

MARTIN YATES, III  
1912 - 1988  
FRANK W. YATES  
1936 - 1988



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

March 11, 1988

Terra Resources, Inc.  
10 Desta Drive  
Suite 500 West  
Midland, TX 79705

ATTENTION: Mr. Kevin Pfister

BUREAU OF LAND MANAGEMENT OIL CONSERVATION DIVISION	
TERRA	EXHIBIT NO. 3
CASE NO.	9332

RE: Proposed 8100' Atoka-Morrow Test  
Township 14 South, Range 27 East  
Section 22: E2  
Chaves County, New Mexico

Gentlemen:

Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc. and Abo Petroleum Corporation (hereinafter referred to as Yates, et al) will farmout their leasehold interest in the SE4NE4 and the E2SE4 of Section 22-T14S-R27E, Chaves County, New Mexico, based on your acceptance of the following terms and conditions, to wit:

1. Any location for the initial test well would be located no closer than 660' FWL and 660' FSL of Section 22-T14S-R27E, Chaves County, New Mexico.
2. An override to Yates, et al, equal to the difference between 25% of 8/8ths and existing burdens, with the option at payout to convert said override to a 30% working interest, subject to proportionate reduction.
3. Rights earned by Terra in any assignment from Yates, et al, would be limited to 100 feet below total depth drilled in the initial test well.
4. If Yates, et al, should decide to drill an Atoka/Morrow test at a location 660' FWL and 660' FNL of Section 26-T14S-R27E, Chaves County, New Mexico, Terra hereby agrees not to protest said location before the New Mexico Oil Conservation Division.

Terra Resources, Inc.

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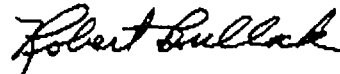
March 11, 1988

If the above sets forth the correct understanding of the basic terms of our farmout agreement, please indicate by signing and returning one (1) copy of this letter to our office, to the attention of the undersigned.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION



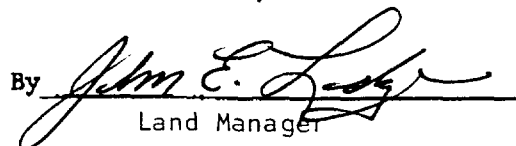
Robert Bullock  
Landman

RB:rj

AGREED AND ACCEPTED THIS 11<sup>th</sup> day of March, 1988.

TERRA RESOURCES, INC.

By

  
Land Manager