cement and Cementing Service	81-91	\$25,000
Contract		Logging Services, Open Hole	81-93	\$30,000
		Logging Services, Cased Hole	81-94	
Contract		Mud Logging	81-95	\$10,000
Contract		Inspection, Pipe & Casing	81-97	\$3,500
		Directional Services	81-101	
		Coring	81-102	
Contract		Formation Testing, Open Hole	81-104	\$4,500
		Formation Testing, Cased Hole	81-105	
		Well Control Services	81-120	
Contract		Trucking/Transportation, Other	81-126	\$5,500
Contract		Well Test Equipment	81-127	\$2,500
		Fishing Tools and Services	81-133	
		Abandoning Tools and Services	81-136	
		Sidetracking, Milling Sections, Whipstocks	81-185	
Contract		Miscellaneous Materials	81-217	\$3,500
Contract		Contract Labor, Welding	81-233	\$1,000
Contract		Contract Labor, Other- \$400/24 hour day	81-237	\$15,000
Contract		Contract Services, Living Qtrs.- \$100/day	81-243	\$3,500
		Contract Services, Other	81-266	
Contract		Hydrogen Sulfide Testing- \$150/day	81-320	\$4,000
		Spill Control Equipment	81-454	
Contract		Computer Hardware- \$25/day	81-568	\$800
Contract		Conmo, Field- \$50/day	81-658	\$1,800
		Regulatory Compliance	81-685	
AIOC		Company Labor & Burden- \$375/day	81-750	\$13,000
		Overhead	81-770	
		Indirect Expense	81-779	
		TOTAL DRILLING - INTANGIBLE		\$446,600
		TOTAL DRILLING COSTS		\$491,100

Region Mid-Continent  
Field Travis  
Lease Jim Bowie "11" Federal # 1  
Location 1,000' FSL & 700' FFL Sec. 11-18S-28E,  
Eddy County, New Mexico

Total Depth 10,800'  
Drilling Days 35  
Compl Days 10  
AFE 665896

Source	Quantity	Feature	Cond	A
COMPLETION COST - TANGIBLE				
Purchase	10600	Production Casing	82-15	\$75,000
		Production Liner	82-18	
		Production Liner Hanger & Tieback Equipment	82-21	
Purchase	10600	Tubing - 2 3/8" O.D., 4.7#, L-80	82-23	\$36,000
		Wellhead Equipment (Drilling)	82-80	\$4,500
Purchase		Christmas Tree	82-87	\$9,000
Purchase		Packers	82-137	\$6,000
		Rod Pump	82-143	
		Electric Submersible Pump	82-149	
		Completion Wellhead Equipment	82-167	
TOTAL COMPLETION - TANGIBLE				\$130,500
COMPLETION COST - INTANGIBLE				
Contract		Location and Access	82-1	\$1,500
		Drilling Rig During Completion	82-34	\$11,000
Contract		Blowout Preventer	82-41	\$1,500
		Tools - Drilling & Service	82-45	
		Rig, Completion	82-48	
		Workover Units, Company	82-55	
Contract		Workover Units, Contract	82-56	\$7,500
		Snubbing Units, Company	82-62	
		Coiled Tubing Service Units, Contract	82-67	
		Snubbing Units, Contract	82-68	
		Underreamers, Stabilizers, Hole Openers	82-70	
		Lubricants	82-72	
		Fuel, Diesel	82-74	
		Casing Tools & Services- Longstring	82-90	
		Cement & Cementing Services- Longstring	82-91	\$15,000
		Logging Services, Open Hole Wells	82-93	
Contract		Logging Services, Cased Hole Wells	82-94	\$3,500
Contract		Tubular Inspection, Testing & Cleaning	82-96	\$7,000
Contract		Formation Testing	82-103	\$3,000
Contract		Formation Treating	82-113	\$4,000
Contract		Transportation, Other	82-126	\$3,500
Contract		Test Equipment - Well Testing	82-127	\$7,500
		Fishing Tools and Services	82-133	
Contract		Completion and Packer Fluids	82-180	\$1,000
Contract		Perforating	82-182	\$16,000
Contract		Wireline Services	82-183	\$1,500
		Sidetracking, Milling Sections, Whipstocks	82-185	
Contract		Miscellaneous Materials	82-217	\$3,500
Contract		Miscellaneous Services	82-218	\$7,000
Contract		Contract Labor, Laborer	82-234	\$3,000
Contract		Contract Services, Other	82-240	\$7,400
Contract		Treating Chemicals, Other	82-291	\$1,000
Contract		Salt Water Disposal & Trans Fees	82-371	\$1,000
Contract		Rental Tools & Equip.	82-585	\$4,300
		Communications - Field	82-658	
		Regulatory Compliance	82-685	
OC		Company Labor & Burden	82-750	\$3,800
		Overhead	82-770	
		Indirect Expense	82-779	\$3,000
TOTAL COMPLETION - INTANGIBLE				\$117,500
TOTAL COMPLETION COSTS				\$248,000



Region Mid-Continent  
 Field Travis  
 Lease Jim Bowie "11" Federal # 1  
 Location 1,000' FSL & 700' FILL Sec. 11-18S-28E,  
 Eddy County, New Mexico

Total Depth 10,800'  
 Drilling Days 35  
 Compl Days 10  
 AFE 665896

Source	Quantity	Feature	Cond	A
FACILITY COSTS				
Purchase	Line Pipe	83-27		\$1,500
Purchase	Transportation, Other	83-126		\$2,500
	Pumping Unit	83-141		
	Pumping Equipment - Rod Pump	83-143		
	Flowing/Plunger Lift Equipment	83-146		
	Submersible Pump - Electric Panel	83-149		
	Submersible Pump - Hydraulic	83-152		
	Gas Lift Equipment	83-155		
	Pumps	83-158		
Purchase	Tanks	83-170		\$10,000
Purchase	Metering Equipment	83-190		\$4,000
	Instrumentation	83-194		
	Electrical Equipment, Other	83-201		
Purchase	Valves	83-205		\$2,500
Purchase	Miscellaneous Materials	83-217		\$10,000
	Contract Labor, Electrical	83-229		
Contract	Contract Labor, Welding	83-233		\$1,000
Contract	Contract Labor, Other	83-237		\$4,000
Contract	Contract Services, Other	83-240		\$2,000
	Compressor Installation	83-365		
Purchase	Dehydration	83-376		\$10,000
	Crude Oil Treaters	83-378		
Purchase	Separator	83-380		\$10,000
	Vapor Recovery Units	83-386		
	Free Water Knockouts	83-388		
	Regulatory Compliance (Includes Permitting)	83-685		
MOC	Company Labor & Burden	83-750		\$2,000
TOTAL FACILITY COSTS				\$59,500
SUMMARY OF GROSS COSTS				
Total Drilling				\$491,100
Total Completion				\$248,000
Total Surface Equipment				\$59,500
GRAND TOTAL GROSS COSTS				\$798,600
SUMMARY OF NET COSTS				
Total Drilling				\$0
Total Completion				\$0
Total Surface Equipment				\$0
GRAND TOTAL NET COSTS				\$0
TOTAL TANGIBLE COSTS				\$234,500
TOTAL INTANGIBLE COSTS				\$564,100
TANGIBLE PERCENT OF TOTAL				29.4%