

Z 328 860 323

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to McKay Oil Corporation	
State Number 2014	
Post Office, State, & ZIP Code Roswell, NM 88202-2014	
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 5-10-99	
Reinauer RC Fed Com #3	
Rob/BV	

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):

1. Addressee's Address
2. Restricted Delivery

3. Article Addressed to:

McKay Oil Corporation
PO Box 2014
Roswell, NM 88202-2014

5. Received By: (Print Name)

Michael Branch

6. Signature (Addressee or Agent)

Michael Branch

PS Form 3811, December 1994

4a. Article Number

Z 328 860 323

4b. Service Type

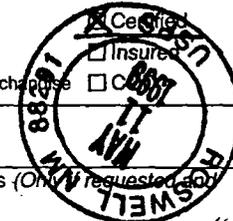
- Registered
 Express Mail
 Return Receipt for Merchandise

7. Date of Delivery

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

Reinauer RC Fed Com #3

102595-99-B-0223 Domestic Return Receipt



Thank you for using Return Receipt Service.

2

Z 328 860 325

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to Western Resources, Inc.	
State Number 2014	
Post Office, State, & ZIP Code 45571 Shepard Drive #101 Sterling, VA 20164-4409	
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 5-10-99	
Reinauer RC Fed Com #3	
Rob/BV	

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.
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I also wish to receive the following services (for an extra fee):

1. Addressee's Address
2. Restricted Delivery

3. Article Addressed to:

Western Resources, Inc.
45571 Shepard Drive #101
Sterling, VA 20164-4409

5. Received By: (Print Name)

Pam Gilmore

6. Signature (Addressee or Agent)

Pamela Gilmore

PS Form 3811, December 1994

4a. Article Number

Z 328 860 325

4b. Service Type

- Registered
 Express Mail
 Return Receipt for Merchandise
 Certified
 Insured
 COD

7. Date of Delivery

5/13/99

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

Reinauer RC Fed Com #3

102595-99-B-0223 Domestic Return Receipt

Thank you for using Return Receipt Service.

BEFORE THE OIL CONSERVATION
DIVISION

Santa Fe, New Mexico
Case No. 12219 Exhibit No. 2
Submitted by: Yates Petroleum Corporation
Hearing Date: September 2, 1999

UNITED STATES POSTAL SERVICE



First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

• Print your name, address, and ZIP Code in this box •

ROB BULLOCK

YATES PETROLEUM CORP.
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210

UNITED STATES POSTAL SERVICE



First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

• Print your name, address, and ZIP Code in this box •

ROB BULLOCK

YATES PETROLEUM CORP.
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210



MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1996



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

May 10, 1999

Working Interest Owners
Addressee List Attached

CERTIFIED MAIL
Return Receipt Requested

RE: Reinauer "RC" Fed Com #3 Well
Township 7 South, Range 25 East
Section 20: SE/4
Chaves County, New Mexico

Gentlemen:

Please find enclosed our AFE and JOA proposing the drilling of the captioned well. If you desire to participate in the drilling of this well please return the AFE and extra signature page to the JOA.

Should you not wish to participate Yates will farm-in your interest on a 25% back-in type farmout arrangement.

If you wish to farmout please advise me at (505) 748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

703-729-0600

RB:bn

enclosure(s)

(f) 624-2202
623-4735
5-27-99
Called B. Milstead
Roy McKay asked how
they were coming- he said he
would get back
6-4- want a 1/3 carry to pipeline
SAYJR. said they 1/4 carry & we market his gas

6-2
WESTERN RESOURCES
left # & NAMES ON VOICE MACHINE

Address List

Grover Brothers Ltd Partnership
PO Box 3666
Midland, TX 79702-3666

McKay Oil Corporation
PO Box 2014
Roswell, NM 88202-2014

Pennant Petroleum, Inc.
P.O. Box 814
Midland, TX 79702

The Ninety-Six Corporation
550 West Texas, Suite 1225
Midland, TX 79701

Western Resources, Inc.
45571 Shepard Drive #101
Sterling, VA 20164-4409

Yates Petroleum Corporation
Yates Drilling Company
Abo Petroleum Corporation
Myco Industries, Inc.
105 South Fourth Street
Artesia, NM 88210



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

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. **99-166-0**
AFE DATE **5/6/99**
AFEND (rev 8/98)

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

LEASE NAME	Reinauer RC Federal Com. #3	PROJ'D DEPTH	4,100'
COUNTY	Chaves	STATE	New Mexico
FIELD	Abo	HORIZON	Abo
LOCATION	Sec. 20 T7S-R25E, 1,980' S & 1000' E		

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	500	500
920-110	Location, Right-of-Way	9,500	9,500
920-120	Drilling, Footage 4,100' @ \$12.75/ft	52,300	52,300
920-130	Drilling, Daywork 1 day @ \$5,200/day	5,200	5,200
920-140	Drilling Water, Fasline Rental	14,000	14,000
920-150	Drilling Mud & Additives	9,000	9,000
920-160	Mud Logging Unit, Sample Bags		
920-170	Cementing - Surface Casing	20,000	20,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies		
920-200	Tools & Equip. Rntl., Trkg. & Welding	4,800	4,800
920-205	Control of Well-Insurance		
920-210	Supervision & Overhead	4,400	4,400
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	500	500
920-350	Cementing - Production Casing		10,500
920-410	Completion Unit - Swabbing		9,500
920-420	Water for Completion		6,000
920-430	Mud & Additives for Completion		
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		4,000
920-460	Tools & Equip. Rental, Etc. - Completion		7,000
920-470	Stimulation for Completion		50,000
920-480	Supervision & O/H - Completion		2,000
920-490	Additional LOC Charges - Completion		1,000
920-510	Bits, Tools & Supplies - Completion		500
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		120,200	210,700

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	1,500	3,600
930-020	Casing 11 3/4" @ 850'	14,300	14,300
	8 5/8" @ 1,500'	13,500	13,500
	4 1/2" @ 4,100'		17,500
930-030	Tubing 2 3/8" @ 3,600'		7,600
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		
940-030	Separation Equip., Flowlines, Misc.		4,000
940-040	Trucking & Construction Costs		500
TOTAL TANGIBLE EQUIPMENT COSTS		29,300	61,000

TOTAL COSTS **149,500** **271,700**

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.

RB	Prepared By Cory Frederick	Operations Approval	
	YATES PETROLEUM CORPORATION		56.0616%
	YATES DRILLING COMPANY		12.2932%
BY	DATE		
	ABO PETROLEUM CORPORATION		12.2932%
BY	DATE		
	MYCO INDUSTRIES, INC.		12.2932%
BY	DATE		

REINAUER RC FEDERAL COM #3
Sec. 20-T17S-R25E
Chaves County, New Mexico

AFE #99-166-0
Date: 5-6-99
Page 2

	SHARE
GROVER BROTHERS LTD PARTNERSHIP	0.126000
By: _____ DATE _____	
MCKAY OIL CORPORATION	3.593800
By: _____ DATE _____	
THE NINETY-SIX CORPORATION	0.126000
By: _____ DATE _____	
PENNANT PETROLEUM, INC.	0.063000
By: _____ DATE _____	
WESTERN RESOURCES, INC.	3.150000
By: _____ DATE _____	
TOTAL	100.000000

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.
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- 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. Addressee's Address
- 2. Restricted Delivery

3. Article Addressed to:

 WESTERN RESOURCES, INC.

 45571 SHEPARD DRIVE #101

 STERLING, VIRGINIA 20164-4409

4a. Article Number
Z 328 860 280

4b. Service Type
 Registered Certified
 Express Mail Insured
 Return Receipt for Merchandise COD

7. Date of Delivery
6/15/99

5. Received By: (Print Name)

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

6. Signature (Addressee or Agent)
Camela Starnore

REINAUER "RC" FED COM #3

PS Form 3811, December 1994

102595-99-B-0223 Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 328 860 280

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to Western Resources, Inc.	
Street & Number 45571 Shepard Dr. #101	
Post Office, State, & ZIP Code Sterling, VA 20164-4409	
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 6/8/99	
Reinauer "RC" Fed Com #3	
Rob/bn	

PS Form 3800, April 1995

UNITED STATES POSTAL SERVICE



First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

• Print your name, address, and ZIP Code in this box •

ROB BULLOCK

YATES PETROLEUM CORP.
105 SOUTH 4th STREET
ARTESIA, NEW MEXICO 88210

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

June 8, 1999

Western Resources, Inc.
45571 Shepard Drive #101
Sterling, Virginia 20164-4409

CERTIFIED MAIL
Return Receipt Requested

RE: Reinauer "RC" Fed Com #3
Township 7 south, Range 25 East
Section 20: S/2SE/4
Chaves County, New Mexico

Gentlemen:

By letter dated May 10, 1999 Yates submitted its AFE and Operating Agreement proposing the captioned well.

As of this date we have not yet received any response to this proposal. Therefore, we are assuming you do not wish to participate.

We offer two additional alternatives and submit them as follows:

- 1) A farmout of your interest and enclose herewith a Farmout Agreement or
- 2) A purchase of your interest and enclose herewith an assignment with a 30-day sight draft attached.

Please review each of these proposals and call me collect at (505)748-4351 if you would like to discuss the details.

Yates would like to spud this well in the near future and would appreciate you committing your interest in some fashion.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

CUSTOMER'S DRAFT

Courtesy of



THE FIRST NATIONAL BANK

P.O. BOX AA

ARTESIA, NEW MEXICO 88210

FNB Form No. 6078-G (3/92)

Thirty (30) Banking Days From Sight Subject
to Approval of Title With Lease Attached

ARTESIA, NEW MEXICO June 8 1999

PAY TO THE ORDER OF Western Resources, Inc. \$500.00

Five hundred and no/100-----DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

WITH EXCHANGE

To First National Bank of Artesia

YATES PETROLEUM CORPORATION

Artesia, New Mexico 88210

Account of Yates Petroleum Corp.

By:

Robert Bullock

Robert Bullock, Authorized Agent

ASSIGNMENT, BILL OF SALE & CONVEYANCE

STATE OF NEW MEXICO)
 §
COUNTY OF EDDY)

KNOW ALL MEN BY THESE PRESENTS:

THAT, **WESTERN RESOURCES, INC.**, whose mailing address is 45571 Shepard Drive #101, Sterling, Virginia 20164-4409, hereinafter referred to as "Assignor" for and in the consideration of the sum of Ten and No/100 Dollars, (\$10.00) and other good and valuable consideration the receipt of which is hereby acknowledged does hereby GRANT, BARGAIN, ASSIGN and CONVEY unto **YATES PETROLEUM CORPORATION (100%)**, whose mailing address is 105 South Fourth Street, Artesia, New Mexico 88210, hereinafter referred to as "Assignee" all of assignor's right, title and interest in and to that certain Oil and Gas Lease dated June 1, 1976, by and between the United States of America , as lessor, and Sam L. Bracken, as lessee, lease number NM-27970 and covering the S/2SE/4 of Section 20, T7S-R25E, Chaves County, New Mexico.

Assignor does hereby reserve unto himself an overriding royalty interest equal to a 2.0% with the retained overriding royalty interest being proportionately reduced to the extent of the interest herein conveyed.

Assignor does also agree for the consideration mentioned above to execute any State Assignment forms that may be required to complete this transfer of interest.

This Assignment of Oil and Gas Lease shall be executed herein with warranty of title and be free of any and all liens or encumbrances this _____ day of _____, 1999.

WESTERN RESOURCES, INC.

By: _____

Title: _____

STATE OF NEW MEXICO)
 §
COUNTY OF EDDY)

The foregoing instrument was acknowledged before this _____ day of _____, 1999, by Western Resources, Inc., a _____ company, on behalf of said company.

My Commission Expires:

Notary Public

FARMOUT LETTER AGREEMENT

BETWEEN

YATES PETROLEUM CORPORATION
105 South Fourth Street
ARTESIA, NEW MEXICO 88210

AND

WESTERN RESOURCES, INC.
45571 SHEPARD DRIVE #101
STERLING, VIRGINIA 20164-4409

NM-27970

TOWNSHIP 7 SOUTH, RANGE 25 EAST
SECTION 20: S/2SE/4
CHAVES COUNTY, NEW MEXICO

DATED: _____

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7	Rentals	3
8	Abandoned Wells	3
9	Force Majeure	3
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11	Restoration of Premises	3
12	Operating Agreement	4
13	Substitute Test Well	4
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16	Binding Effect	4
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	Signatures	5
	Exhibit "A" - Geological Requirements	

FARMOUT LETTER AGREEMENT

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Western Resources, Inc.

45571 Shepard Drive #101

Sterling, VA 20164-4409

represent(s) that they are the owner(s) of the following Oil and Gas Lease(s) covering lands in Chaves County, New Mexico.

NM 27970
Township 7 South, Range 25 East
Section 20: S/2SE/4

Rights from surface to base of ABO
formation at approximately 4100'

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 4,100 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 September 15, 1999, the actual drilling of a well for oil or gas upon SE/4 of Section 20, Township 7 South, Range 25 East and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to approximately 4,100 feet to adequately test the ABO 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 September 15, 1999, 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 an 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 25% 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 leasehold.

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 twenty-five percent (25%) 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 representatives full access to the derrick floor; and we shall have access to all cores, cuttings, logs, testings, 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 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 share

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.

WESTERN RESOURCES, INC.

By: _____

Title: _____

The foregoing farmout letter agreement and all of its terms, covenants and conditions are hereby accepted and agreed to this _____ day of _____, 1999.

YATES PETROLEUM CORPORATION

By: _____

Title: _____

CHAVES COUNTY, NEW MEXICO

EXHIBIT "A"
GEOLOGICAL REQUIREMENTS

Mr. Eric Cummins
Yates Petroleum Corporation, Myco Industries
Yates Drilling Co., Sharbro Oil Co., LTD
105 South Fourth Street
Artesia, NM 88210
(505) 748- 1471 (Office)
(505) 746-4335 (Home)
(505) 365-7120 (Cellular)
(505) 748-4570 (Fax)

ALTERNATE:
Mr. Brent May
(505) 746-3304

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

1. 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 report 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. **FAX ONLY zones of interest of E-logs and mudlogs immediately after logging operations to (505-748-4321).**
 2. One copy of digital data on 3- 1/2" diskette - LAS Format,
 3. When Schlumberger is used, logs should be lognetted to Schlumberger Midland Computing Center and diskettes made there.
 4. Two copies of all drill stem test reports,
 5. Two copies of all core analysis reports,
 6. One copy of all fluid analysis reports,
 7. Two copies of the preliminary mudlog sheets and two copies of the final mudlog,
 8. One copy of any paleontological report,
 9. Two copies of any geological report,
 10. Two copies of the sample description,
 11. One copy of the drilling time,
 12. One copy of all governmental reports,
 13. One copy of production reports for sixty (60) days after completion of the well.
- C. One set of representative samples to be filed with Midland Sample Cut.