

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



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

December 2, 1997

*1st Proposed
12-2-97*

Amerind Oil Company Ltd.
415 West Wall Street
Midland, Texas 79701-4467

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com. #3
Township 16 South, Range 35 East, NMPM
Section 2: 3300' FSL and 760' FWL
Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case Nos. 11934 (consolidated with 11958 and 11959)

Exhibit No. 2

Submitted by: Yates Petroleum Corporation

Hearing Date: May 14, 1998

Z 351 693 331

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Amerind Oil Company Ltd	
Street & Number	
415 West Wall Street	
City, State, ZIP Code	
Midland, Texas 79701-4467	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
Field APK State Com #3 RB/ly	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- 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):

- ☐ Addressee's Address
- ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Amerind Oil Company Ltd.
415 West Wall Street
Midland, Texas 79701-4467

4a. Article Number

Z 351 693 331

4b. Service Type

- | | |
|---|---|
| <input type="checkbox"/> Registered | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Insured |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD |

7. Date of Delivery

12/3

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X Jeanne Starnes

8. Addressee's Address (Only if requested and fee is paid)

Field APK State
Com #3 RB/ly

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.



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

AUTHORITY FOR EXPENDITURE
NEW DRILLING & RECOMPLETION

AFE NO. 97-343-0
AFE DATE 11/26/97

AFE Type:	Well Objective:	Well Type:	AFE STATUS:
<input checked="" type="checkbox"/> New Drilling	<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Development	<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input checked="" type="checkbox"/> Exploratory	<input type="checkbox"/> Revised
	<input type="checkbox"/> Injector		<input type="checkbox"/> Final

LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'
COUNTY	Lea	STATE	New Mexico
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E
FIELD		HORIZON	Morrow
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS:

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc. - Completion		35,000
920-460	Tools & Equip. Rental, Etc. - Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		591,100	807,700

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
TOTAL TANGIBLE EQUIPMENT COSTS		66,100	405,500

TOTAL COSTS	657,200	1,213,200
-------------	---------	-----------

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	AL SPRINGER	Operations Approval	
OWNER		SHARE	
BY	DATE		
BY	DATE		
BY	DATE		

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



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

February 11, 1998

Amerind Oil Company, Ltd.
Suite 500 Wilco Building
415 West Wall Street
Midland, Texas 79701-4467

RE: Farmout Letter Agreement
Township 16 South, Range 35 East, NMPM
Section 2: SW/4SW/4
Lea County, New Mexico

Gentlemen:

Please find enclosed two (2) copies of the Farmout Letter Agreement for the captioned. If you find everything in order, please execute and return both copies to Yates Petroleum Corporation for our signature. We will return one (1) signed original to you.

Also enclosed is a copy for your records of our C-101 for the Field "APK" State Com. #3 proposed well.

If you have any questions regarding this matter, please contact me.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB/ljf
enclosure(s)

*called Mary Ann Brock 2-26-98, she said
Mr. Leibrock's attorney was looking over F/O of 115.*

RR Kit Roh

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-101
Revised October 18, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

☐ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address. Yates Petroleum Corporation 105 S. 4th Street Artesia, New Mexico 88210		² OGRID Number 025575
		³ API Number 30 - 0
⁴ Property Code	⁵ Property Name Field "APK" State Com.	⁶ Well No. 3

⁷ Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
Lot 13	2	16S	35E		3300'	South	760'	West	Lea

⁸ Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County

⁹ Proposed Pool 1 Wildcat Morrow	¹⁰ Proposed Pool 2
--	-------------------------------

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable/Rotary R	¹⁴ Lease Type Code S	¹⁵ Ground Level Elevation 3995'
¹⁶ Multiple No	¹⁷ Proposed Depth 12,600'	¹⁸ Formation Morrow	¹⁹ Contractor Undesignated	²⁰ Spud Date ASAP

²¹ Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
14 3/4"	11 3/4"	42.0#	450'	550 sx	Circulate
11"	8 5/8"	32.0#	4600'	1050 sx	Circulate
7 7/8"	5 1/2"	17.0#	TD	1350 sx	Aprox. 1700'

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Yates Petroleum Corporation proposes to drill and test the Morrow and intermediate formations. Approximately 450' of surface casing will be set and cement circulated to surface. Approximately 4100' of intermediate casing will be set and cement circulated. If commercial, production casing will be run and cemented with adequate cover perforated and stimulated as needed for production.

MUD PROGRAM: FW Gel, Paper, LCM to 450'; Brine to 4600'; Cut Brine, Starch to 9600' SW Gel Drispac, XC Polimur to TD.

BOPE PROGRAM: BOPE on 8 5/8" casing and tested daily.

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Clifton R. May*

Printed name: CLIFTON R. MAY

Title: REGULATORY AGENT

Date: December 19, 1997 Phone: 505-748-4347

OIL CONSERVATION DIVISION

Approved by:

Title:

Approval Date:

Expiration Date:

Conditions of Approval:

Attached ☐

DISTRICT I
P.O. Box 1980, Hobbs, NM 88240

DISTRICT II
P.O. Drawer DD, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Instruction on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name <i>WILDCAT MORROW</i>
Property Code	Property Name FIELD "APK" STATE COM.	Well Number 3
OGRID No. <i>025575</i>	Operator Name YATES PETROLEUM CORPORATION	Elevation 3995

Surface Location

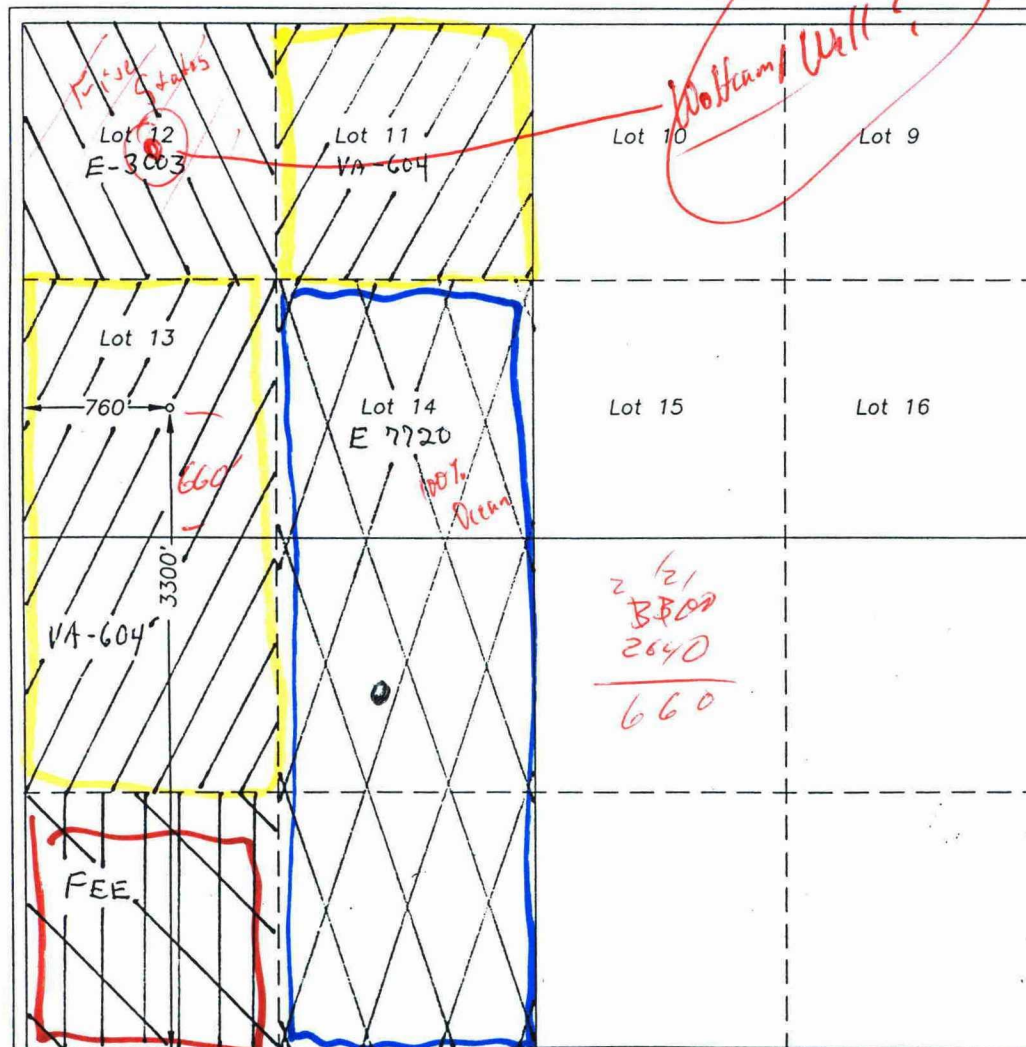
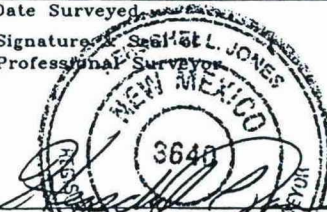
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Lot 13	2	16S	35E		3300	SOUTH	760	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres <i>320</i>	Joint or Infill	Consolidation Code	Order No.
-------------------------------	-----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Clifton R. May</i> Signature</p> <p>Clifton R. May Printed Name</p> <p>Regulatory Agent Title</p> <p>December 19, 1997 Date</p> <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>12/05/97 Date Surveyed</p> <p><i>Shirley L. Jones</i> Signature</p> <p>Professional Surveyor</p> <p></p> <p>Certified to No. Heretofore FIELD PROFESSIONAL #3640 GENERAL SURVEYING COMPANY</p>
---	---

AMERIND OIL COMPANY, LTD.

ROBERT M. LEIBROCK
ROBERT C. LEIBROCK

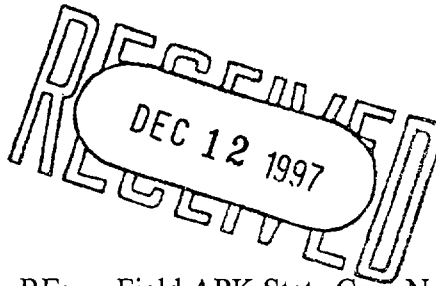
SUITE 500, WILCO BUILDING
415 WEST WALL STREET
MIDLAND, TEXAS 79701-4467

TELEPHONE (915) 682-8217
FACSIMILE (915) 686-0747

December 10, 1997

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Attention: Mr. Robert Bullock, Landman



RE: Field APK State Com No. 3
Township 16 South, Range 35 East, NMPM
Section 2: 3300' FSL and 760' FWL *SW¹/₄SW¹/₄*
Lea County, New Mexico

Gentlemen:

This is in response to your letter of December 2, 1997.

Amerind, et al would farm out all its interest in the referenced well with Amerind retaining an overriding royalty interest equal to the difference between existing burdens and 75.0 percent until payout, convertible to a 33.3 percent working interest at payout. This letter is only to set forth the basic trade terms; other terms would be addressed in the farmout agreement.

If you are in agreement with the above referenced terms, please forward your farmout agreement for our review.

If you have any questions, please call Mary Ann Brock in our office.

Very truly yours,

AMERIND OIL COMPANY, LTD.

Robert C. Leibrock
General Partner

RCL/mab

FARMOUT LETTER AGREEMENT

BETWEEN

AMERIND OIL COMPANY, LTD.
Suite 500 Wilco Building
415 West Wall Street
Midland, Texas 79701-4467

AND

YATES PETROLEUM CORPORATION
105 South Fourth Street
Artesia, New Mexico 88210

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
Section 2: SW/4SW/4
Lea County, New Mexico

Dated _____

- Surface to 11000 feet (Shallow)
- Deep limit

- 40-acre can be diminished

TABLE OF CONTENTS

<u>Paragraph Number</u>	<u>Title</u>	<u>Page Number</u>
1	Initial Test Well	1
2	Producer Earns	2
3	Risk, Cost and Expense of Operations	2
4	Geological Data	2
5	Bond and Designation of Operator	2
6	Overriding Royalty Reserved	3
7	Rentals	3
8	Abandoned Wells	3
9	Force Majeure	3
10	Notices	3
11	Restoration of Premises	3
12	Operating Agreement	4
13	Substitute Test Well	4
14	Production in Kind	4
15	Non-Assignability	4
16	Binding Effect	4
17	Acceptance	5
	Signatures	5
	Exhibit "A" - Geological Requirements	
	Exhibit "B" - Operating Agreement	

FARMOUT LETTER AGREEMENT

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Amerind Oil Company, LTD., Suite 500 Wilco Building, 415 West Wall Street
Midland, Texas 79701-4467

represent(s) that _____ they are _____ the owner of various fee Oil and Gas Lease(s)
covering lands in _____ Lea _____ County, _____ New Mexico _____ :

Township 16 South, Range 35 East, NMPM
Section 2: SW/4SW/4

subject to the royalty reserved in said leases by the Lessors, all burdens on production which have heretofore been created and are shown of record, and the overriding royalty reserved herein by the undersigned. Said Oil and Gas Lease covering the above described lands down to a depth of the stratigraphic equivalent of 100 feet below the deepest depth drilled in the initial test well hereunder, but in any event not to exceed 12,700 feet below the surface, subject to the said burdens on production, is hereinafter referred to as "lease acreage."

If you comply with all the terms, covenants and conditions of this letter and drill and complete the test well provided for herein, we will execute and deliver to you, without warranty of title, either express or implied, an appropriate instrument conveying the lease acreage. The terms and covenants and conditions to which this farmout letter are subject are as follows:

1. INITIAL TEST WELL

1.1 You shall commence on or before June 1, 1998, the actual drilling of a well for oil or gas upon 3,300' FSL & 760' FWL, Section 2, Township 16 South Range 35 East, Lea County, New Mexico and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to approximately 12,600 feet to adequately test the Morrow Formation formation. Should a formation be encountered in which a well can be completed as a producer of oil and/or gas in paying quantities at a lesser depth, you shall have the right to complete in the shallower formation zone and earn as provided in paragraph 2. This test well shall be drilled and completed by you in accordance with the standards of a prudent operator.

1.2 In the event you do not commence the test well on or before June 1, 1998, or after commencing the same do not complete it within the time and manner provided in Paragraph 1.1, at our election, all of your right, title and interest in and to the lease acreage shall ipso facto terminate.

2. DRILL AND EARN

2.1 After such time as you have drilled and completed the initial test well as a well capable of producing oil and/or gas in paying quantities, we shall, upon your written demand after said completion, deliver to you and appropriate instrument conveying, without warranty of title, either express or implied, all of the operating rights in, to and under the lease acreage within the spacing unit, subject to an overriding royalty equal to the difference between 75% of 8/8ths and existing lease burdens of the market value of all (8/8ths) of oil gas and other hydrocarbon substances produced, saved and marketed from the lease acreage within the spacing unit until you shall have recovered all cost and expenses incurred in drilling, completing and operating said initial test well (payout) delivering to you a 75% net revenue interest lease.

2.2 During payout, you shall furnish us with current monthly statements summarizing income and expenses properly chargeable to payout. Upon payout, you shall promptly notify us by certified mail, and upon receipt of such notification, we shall have thirty (30) days within which to advise you if we elect to continue our reserved overriding royalty. If we fail to respond within said thirty (30) days, our reserved overriding royalty shall automatically convert to an undivided thirty three and one third percent (33.3333%) working interest, subject to proportionate reduction effective at 7:00 a.m. of the first day following that in which payout occurs.

3. RISK, COST AND EXPENSE OF OPERATIONS

3.1 All of your operations on the lease acreage shall be conducted at your sole cost, risk and expense, and you shall hold us harmless from any and all claims of whatsoever character or description resulting from or arising in connection with your operations thereon. You shall comply with all of the terms and provisions of said oil and gas leases and all applicable rules and regulations pertaining to your operations hereunder. You shall carry or cause to be carried the following insurance, protecting us against loss by reason of your operations hereunder, to-wit:

- (i) Workmens' Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico;
- (ii) Liability Insurance in the amount of \$200,000.00 per person and \$500,000.00 per accident for personal injury and \$25,000.00 for property damage.

4. GEOLOGICAL DATA

4.1 You will allow us or our representative full access to the derrick floor; and we shall have access to all cores, cuttings, logs, testing, completion data and all other information pertaining to any wells drilled hereunder. Further requirements are set forth in Exhibit "A" attached hereto and made a part hereof.

5. BOND AND DESIGNATION OF OPERATOR

5.1 Prior to the time you commence drilling operations upon the lease covered by this farmout letter agreement, we will use our best efforts to furnish you with a Designation of Operator on such lease in the form approved by the Bureau of Land Management. In the event we do not have a lease bond filed on any such lease, then prior to commencing operations we will furnish the Bureau of Land Management with an approved bond.

6. OVERRIDING ROYALTY RESERVED

6.1 There is reserved from this farmout letter and there shall be reserved from any operating agreement granted hereunder an overriding royalty equal to see paragraph 2.1 of the net proceeds from the sale of all (8/8ths) of the oil, gas and other hydrocarbon substances produced, saved and marketed from the lease acreage under the terms of said oil and gas lease and all extensions and renewals thereof; said overriding royalty to be reserved by the undersigned, their heirs, successors and assigns in proportion to their percentage ownership of the lease acreage. This overriding royalty shall be computed and paid at the same time and in the same manner as royalties payable to the lessor under the terms of said oil and gas lease are computed and paid, but the undersigned shall be responsible for their proportionate part of all taxes and assessments levied against or measured by the production of oil or gas from said premises.

7. RENTALS

7.1 We will use our best efforts to pay the rentals and shut-in royalty, if any, to the lessor, but shall not be liable in damages for the failure to pay the same, and you shall reimburse us for such rentals and shut-in royalty so paid on the lease as follows:
your proportionate part

8. ABANDONED WELLS

8.1 You shall notify us of your intention to abandon any well on the lease acreage and we shall have twenty-four hours (24) after receipt of such notice of intention to abandon a well in which to elect to take over the well you propose to abandon. In the event we elect to take over the well, we will pay to you the reasonable market value of the salvage materials in the well, and in such event you shall furnish us with a release of the lease acreage within the spacing unit dedicated to such well.. In the event we do not notify you of our election to take over the well within the time herein provided, you shall plug and abandon the well in accordance with applicable rules and regulations.

9. FORCE MAJEURE

9.1 The performance by you of any of the terms and provisions of this farmout letter shall be excused in the event such performance is prevented by strikes, fire, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond your control; provided, however, that such performance shall be resumed within reasonable time after such cause has been removed.

10. NOTICES

10.1 Time is of the essence in this agreement, and all notices provided for in this farmout letter shall be deemed to have been sufficiently given if sent by telegram or certified mail, addressed as follows:

SEE ATTACHED GEOLOGICAL REQUIREMENTS

All information required to be delivered to the undersigned shall be delivered at the addresses above set forth. For the purpose of this paragraph, either party may change his address by giving written notice to the other party thereof.

11. RESTORATION OF PREMISES

11.1 You agree to fill in all pits which may be dug in connection with any operations hereunder and to restore the surface of the lands on which such operations are conducted, in accordance with any applicable surface owner agreements, and to plug and abandon any of the wells provided for herein, all at your sole cost, risk and expense and in accordance with any regulation promulgated by any governmental regulatory body having jurisdiction thereof.

12. OPERATING AGREEMENT

12.1 Upon conveyance of the rights earned by the performance of the obligations set forth herein, all subsequent operations on the lease acreage will be conducted in accordance with the terms of a mutually acceptable Operating Agreement. Said Operating Agreement shall be on A.A.P.L. Form 610 and include a 300% non-consent provision, a provision stating that consent to drill is not consent to case, the deletion of the Preferential Right to Purchase paragraph, a mutually acceptable gas balancing agreement, and such other provisions that shall be mutually agreed upon.

13. SUBSTITUTE TEST WELL

13.1 If, in the drilling of the option well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of the Operator, to drill the well to the objective depth, or plug and abandons the initial test well as a dry hole, then and in any such event, on or before thirty (30) days after completion of the initial test well, Operator shall have the option to commence the actual drilling of another well ("substitute test well") at a lawful location of Operator's selection on the lease acreage. The substitute test well shall be drilled in the same manner as provided for in the initial test well. For all purposes of this agreement, the drilling of the substitute test well shall be considered as the drilling of the initial test well.

14. PRODUCTION IN KIND

14.1 We shall have the continuing option, at any time and from time to time, to purchase at the market price prevailing in the area on the date of purchase, or designate a purchaser, of any oil, gas, casinghead gas or other hydrocarbon substances that may be produced from the lands assigned pursuant to this agreement, whether overriding royalty or working interest, whether by reason of such interest or portion thereof being included in any pool or in any pooling agreement or unit, planned or otherwise.

14.2 Before you enter into any contract for the sale, purchase or processing of gaseous hydrocarbons from the interest involved herein, you shall submit to us in writing the contract into which you propose to enter. We shall have the right and option, at our election, to (1) take in kind or otherwise dispose of our share of the gas upon such terms and conditions as we deem advisable, or (2) allow you to dispose of all of the gas and account to us, all in accordance with the terms of the proposal submitted; provided, however, that if you are in any way affiliated with the purchaser of such gas, then you shall account to us on the basis of the highest price offered or paid in the area by any purchaser or prospective purchaser. If we fail to notify you of our election hereunder within sixty (60) days after receipt of such notice from you, then it shall be considered that we made election (2) above. For the purpose of election (2) above, the interest of ours shall be considered to be only the overriding royalty interest reserved under this farmout agreement and shall not include our working interest gas. In the event that we exercise our reserved option to convert our overriding royalty to a working interest upon payout of any well herein provided for, or at any time during which we may have a working interest in any well, we shall at all times have the express right to take our proportionate share of the working interest gas in kind or to independently market or dispose of the same and nothing herein contained shall be construed as giving or granting to you the right to market or otherwise dispose of the proportionate share of the working interest gas of ours without express authorization from time to time to do so.

15. NON-ASSIGNABILITY

15.1 This farmout letter is personal to you and neither this farmout letter nor any interest herein shall be assigned by you (other than to any other Yates "in house" entities) without our express consent in writing, the breach of which shall, at our election, automatically terminate this farmout letter.

16. BINDING EFFECT

16.1 This farmout letter shall be covenant running with the ownership of the lease acreage and, as such, shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors, and when assigned as herein provided, upon the assigns of the parties hereto.

17. ACCEPTANCE

17.1 This letter is not binding upon us until such time as it has been accepted by you and one (1) fully executed copy returned to us within ten (10) days from the date hereof.

AMERIND OIL COMPANY, LTD.

By: _____

Title: _____

Date: _____

The foregoing farmout letter agreement and all of its terms, covenants and conditions are hereby accepted and agreed to this _____ day of _____, 1998.

YATES PETROLEUM CORPORATION

By: _____
Attorney-in-Fact

EXHIBIT "A"
GEOLOGICAL REQUIREMENTS

Mr. Mike Hayes
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
(505) 748-1471 (Office)
(505) 748-8767 (Home)
(505) 365-7106 (Cellular)
(505) 748-4570 (Fax)

ALTERNATE:
Mr. Ray Beck
(505) 748-2565

I. Notification:

- A. You shall immediately notify the above company representative (or alternate) by telephone, at your expense, sufficiently in advance of the following events in order that a representative of the company may be present to witness same:
 - 1. Spudding of any test well hereunder,
 - 2. All drill stem or other tests of said well,
 - 3. Logging or other downhole surveys,
 - 4. Any coring operations,
 - 5. Any plugging operations,
- B. You shall, at your expense, furnish us current progress reports (daily drilling, completion, or workover and daily mud log) on said well with full information thereon each day by fax. This requirement may be waived and well progress reports may be mailed daily when practicable.

II. Other Requirements:

- A. Unless waived by us, you shall run:
 - 1. A GR-Dual Laterolog, Dual Induction or equivalent saturation log.
 - 2. A GR-Compensated Neutron-Formation Density or equivalent porosity log.
 - 3. A mudlog commencing 100' above 1st potential pay continuous to TD.
- B. You shall furnish us the following data and information:
 - 1. Two copies of field prints and two copies of final prints of all electric logs or other downhole surveys run in said well; this includes dipmeter logs and any derivative logs such as "Coriband", "Saraband", "Elan", or equivalent survey analysis.
 - 2. One copy of digital data on 3-1/2" diskette - LAS Format,
 - 3. Two copies of all drill stem test reports,
 - 4. Two copies of all core analysis reports,
 - 5. One copy of all fluid analysis reports,
 - 6. Two copies of the preliminary mudlog sheets and two copies of the final mud log,
 - 7. One copy of any paleontological report,
 - 8. One copy of any geological report,
 - 9. One copy of the sample description
 - 10. One copy of the drilling time,
 - 11. One copy of all government reports,
 - 12. One copy of daily production reports for sixty (60) days after completion of the well.
- C. One set of representative samples to be filed with Midland Sample Cut.