

Nearburg Exploration Company

Exploration and Production
3300 North "A" Street
Suite 8100
Midland, Texas 79705
915/686 8235
Fax 915/686-7806

March 24, 1993

Ms. Janet Richardson
Yates Petroleum Corporation
105 South 4th Street
Artesia, New Mexico 88210

Re: McKittrick Hills Federal
State Exploratory Unit
Eddy County, New Mexico

Dear Janet:

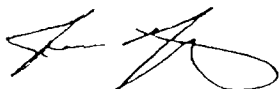
Pursuant to our phone conversations and meeting, enclosed please find the following:

- 1) Unit Plat Outline
- 2) Time Line
- 3) Ownership Schedule

As you know, I have a short fuse on meeting my deadlines to form this unit and I need Yates Petroleum Company's commitment to same at the earliest possible date. Therefore, subject to the approval of the unit by the State Land Office, the BLM, and review of the Operating and Unit Agreements, I hereby ask Yates to confirm in writing their general acceptance of the proposed unit. I ask that such commitment be forwarded to my attention no later than Friday, March 26th, or you could fax your reply on Monday, March 29th.

Should you have any questions or need further information, please do not hesitate to call.

Very truly yours,



Joe Fitzgerald
Senior Landman

NEW MEXICO
OIL CONSERVATION DIVISION

Janet Richards, IIIr

EXHIBIT

2

CASE NO. 10823

~~NEW MEXICO
OIL CONSERVATION DIVISION~~

~~EXHIBIT~~

~~2~~

~~CASE NO.~~

~~10788~~

Time Line to Form Unit

March 28th	Receive commitments from Yates & Santa Fe.
March 29th	Have Bill Carr file hearing notice with OCD.
March 31st	File APD & suspension of lease application with BLM (must be in Carlsbad on this date).
April 1st & 2nd	Hold preliminary approval meetings with SLO & BLM.
April 3rd-21st	Circulate and execute Unit & Operating Agreements.
April 22nd	OCD Hearing.
April 30th	Receive final approval from BLM & SLO.

Unit Size

20 Section - 12,965.89 Acres

NEC	5,786.42
Yates	3,088.73
Santa Fe	3,411.84
Collins & Ware	80.00
Chi Energy	40.00
Liberty	119.49
Jean Shelby	240.00
Open BLM	80.00
Trinity Pro	40.00
Armstrong Eng.	<u>79.41</u>

12,965.89

Interest

NEC	44.62%
Yates	23.82%
Santa Fe	26.31%
Collins & Ware	.62
Chi	.31%
Liberty	.92%
Jean Shelby	1.85%
Trinity	.31%
Open BLM	.62%
Armstrong	<u>.62%</u>

~ 100.00%

Section	Unit	Location	Altitude	Remarks
1	1st Lt. J. A. Smith	10000	10000	10000
2	2nd Lt. J. A. Smith	10000	10000	10000
3	3rd Lt. J. A. Smith	10000	10000	10000
4	4th Lt. J. A. Smith	10000	10000	10000
5	5th Lt. J. A. Smith	10000	10000	10000
6	6th Lt. J. A. Smith	10000	10000	10000
7	7th Lt. J. A. Smith	10000	10000	10000
8	8th Lt. J. A. Smith	10000	10000	10000
9	9th Lt. J. A. Smith	10000	10000	10000
10	10th Lt. J. A. Smith	10000	10000	10000
11	11th Lt. J. A. Smith	10000	10000	10000
12	12th Lt. J. A. Smith	10000	10000	10000
13	13th Lt. J. A. Smith	10000	10000	10000
14	14th Lt. J. A. Smith	10000	10000	10000
15	15th Lt. J. A. Smith	10000	10000	10000
16	16th Lt. J. A. Smith	10000	10000	10000
17	17th Lt. J. A. Smith	10000	10000	10000
18	18th Lt. J. A. Smith	10000	10000	10000
19	19th Lt. J. A. Smith	10000	10000	10000
20	20th Lt. J. A. Smith	10000	10000	10000
21	21st Lt. J. A. Smith	10000	10000	10000
22	22nd Lt. J. A. Smith	10000	10000	10000
23	23rd Lt. J. A. Smith	10000	10000	10000
24	24th Lt. J. A. Smith	10000	10000	10000
25	25th Lt. J. A. Smith	10000	10000	10000
26	26th Lt. J. A. Smith	10000	10000	10000
27	27th Lt. J. A. Smith	10000	10000	10000
28	28th Lt. J. A. Smith	10000	10000	10000
29	29th Lt. J. A. Smith	10000	10000	10000
30	30th Lt. J. A. Smith	10000	10000	10000
31	31st Lt. J. A. Smith	10000	10000	10000
32	32nd Lt. J. A. Smith	10000	10000	10000
33	33rd Lt. J. A. Smith	10000	10000	10000
34	34th Lt. J. A. Smith	10000	10000	10000
35	35th Lt. J. A. Smith	10000	10000	10000
36	36th Lt. J. A. Smith	10000	10000	10000
37	37th Lt. J. A. Smith	10000	10000	10000
38	38th Lt. J. A. Smith	10000	10000	10000
39	39th Lt. J. A. Smith	10000	10000	10000
40	40th Lt. J. A. Smith	10000	10000	10000
41	41st Lt. J. A. Smith	10000	10000	10000
42	42nd Lt. J. A. Smith	10000	10000	10000
43	43rd Lt. J. A. Smith	10000	10000	10000
44	44th Lt. J. A. Smith	10000	10000	10000
45	45th Lt. J. A. Smith	10000	10000	10000
46	46th Lt. J. A. Smith	10000	10000	10000
47	47th Lt. J. A. Smith	10000	10000	10000
48	48th Lt. J. A. Smith	10000	10000	10000
49	49th Lt. J. A. Smith	10000	10000	10000
50	50th Lt. J. A. Smith	10000	10000	10000

Nearburg Exploration Company

Exploration and Production
3300 North "A" Street
Suite 8100
Midland, Texas 79705
915/686 8235
Fax 915/686 7806

April 5, 1993

Ms. Janet Richardson
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Re: McKittrick Hills Federal-State Exploratory Unit

Dear Janet:

As you know, Santa Fe was not willing to support our original unit proposed in my March 24, 1993 letter to you. Without their support such a unit would not be able to be formed, therefore we withdraw that proposal but hereby submit the following for Yates' consideration.

- 1) We form a Federal-State Exploratory Unit covering all of Sections 1, 2, 3, 9, 10, 11, 14, 15, 22, 23 and 27 in Township 22 South, Range 24 East, Eddy County, New Mexico. A plat outlining this unit is attached hereto.
- 2) We propose that Yates Petroleum Corporation be the operator under such unit. ✓
- 3) We propose all of Section 3 and the North Half of Section 10 be given 200% credit on an acreage basis, and we propose Section 2 be given 150% credit on an acreage basis.
- 4) Nearburg will reserve from the unit its wellbore for the M-H Federal No. 1 well in the Southeast Quarter Southwest Quarter (SE/4 SW/4) of Section 1.
- 5) The unit would be formed with the anticipation of exploring for the Cisco-Canyon and Morrow formations. This would require two obligatory wells. The re-entry of the well located in the Northeast Quarter Northwest Quarter (NE/4 NW/4) of Section 2 deepened to the Cisco-Canyon formation would be the first obligatory well and a Morrow well with a probable location in Section 9 as the second obligatory well.

Letter to Janet Richardson
Yates Petroleum Corporation
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Enclosed is a Unit Summary first showing the unit breakdown on actual acreage contributed and second on using the 200% formula for Section 3 and the N/2 of Section 10 and the 150% formula for Section 2.

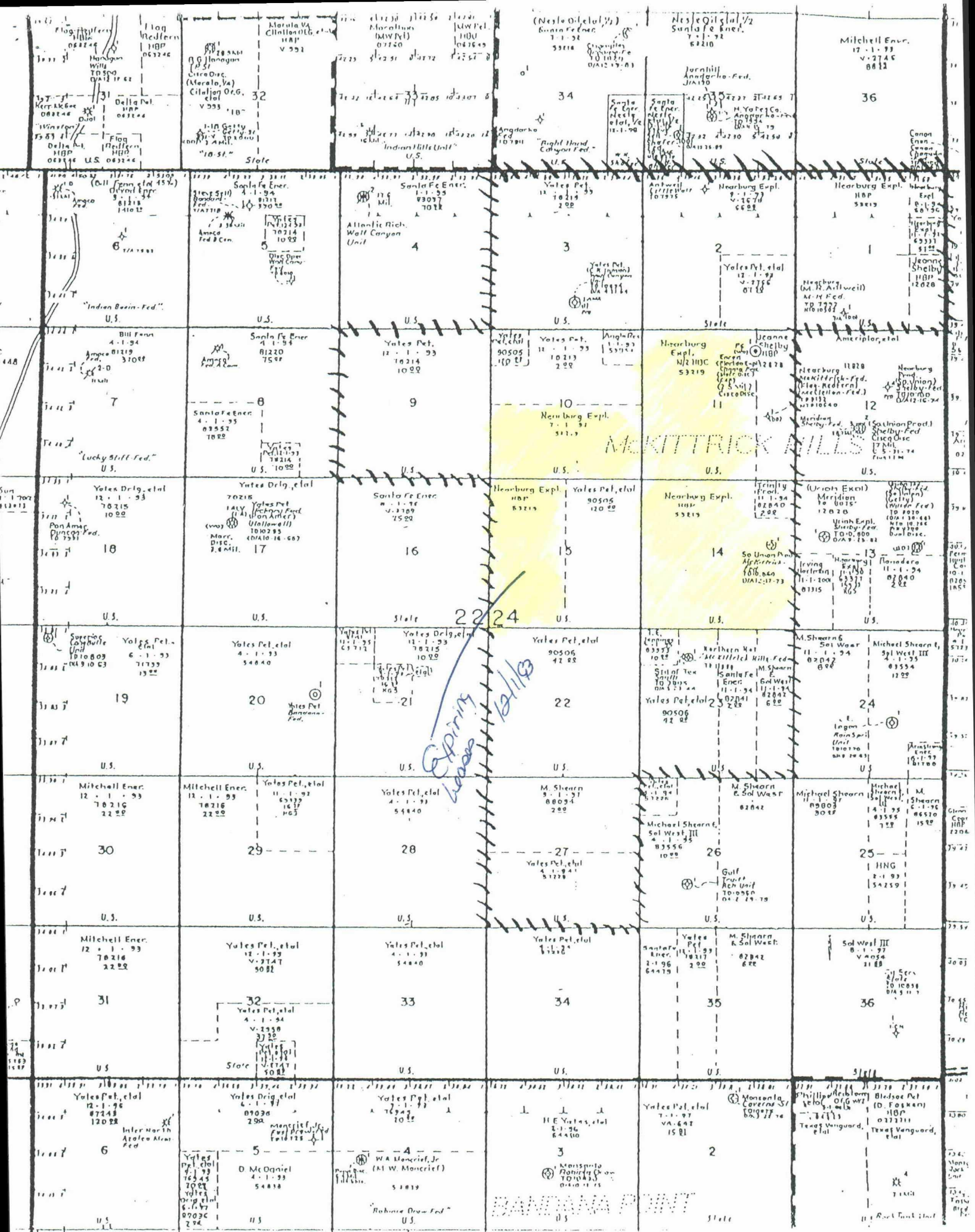
Please advise at the soonest possible date of your decision concerning the proposed unit. Should you have any questions or need further information please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Joe Fitzgerald', is written over the typed name.

Joe Fitzgerald
Senior Landman

JF/jh



UNIT SUMMARY

On actual acreage contribution

<u>COMPANY</u>	<u># OF ACRES</u>	<u>% OF UNIT</u>
Yates	3331.25	46.3459%
NEC	2475.75	34.4437%
Nearburg etal's	500.80	6.9674%
M. Shearn	320.00	4.452%
Santa Fe	160.00	2.226%
Sol West & M. Shearn	160.00	2.226%
Open (BLM)	80.00	1.113%
Shelby	80.00	1.113%
Trinity	40.00	.5565%
T.E. Jennings	<u>40.00</u>	<u>.5565%</u>
	7187.80	100.00%

On 200% acreage value for Section 3 & N/2 Section 10 and 150% on Section 2

Yates	4382.50	51.2945%
NEC	2740.50	32.0759%
Nearburg etal's	500.80	5.8615%
M. Shearn	320.00	3.7454%
Santa Fe	160.00	1.8727%
Sol West & M. Shearn	160.00	1.8727%
Open (BLM)	120.00	1.4045%
Shelby	80.00	.9364%
Trinity	40.00	.4682%
T.E. Jennings	<u>40.00</u>	<u>.4682%</u>
	8543.80	100.00%