CHESAPEAKE OPERATING, INC.

P.O. BOX 18496
OKLAHOMA CITY, OKLAHOMA 73154-0496
405/848-8000, EXT. 416
405/879-9560 FAX

LAND DEPARTMENT
MIKE HAZLIP CPL
LANDMAN

November 4, 1997

VIA FACSIMILE (505) 748-4572 & CERTIFIED MAIL

Mr. Robert Bulloch
Yates Petroleum Corporation
105 S. Fourth St.
Artesia, New Mexico 88210

Re: Chesapeake's Saibar 1-16
S/2 NW/4 Section 16-T16S-R36E
Lea County, New Mexico

Dear Robert:

Chesapeake is submitting a request to the New Mexico Oil Conservation Division for approval of an unorthodox location for the captioned well. The location is to be 2,456' FNL and 1,023' FWL Section 16-T16S-R36E, as illustrated on the attached plat. Chesapeake hereby requests Yates' waiver of protest for the proposed location. In consideration of your waiver, Chesapeake will agree to allow Yates a mirror location to our location and will provide Yates well information on a reciprocal basis.

Your favorable consideration of our request for a waiver would be very much appreciated.

Best regards,

Mike Hazlip

WAIVER TO PROTEST
AGREED TO AND ACCEPTED this ___ day of November, 1997.

YATES PETROLEUM CORPORATION

By:_____

Title:_____

BEFORE THE
OIL CONSERVATION COMMISSION
Case No.11894 Exhibit No. 2
Submitted By:
Chesapeake Inc.
Hearing Date: December 4, 1997

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YATES PETROLEUM CORPORATION

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

November 6, 1997

Chesapeake Operating, Inc.
P. O. Box 18496
Oklahoma City, Oklahoma 73154-0496

Attention: Mr. Mike Hazlip

Re: Chesapeake's Salbar 1-16
Township 16 South, Range 36 East
Section 16: S/2NW/4
Lea County, New Mexico

Dear Mike:

Your letter dated November 4, 1997, received by fax the same date, requests our waiver of objection to an unorthodox location 2,456' FNL and 1,023 FWL of Section 16, Township 16 South, Range 36 East, Lea County, New Mexico. Yates Petroleum Corporation has always been a proponent before the OCD of reducing lease line set-backs in many fields within the state. There is, however, under our existing methods of spacing, a limit which should not be breached for the protection of correlative rights. In the case of all wells spaced on 40 or 80 acres, it is our belief that 330' is the absolute minimum set back that should be allowed. Therefore we must decline your request for waiver and voice our objection to encroachment closer than 330' to our lease line.

If it is our desire to drill a well in the area, we will abide by the same rule.

Very truly yours,

YATES PETROLEUM CORPORATION

Randy G. Patterson
Land Manager

RGP/mw

cc: New Mexico Oil Conservation Division
Attention: Mr. William J. LeMay

CHESAPEAKE OPERATING, INC.

P.O. BOX 18496
OKLAHOMA CITY, OKLAHOMA 73154-0496
405/848-8000, EXT. 416
405/879-9550 FAX

LAND DEPARTMENT
MIKE HAZLIP, CPL
LANDMAN

December 1, 1997

VIA FACSIMILE (505) 748-4572 & CERTIFIED MAIL

Mr. Robert Bulloch
Yates Petroleum Corporation
105 S. Fourth St.
Artesia, New Mexico 88210

Re: Chesapeake's Salbar 1-16
S/2 NW/4 Section 16-T16S-R36E
Lea County, New Mexico

Dear Robert:

In response to our letter dated November 4, 1997, requesting a waiver from Yates Petroleum for an unorthodox location, Randy Patterson's letter on behalf of Yates indicated that it is Yates' belief that "330' is the absolute minimum set back which should be allowed". Chesapeake believes this inflexibility is unjustified, particularly given the advent of 3-D seismic. A large number of prospects would never be successfully drilled and produced and many mineral owners would never see a royalty check if this were a hard line rule rather than a guideline allowing for variance in appropriate situations.

Chesapeake believes that our location for the Salbar will not adversely affect Yates Petroleum Corporation in any way and is willing to offer an alternative solution to Yates' protest of our location. Chesapeake has identified a prospect on Yates' acreage in the N/2 SW/4 of Section 16. In order to obtain a position in this prospect, Chesapeake proposes to assign Yates a forty percent (40%) working interest in the S/2 NW/4 Section 16 in exchange for a forty percent (40%) working interest delivered to Chesapeake in the N/2 SW/4 of Section 16-T16S-R36E. The exchange of interest could be accomplished through the execution of a Joint Operating Agreement covering each eighty acre unit. We believe that both wells can be drilled without any adverse affect to the other. By drilling both wells, the correlative rights of all interested parties would be protected.

We once again request that Yates either accept our previous offer to grant Yates a mirror location and well information on a reciprocal basis or participate with us under this alternative proposal in the drilling of our Salbar well and a well in the N/2 SW/4 Section 16. We are amenable to either of these alternatives, each of which would

better protect the correlative rights of all interested parties than protesting to delay or inhibit drilling from occurring. Please indicate Yates' approval of one or the other of Chesapeake's proposed means to resolve your protest of the drilling of the subject well at an unorthodox location.

Best regards,

Mike Hazlip