

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case Nos. 11297 and 11298 Exhibit No. 7

Submitted by: Yates Petroleum Corporation

Hearing Date: June 29, 1995

3A

April 8, 1994

Meeting Notice

Avalon Field Owners:

The Avalon Field "Report of the Technical Committee for the Working Interest Owners", dated August, 1992 has been approved.

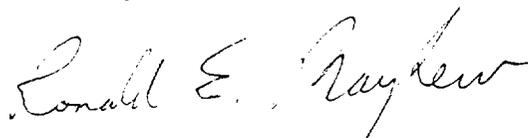
On April 26 we will host a meeting to distribute and review the proposed Avalon Field Unit Agreement (UA) and Unit Operating Agreement (UOA). It is important that you attend in that we will review the field unitization plans which include:

- Participation Formula & Percentages
- Current Development Plan
- UOA/UA

An agenda is provided as Attachment I. A subsequent meeting will be held 4 to 6 weeks later for you to review your written comments/suggested changes with the same group.

Please RSVP your plans to attend the April 26 meeting by returning Attachment II. A map to the meeting location is included as Attachment III. I look forward to meeting those of you who can attend. Should you have questions prior to meeting, feel free to call me at (915) 688-7841 or Gil Beuhler (915) 688-7849.

Sincerely,



Ronald E. Mayhew
Avalon Project Manager

REM/nh
Attachments

Attachment II: RSVP for Avalon Meeting

Mail to:

Ron Mayhew, EOR Projects Manager
Exxon Co., USA, ML#4
P.O. Box 3116
Midland, Tx 79702-3116

or Express Mail to:

Building CDA #245
23 Desta Drive
Midland, Tx 79705

or Fax to: (915) 688-7847

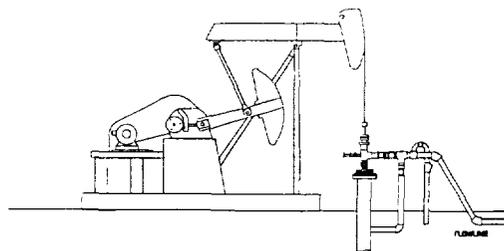
Check one box below and return to Ron Mayhew:

- We will have ___ persons attending. Provide any dietary concerns we need to address: _____
- We will not have anyone attending the April meeting, but plan to attend the subsequent meeting.
- We will not attend either meeting.
- Please mail me a copy of the 2 volume Technical Report, Avalon Field "*Report of the Technical Committee for the Working Interest Owners*", dated August, 1992

Contact Person: _____
phone: _____
fax: _____

Company Name & Address:

Attachment I: Meeting Agenda



Topic: Proposed Avalon Field Unit

Date: Tuesday, April 26, 1994

Location: Exxon Building PC #4 Training Room, 3300 N. A St. Midland, Tx

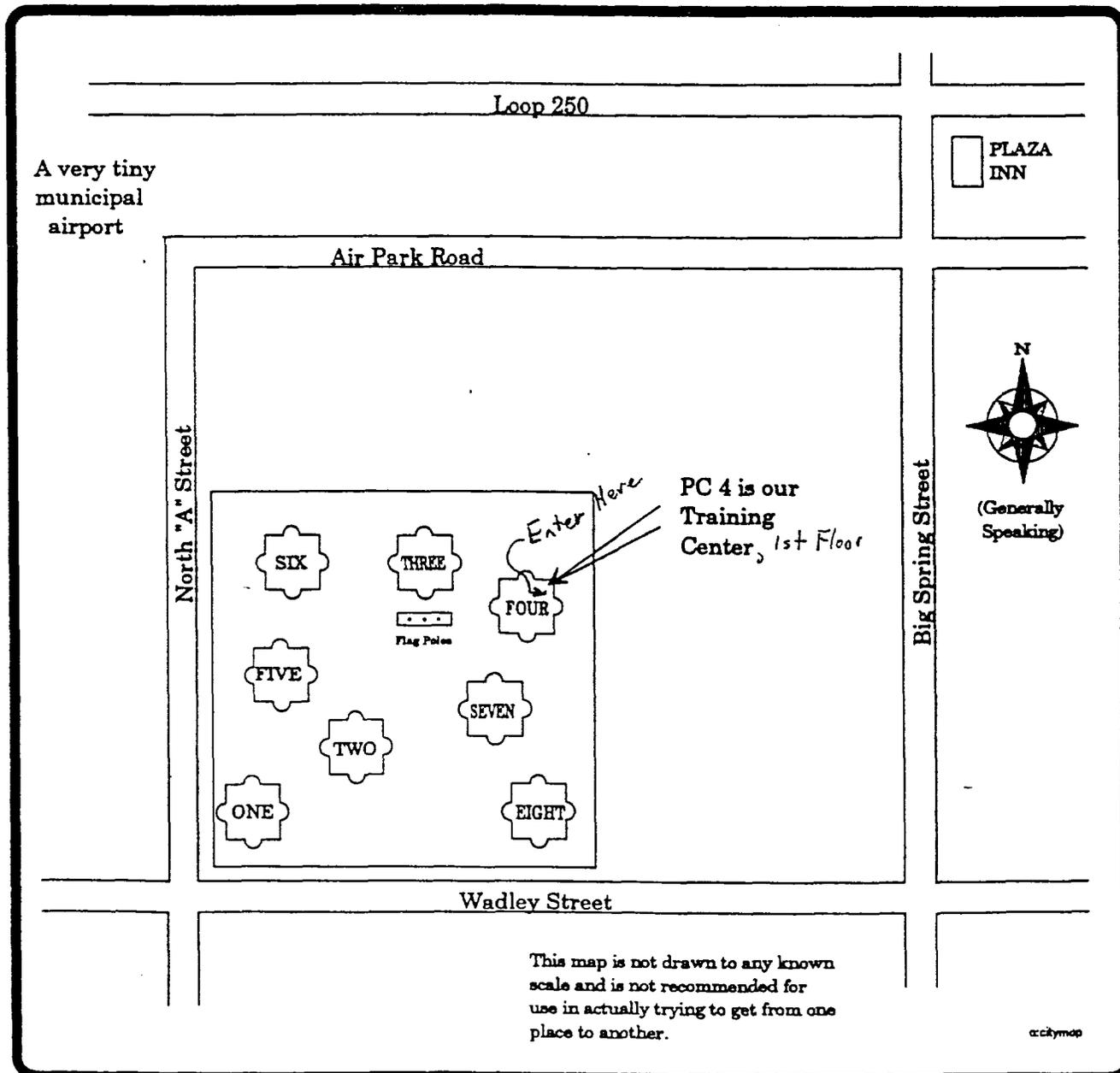
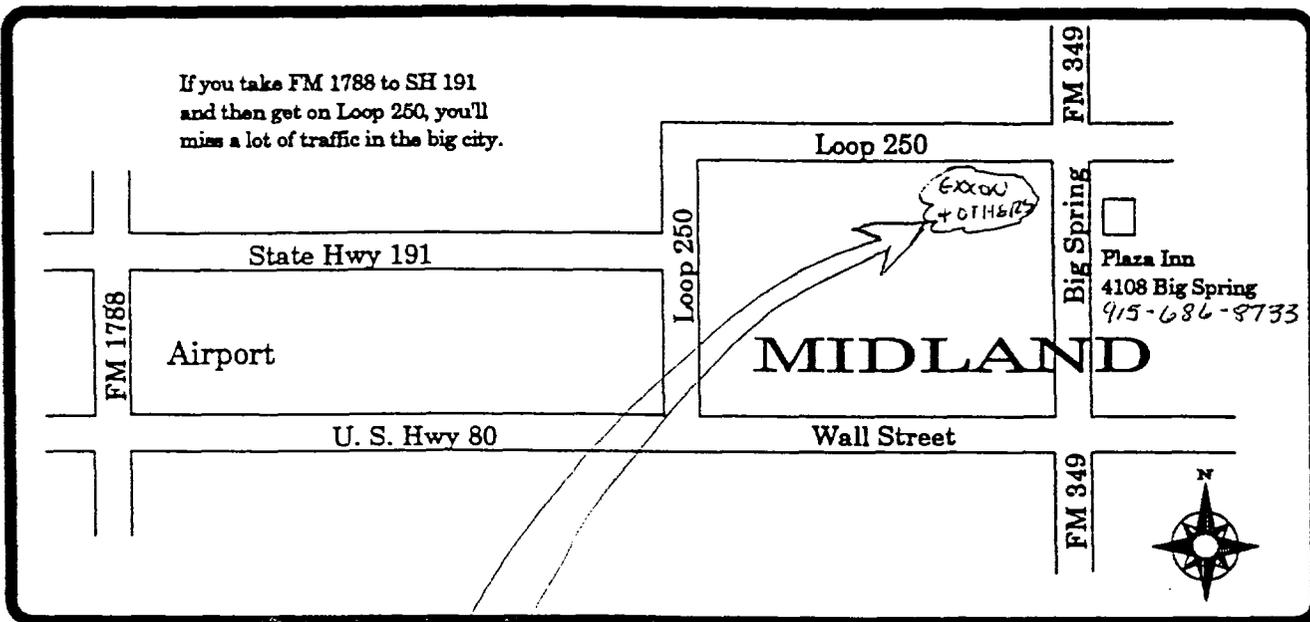
Purpose: Provide potential Working Interest Owners of the Avalon Unit with a recommended Unit Agreement and Unit Operating Agreement

Desired Outcomes:

1. Attendees understand significant aspects of proposed Unit and how they affect the proposed agreements
2. Attendees understand what they will & will not be bound to by approving UA/UOA

Steps	Methods/Presenter	Min.	Time
Introduction	Welcome/ Ron Mayhew opens & Attendees introduce selves	5	10:00 am
Agenda Review	Ron Mayhew	5	10:05 am
Exxon Role & Interest	Ron Mayhew presents, group asks for clarifications	10	10:10 am
Overview of Proposed Project and Participation Formula	Gil Beuhler presents, group asks questions at end of each section	45	10:20 am
Unit Agreement	Joe Thomas presents, clarifying questions asked at end of each article	45	11:05 am
Lunch	Provided onsite	30	11:50 am
Unit Operating Agreement	Joe Thomas presents, clarifying questions asked at end of each article	90	12:20 pm
Current Development Plan/Ongoing Optimization		20	1:50 pm
Next Steps/Meeting; Exxon Contacts	Ron Mayhew presents	15	2:10 pm
Adjourn			2:25 pm

ATTACHMENT III



3B

Avalon WIO Meeting April 26, 1994

Meeting Purpose

Provide potential Working Interest Owners of the Avalon (New Mexico) Unit with a recommended Unit Agreement and Unit Operating Agreement

Attendees

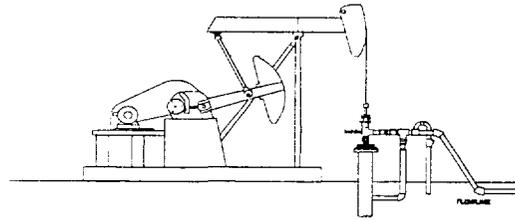
The following persons attended this WIO Meeting.

Person	Company	Position	phone/fax
. Ron Mayhew	Exxon	Project Mgr.	915-688-7841/7847
. Gil Beuhler	Exxon	Reservoir Engr.	915-688-7849/7847
. Joe Thomas	Exxon	Landman	915-688-7162
. Tom Kane	Exxon	Geologist	
. Scott Lansdown	Exxon	Law	915-688-4982/6199 4989
. Larry Long	Exxon	Reservoir Engr.	
. Bill Duncan	Exxon	Regulatory Affairs	
. Donna Bauer	Exxon	Regulatory Affairs	
. Greg Fisher	Exxon	Accounting Supr.	
. Dave Boneau	Yates Petroleum	Reservoir Supr.	505-748-1471/4585
. Bob Fant	Yates Petroleum	Reservoir Engr.	505-748-4185/4816
. Janet Richardson	Yates Petroleum	Landman	505-748-1471
. Rosalie Jones	Premier	Owner	505-748-2093
. Ken Jones	Premier	Owner	214-386-6200
. Paul White	Premier	Consultant	505-746-9507
. Barbara Lalicker	Penzoil	Reservoir Engr.	713-546-4240/4261
. Bob Hodge	MWJ Producing	Land Mgr.	915-682-5216
. Bill Hayworth	American National Petroleum (ANPC)		713-780-9494

Avalon April 26 (Potential) WTO Meeting

<u>Name</u>	<u>Company</u>	<u>Position</u>	<u>Phone/Fax</u>
DAVE BONEAU	YATES PETROLEUM	RESERVOIR SUPERVISOR	505-748-1471 / FAX 4585
Janet Richards	Yates Petroleum	Landman	505-748-1471
Bob Fant	Yates Pet	Res. Engineer	505 748 4185 / FAX 4816
Barbara Lalicker	Pennzoil	Resur. Engr.	713-546-4240 / FAX 426
Larry Long	Exxon	Reservoir Engr	915-688-7932
Scott Lousdown	Exxon	A.H.Y.	915-688-4982 FAX-6199 ←
Bill Duncan	"	Engr - Reg. Affairs	915-688-6179 / FAX
DONNA BAUER	EXXON	REGULATORY AFFAIRS ENER	915-688-6172
Greg Fisher	EXXON	ACCOUNTANT	915-688-6651
BOB HODGE	MUS PRODUCING Co	LAND MANAGER	915-682-5216
JOE B. THOMAS	ETSON	LAND	915-688-7162
Tom Kane	EXXON	GEOLOGIST	915-688-7965
Kew Jones	Premier	OWNER	214-386-6200 505
Paul G. White	Premier Consulting Engineer	—	(505) 746-9507
Rosalie Jones	Premier	owner	(505) 748-2093
BILL HAYWORTH	American National	Eng Manager	713-780-9494

Attachment I: Meeting Agenda



Topic: Proposed Avalon Field Unit

Date: Tuesday, April 26, 1994

Location: Exxon Building PC #4 Training Room, 3300 N. A St. Midland, Tx

Purpose: Provide potential Working Interest Owners of the Avalon Unit with a recommended Unit Agreement and Unit Operating Agreement

Desired Outcomes:

1. Attendees understand significant aspects of proposed Unit and how they affect the proposed agreements
2. Attendees understand what they will & will not be bound to by approving UA/UOA

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KEN JONES - PREMIER

Avalon Field Unitization

- **Purpose**
 - Provide potential WIOs with recommended Unit Agreement (UA) and Unit Operating Agreement (UOA)
- **Desired Outcomes**
 - Understand significant aspects of proposed Unit and how they affect the agreements
 - Understand what will & will not be bound to by approving UA/UOA

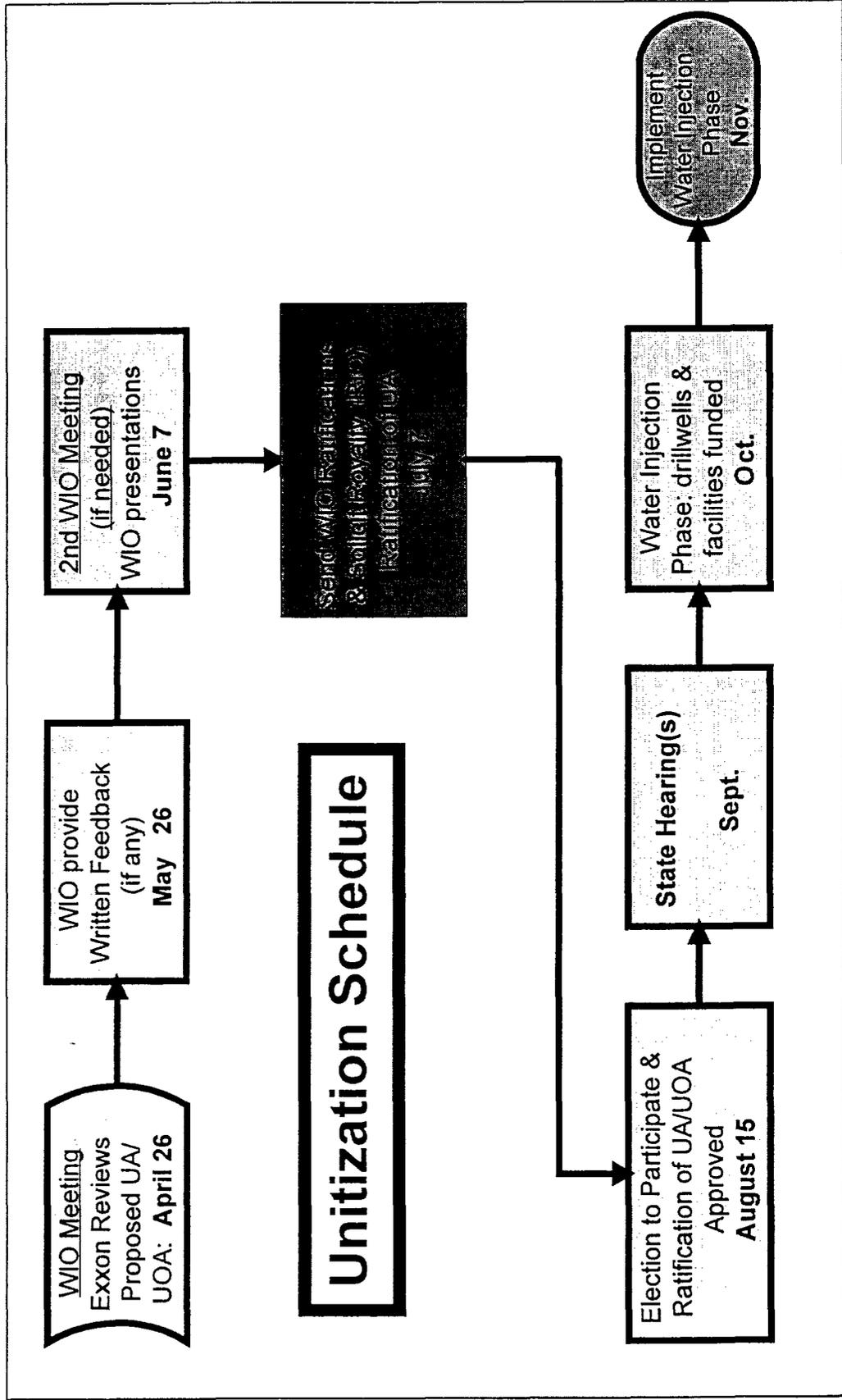
Avalon Field Unitization

- **Exxon Role**
 - Reservoir Management & Profitability
 - Technical Analysis (Exxon & WIOs)
 - Understand & Address WIO Needs
- **Project Manager Role**
 - Coordinate Unitization Activities
 - Focal Point for Water Injection & CO₂ Phases of Project
 - Project Profitability
 - Endorse Project Design Basis (test need vs. traditional)

Avalon Field Unitization

- **Exxon Commitment**
 - Prize is CO₂ Project
 - » CO₂ Recoverable Reserves
 - » Water Injection Phase Carries Itself
 - Manpower & Funds Expended
- **Exxon Funding & Implementation Ability**
 - 1994 \$ available
 - Future years pace depends on attractiveness and Water Injection Phase performance

Avalon Field Unitization

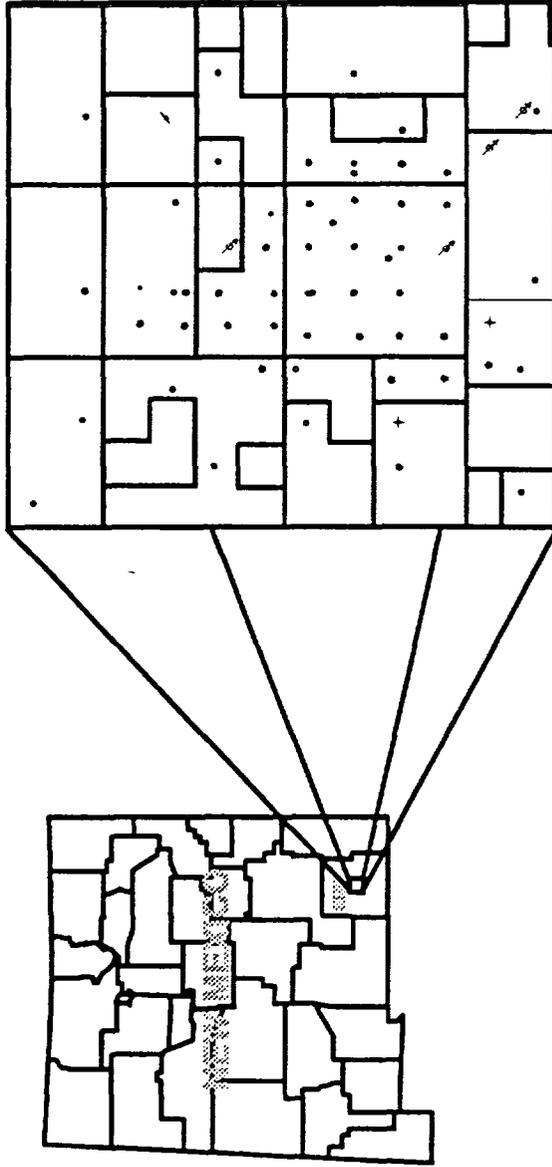


Unitization Schedule



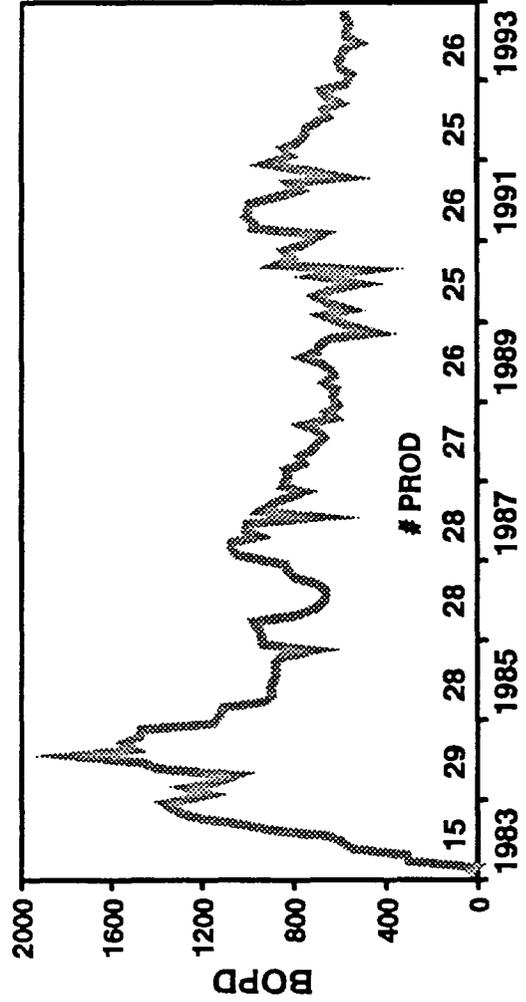
AVALON (DELAWARE) PROJECT

FIELD SUMMARY



1100 ACRES PRIMARY PRODUCTIVE ACREAGE
 26 ACTIVE PRODUCERS
 4 ACTIVE INJECTORS/SWD

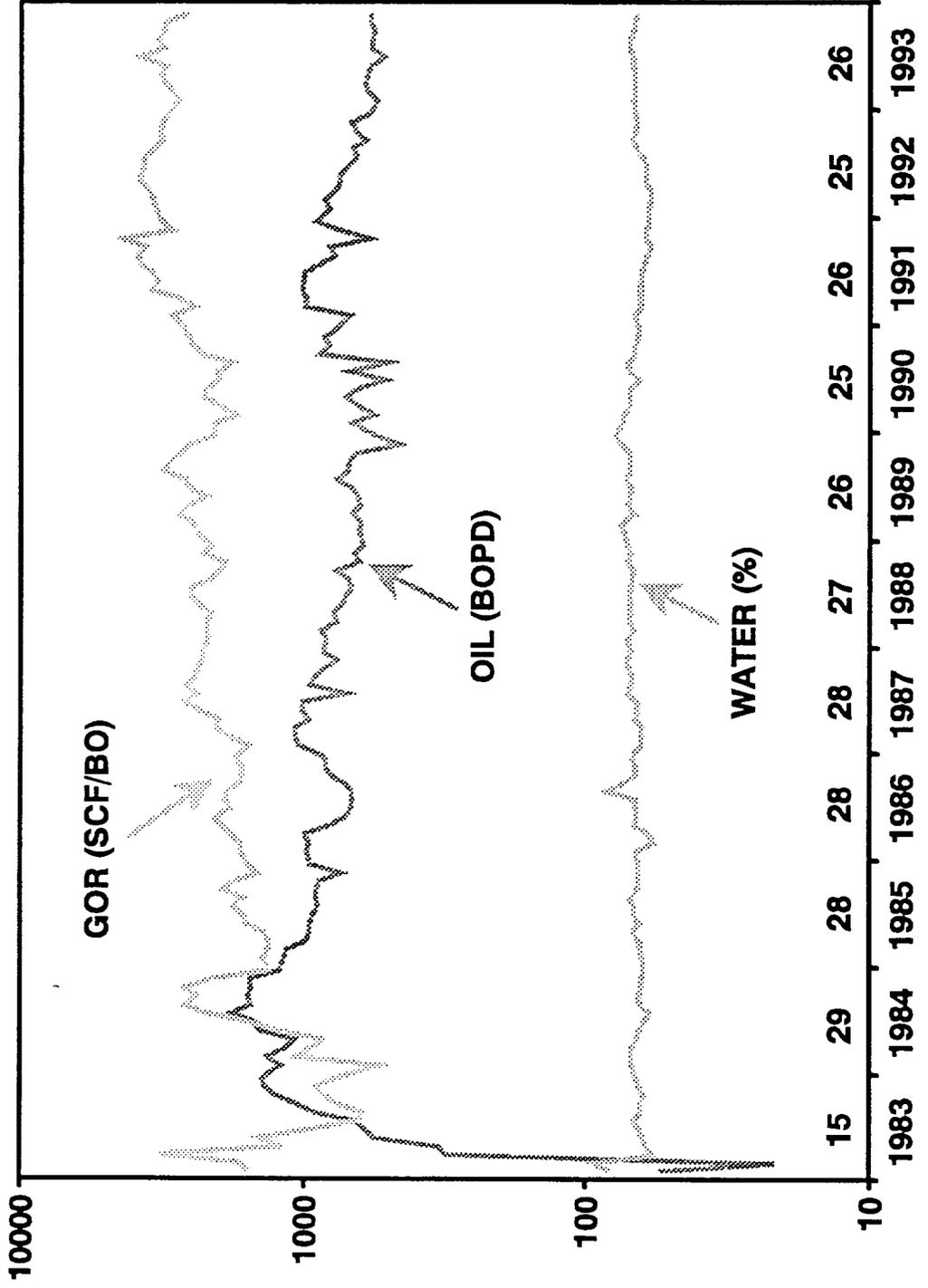
• DELAWARE WELLS



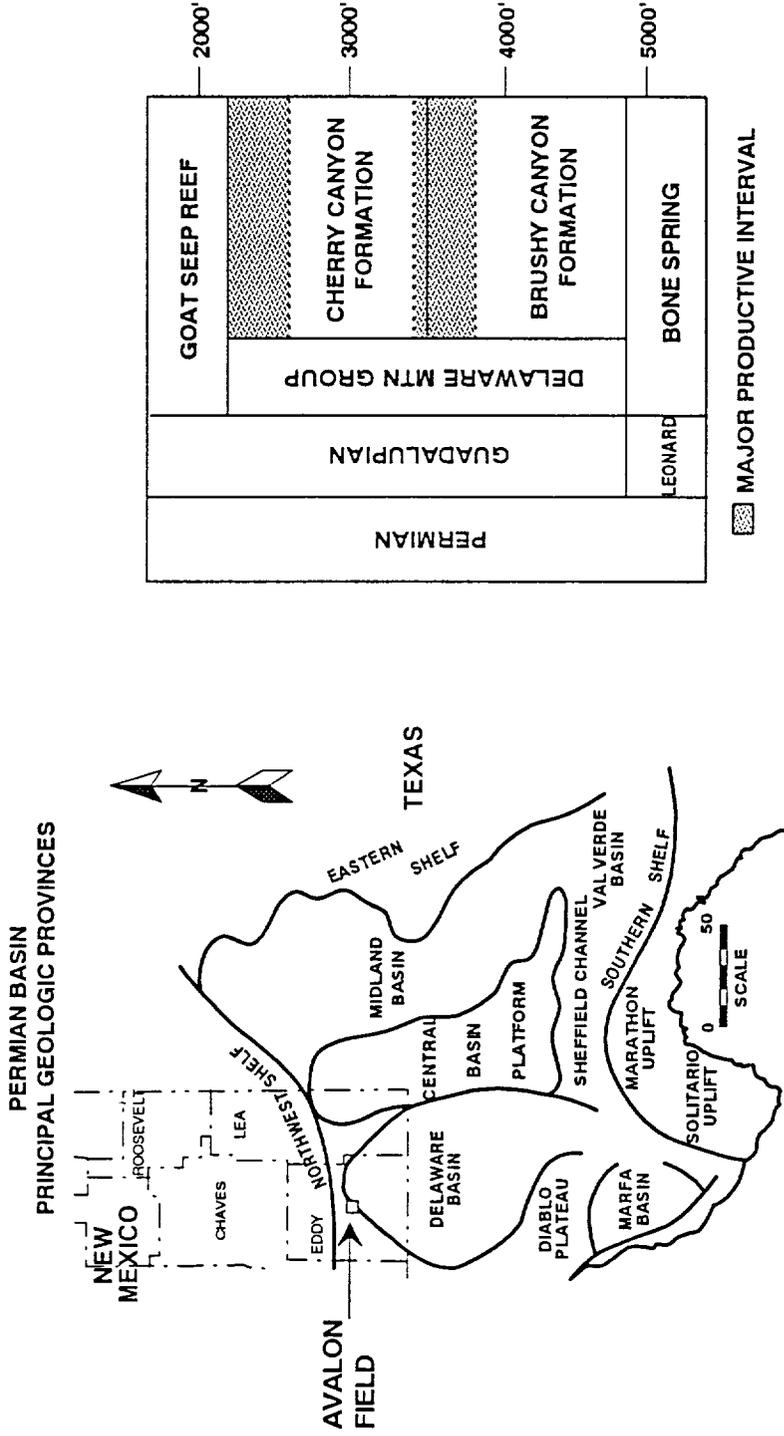
DEVELOPMENT HISTORY

- 1978: FIRST DELAWARE PRODUCTION IN AREA
- 1982: PRODUCTION FROM MAJOR PRODUCTIVE HORIZONS BEGINS
- 1983: FIELD DEVELOPED ON 40-ACRE SPACING
- 1990: FIRST 20-ACRE WELL DRILLED
- 1994: CUMULATIVE PRODUCTION 3.3 MBO

AVALON (DELAWARE) FIELD PAST PRODUCTION

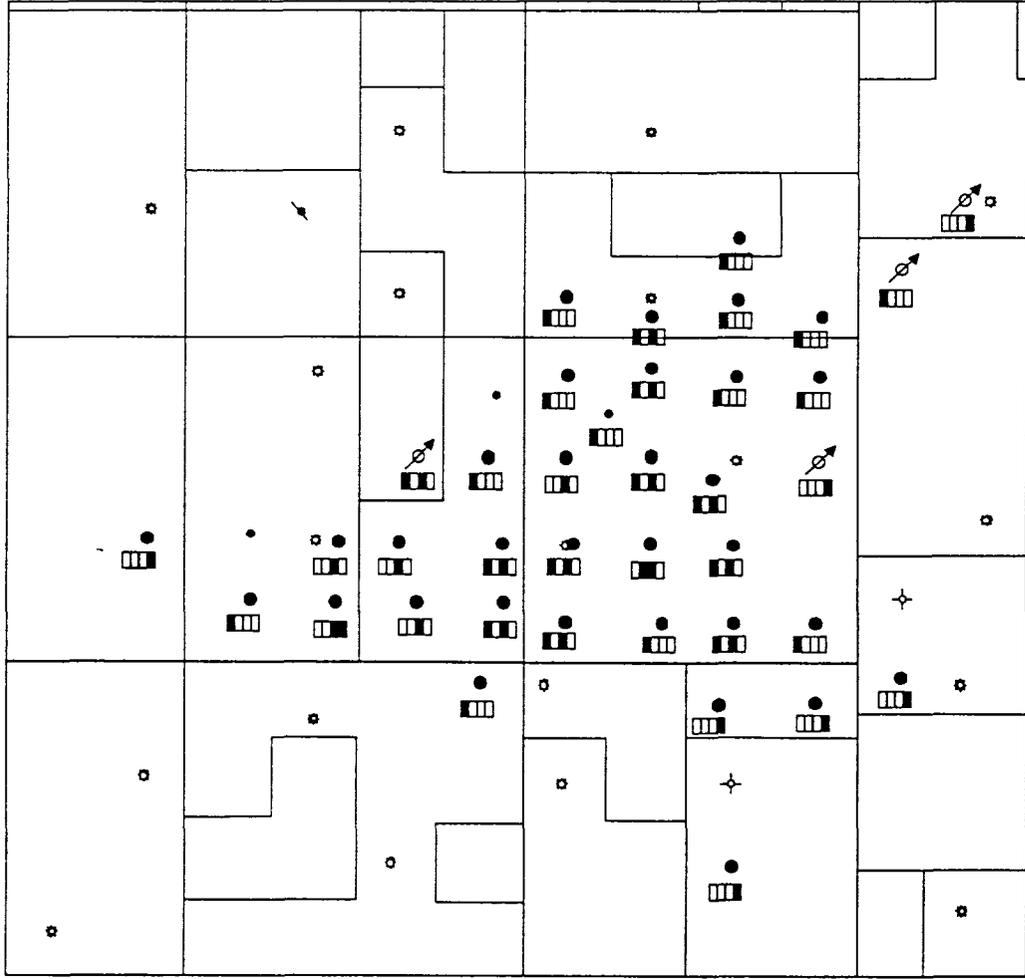


AVALON EOR PROJECT GEOLOGIC OVERVIEW



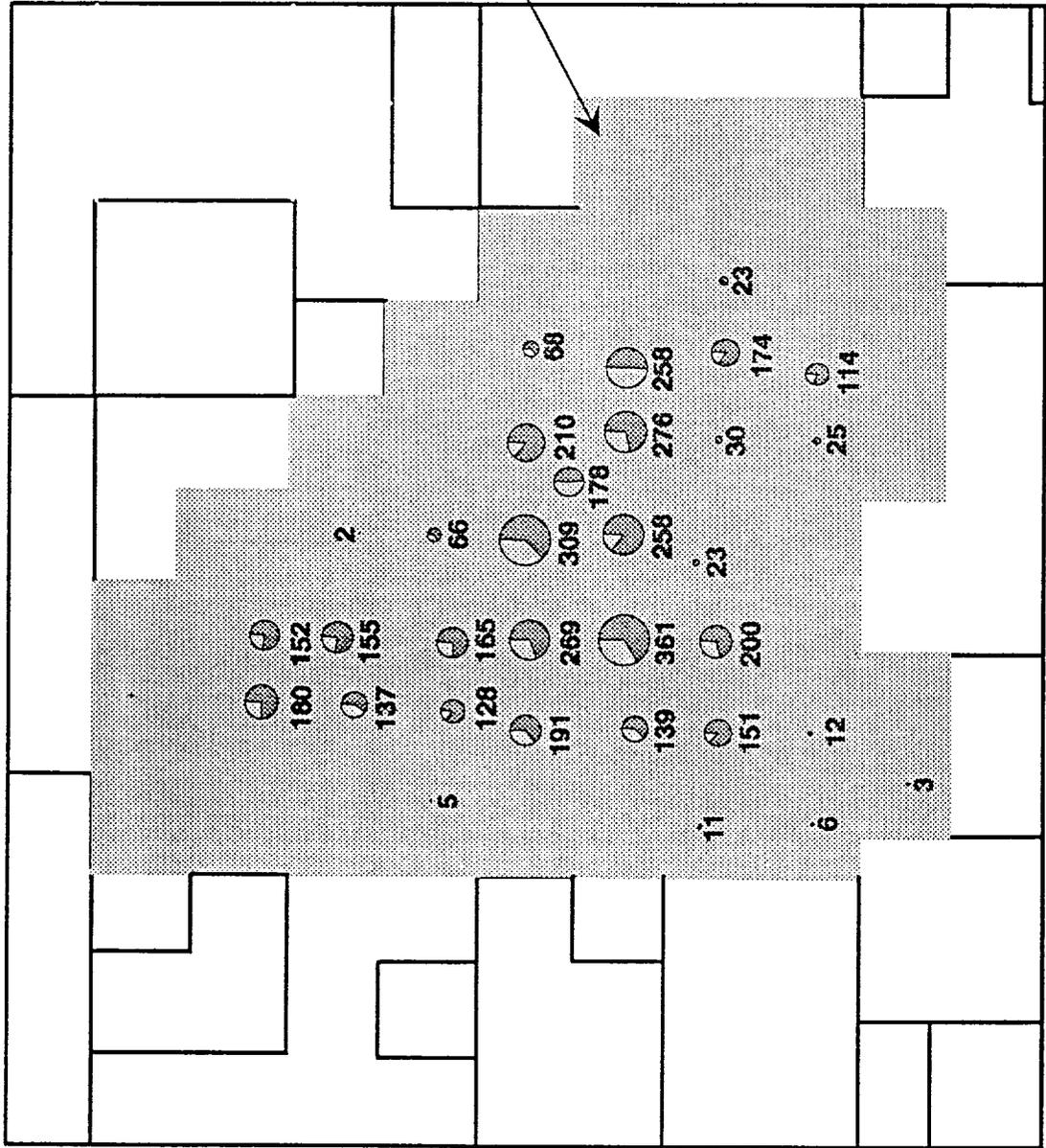
RESERVOIR DESCRIPTION	
PRODUCING FORMATION	UPPER CHERRY CANYON
DEPTH	2600 FT
RESERVOIR LITHOLOGIES	SAND
NET THICKNESS (PAY)	132 FT
AVERAGE ϕ	14.4%
AVERAGE K	2.3 md
PRODUCING FORMATION	UPPER BRUSHY CANYON
DEPTH	3500 FT
RESERVOIR LITHOLOGIES	SAND & SILTSTONE
NET THICKNESS (PAY)	158 FT
AVERAGE ϕ	14.8%
AVERAGE K	1.1 md

AVALON (DELAWARE) FIELD COMPLETION ZONES



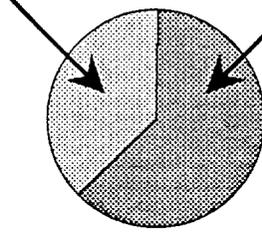
- Upper Cherry Canyon
- Middle Cherry Canyon
- Upper Brushy Canyon
- Lower Brushy Canyon

AVALON (DELAWARE) FIELD PRODUCTION MAP



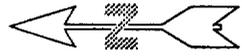
PROPOSED UNIT AREA

Primary RUR (KBO)

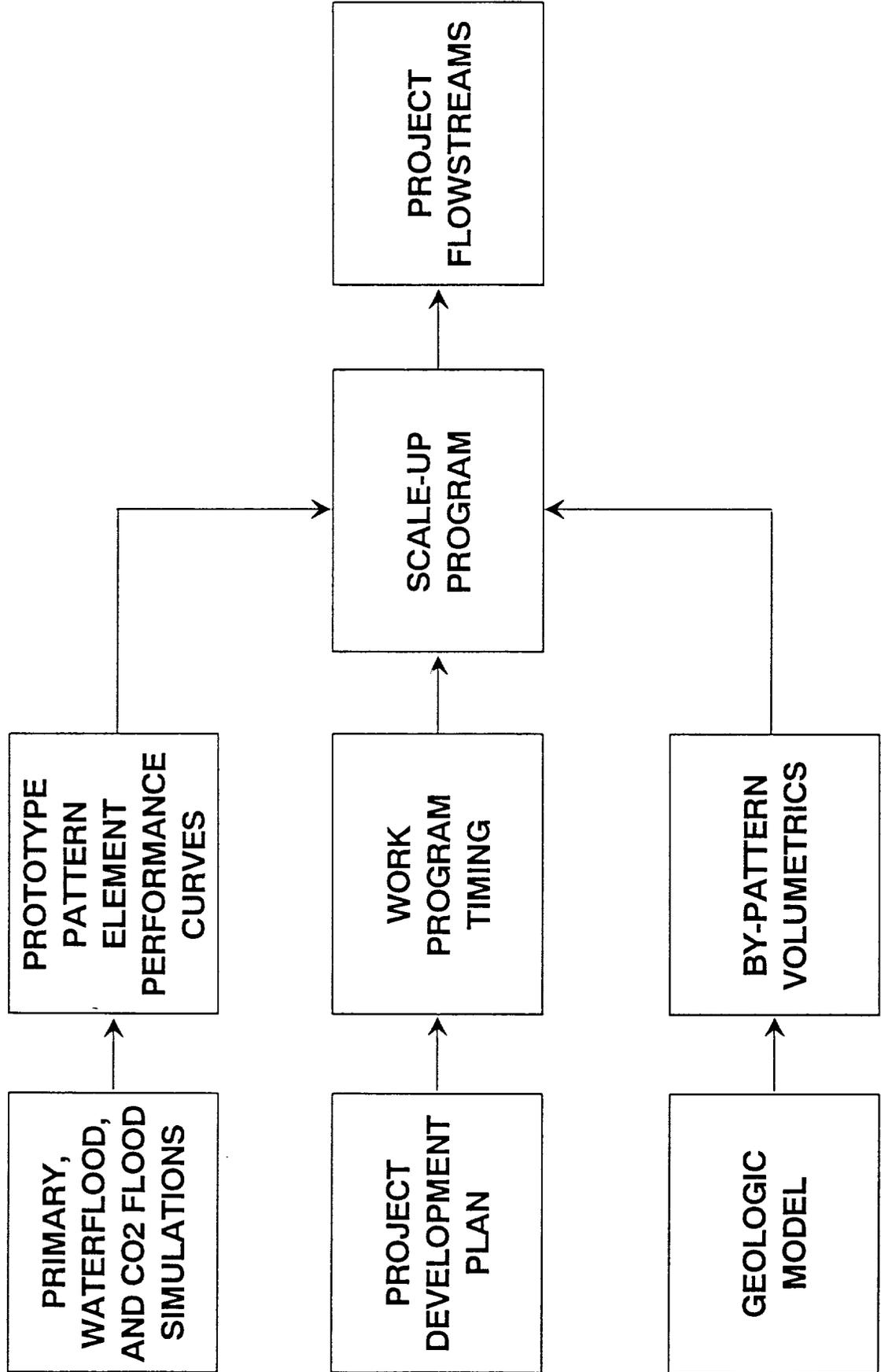


Cumulative (KBO)

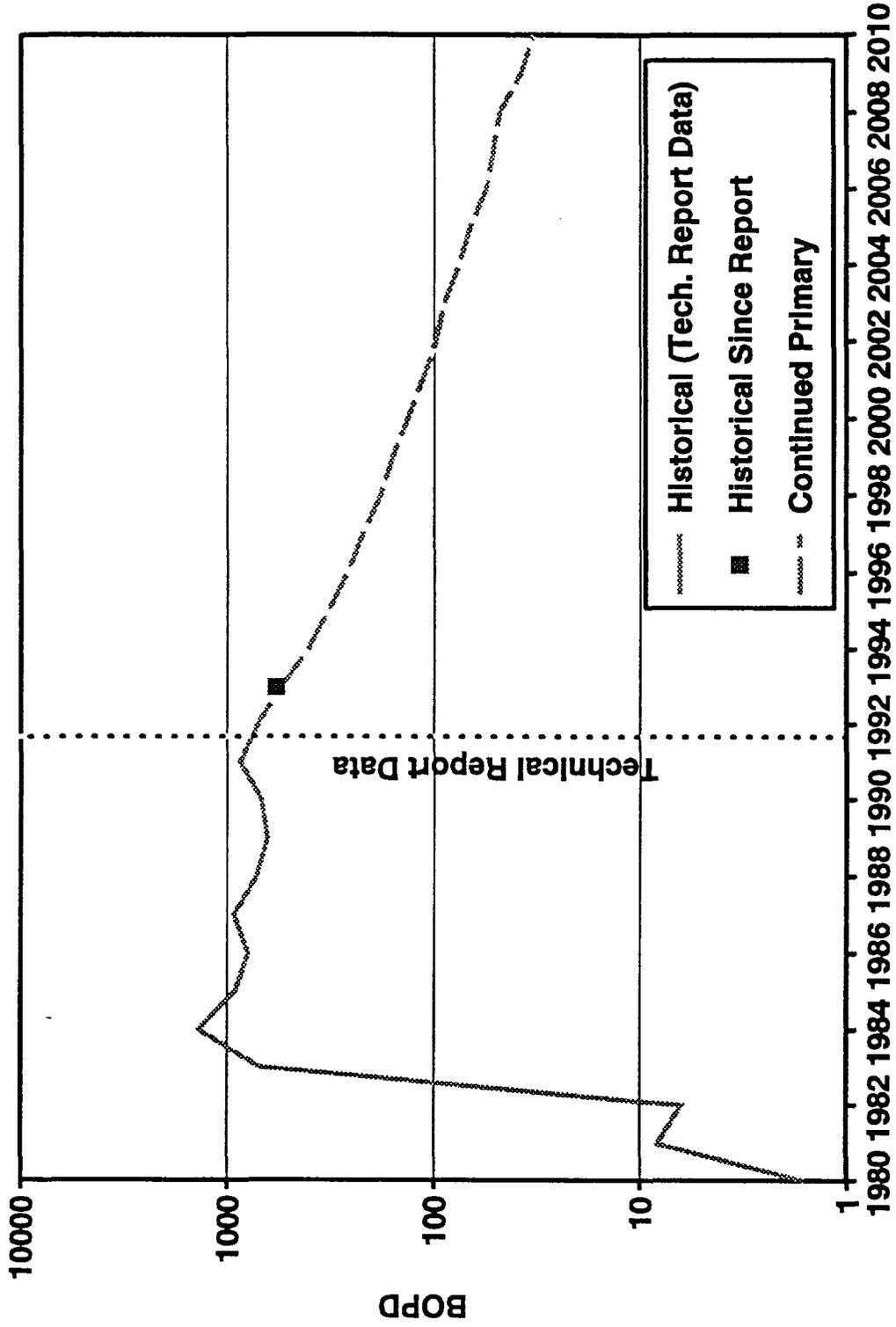
Primary EUR (KBO)



PROJECT FLOWSTREAM METHODOLOGY



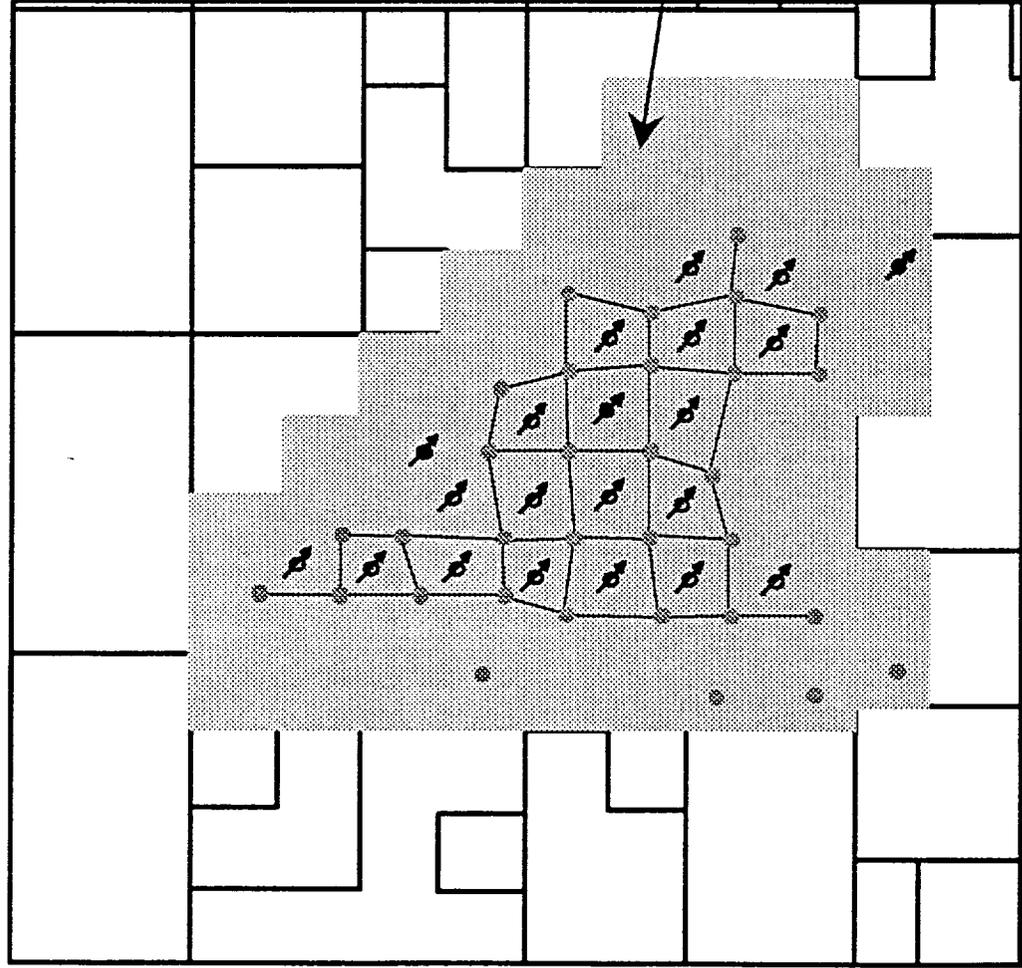
AVALON (DELAWARE) FIELD CONTINUED OPERATIONS



AVALON (DELAWARE) FIELD WATER INJECTION PHASE DEVELOPMENT

DEVELOPMENT SUMMARY

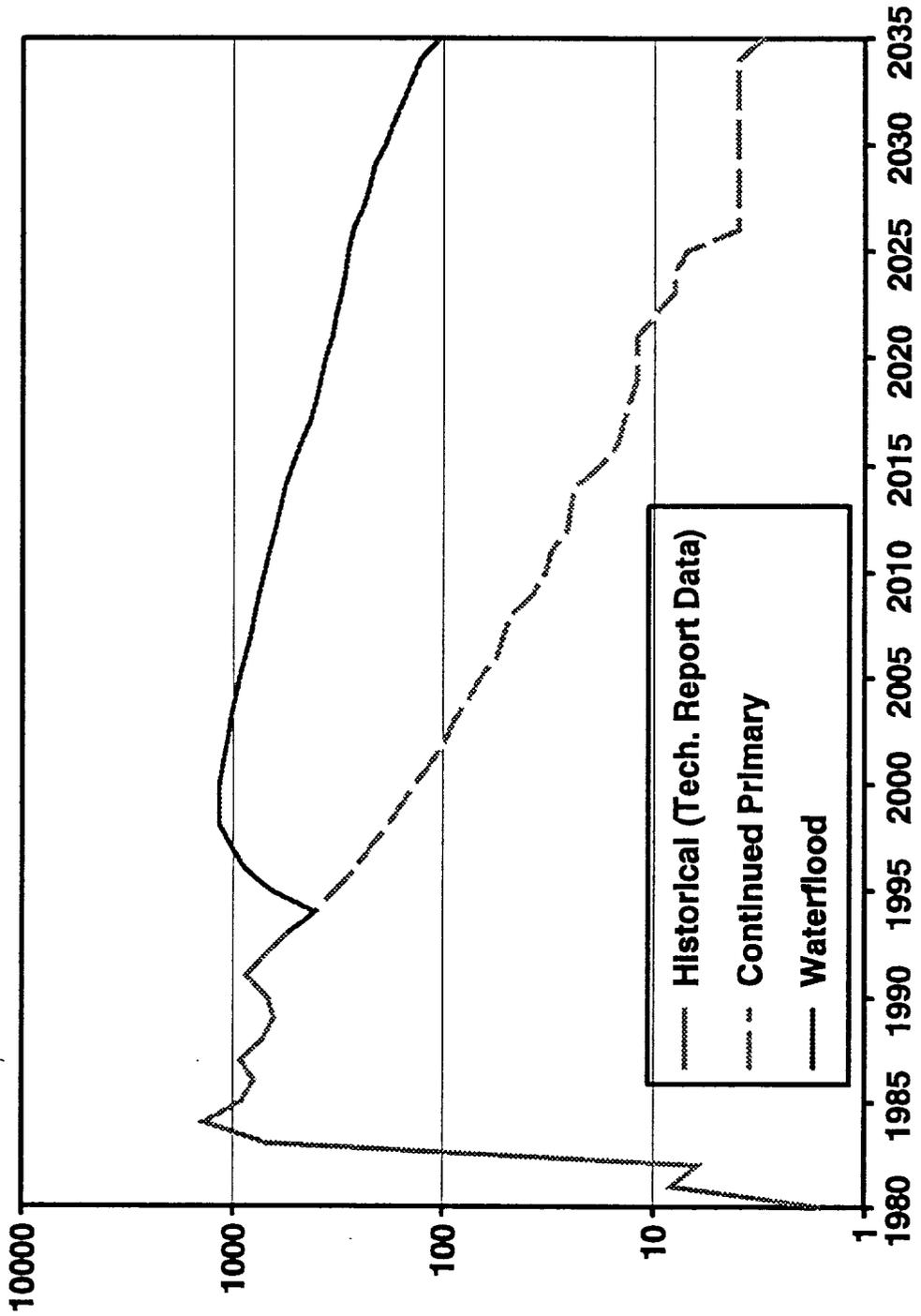
- START 4Q94
- 18 INJECTOR DRILLWELLS
- \$12M GROSS INVESTMENT
- 8 MBO GROSS RESERVES



WELL SYMBOL LEGEND

- OIL WELL
- OIL WELL (PROPOSED)
- ⦿ INJECTOR
- ⦿ INJECTOR (PROPOSED)

AVALON (DELAWARE) FIELD WATERFLOOD VS CONTINUED PRIMARY

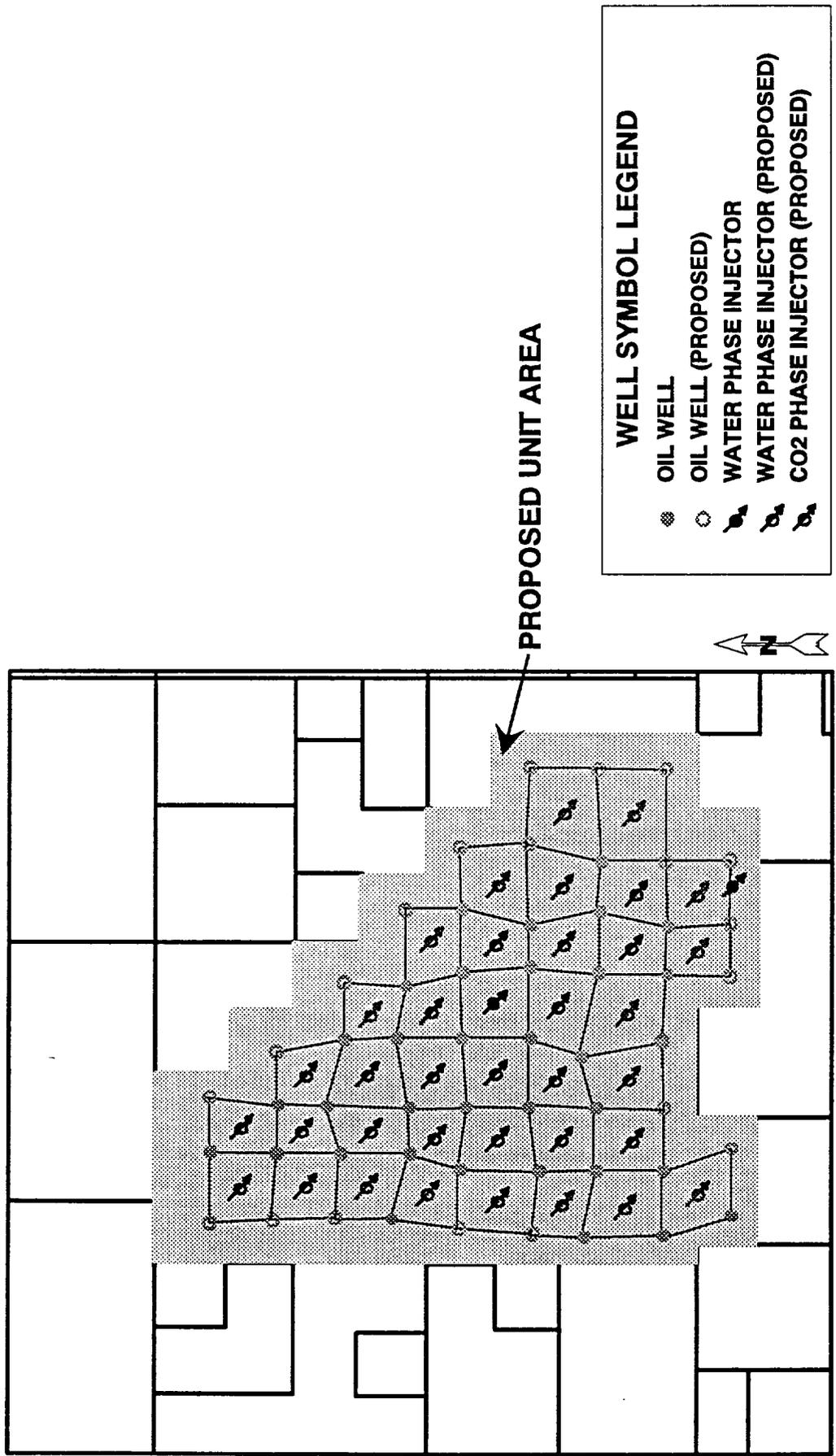


**AVALON PROJECT
RESERVES SUMMARY**

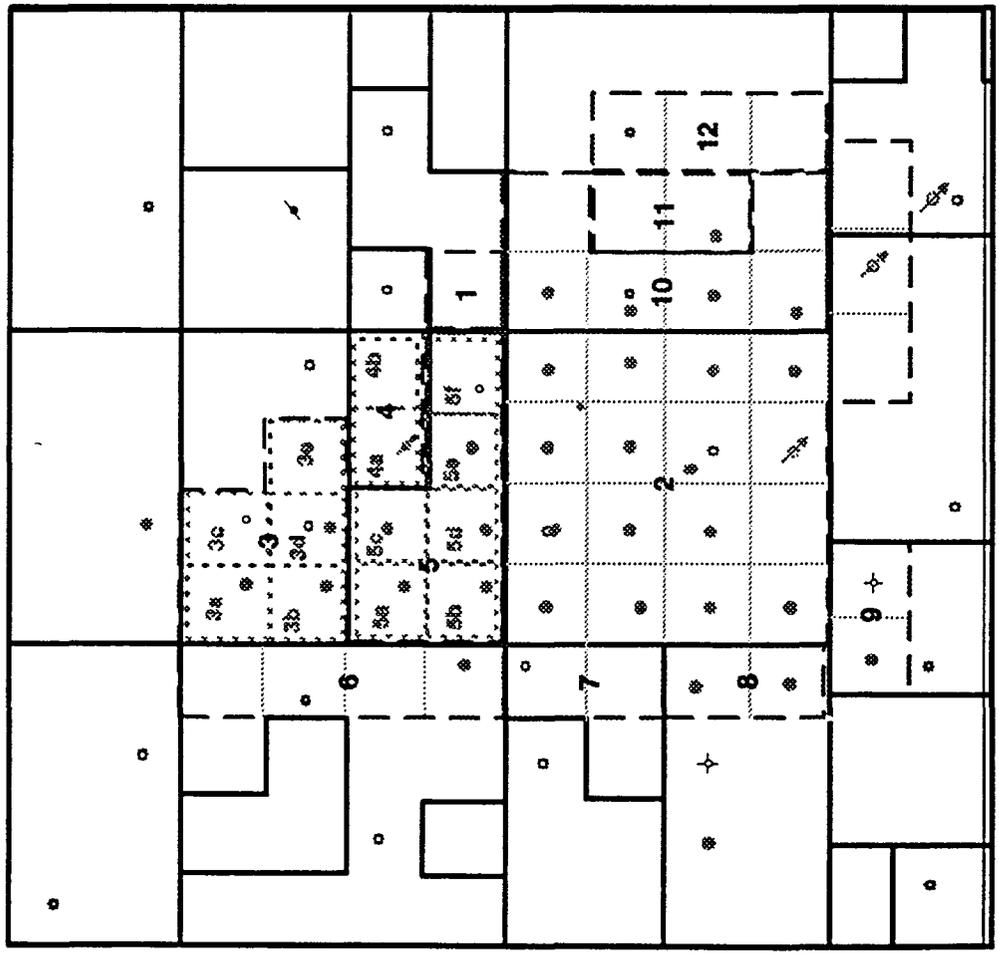
<u>CASE</u>	<u>EFFECTIVE OOIP (MBO)</u>	<u>EUR</u>		<u>Δ EUR</u>	
		<u>(MBO)</u>	<u>(% OOIP)</u>	<u>(MBO)</u>	<u>(% OOIP)</u>
CONTINUED PRIMARY	86 ⁽¹⁾	4.2	4.9	4.2	4.9
WATERFLOOD	80 ⁽²⁾	12.4 ⁽³⁾	15.5	8.2	10.3
CO2 FLOOD	171 ⁽²⁾	52.3	30.6	39.9	23.3

- (1) HISTORY MATCH OOIP
- (2) FLOOD-AFFECTED AREAS
- (3) INCLUDES WORKOVER RESERVES

AVALON (DELAWARE) FIELD CO2 INJECTION PHASE DEVELOPMENT



AVALON (DELAWARE) FIELD TRACT MAP



- Tract
- - - Sub-Tract
- 40 acre

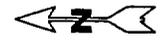


EXHIBIT "D"
RESERVES BY TRACT

TRACT	REMAINING PRIMARY RESERVES	WATERFLOOD RESERVES	TERTIARY RESERVES
1	0.00	0.00	203.90
2	741.80	4,368.20	18,995.00
3-A	0.00	345.10	530.60
3-B	43.40	403.60	1,693.00
3-C	0.00	0.80	446.70
3-D	33.40	373.30	1,045.90
3-E	0.00	0.00	362.50
4-A	0.00	0.00	852.50
4-B	0.00	0.00	247.40
5-A	53.40	368.10	1,425.90
5-B	19.30	174.50	1,189.70
5-C	33.80	741.50	2,177.20
5-D	40.30	698.40	2,009.30
5-E	20.20	157.50	966.20
5-F	0.00	69.30	481.00
6	0.00	0.00	1,626.00
7	0.00	0.00	427.60
8	0.70	0.00	165.80
9	0.00	0.00	444.30
10	202.80	499.40	3,350.90
11	3.10	69.70	1,050.50
12	0.00	0.00	191.10
TOTAL	1,192.20	8,269.40	39,883.00

RESERVE DATA
UNITS ARE THOUSAND OF BARRELS

It is understood and agreed that the above numbers are estimates that were utilized in determining Tract Participation for the Unit; they do not constitute any representation as to the amount of oil that may actually be recovered by each tract or by the unit as a whole.

PARTICIPATION CONCERNS/SOLUTIONS

Summary:

- Two Phase
- Phase Change by Vote
- Participation Based on Weighted Reserves

ITEM	TYPICAL CONDITIONS	CONDITIONS AT AVALON	CONCERN	SOLUTION
Economic Uncertainty	Project approved & implemented up front	Future implementation of tertiary project	Oil prices have major impact on viability of future tertiary project	Use two phases
Project Life	10-40 Years	40-60 Years	Present worth of future production less than near term production	Use reserve weighting factors that incorporate timing of production
Production Costs	WF costs only	Tertiary & WF costs	Tertiary expense/BOPD higher than for waterflood	Use reserve weighting factors that incorporate production costs

AVALON (DELAWARE) FIELD TRACT PARTICIPATION FORMULA

$$\text{PARTICIPATION} = \frac{C \cdot A}{B} + \frac{F \cdot D}{E} + \frac{I \cdot G}{H}$$

(Pri) (Sec) (Tert)

Where:

- A = Tract's remaining primary reserves as of 1/1/93; see Exhibit D
- B = Total remaining primary reserves as of 1/1/93 = 1192.2 MBO
- C = Primary reserve weighting factor; see table below
- D = Tract's waterflood reserves; see Exhibit D
- E = Total waterflood reserves = 8269.4 MBO
- F = Waterflood reserve weighting factor; see table below
- G = Tract's tertiary reserves; see Exhibit D
- H = Total tertiary reserves = 39883.0 MBO
- I = Tertiary reserve weighting factor; see table below

Where:

	Phase 1	Phase 2
C	62.4312%	23.4552%
F	37.5688%	20.6375%
I	0	55.9073%

AVALON (DELAWARE) FIELD WEIGHTING FACTORS FOR TRACT PARTICIPATION FORMULA

Phase 1:

#/Bo

<p>Define:</p>	$C_1 = \left[\begin{array}{l} \text{Total Remaining} \\ \text{Primary Reserves} \\ \text{at Phase 1 start;} \\ \text{assume 1-1-94} \end{array} \right] * \left[\begin{array}{l} \text{Primary Case} \\ \text{PVP @ 20\%} \\ \text{Primary Reserves} \\ \text{Used in Economics} \end{array} \right]$	$= 986.6 \text{ KBO} * \$8\text{M}/1187.4 \text{ KBO}$
		$= \$6.647128\text{M}$
		$F_1 = \text{Waterflood Case PVP @ 20\%}$
		$= \$4\text{M}$
<p>Then:</p>		
		$C = C_1 / (C_1 + F_1) = 62.4312\%$
		$F = F_1 / (C_1 + F_1) = 37.5688\%$

AVALON (DELAWARE) FIELD WEIGHTING FACTORS FOR TRACT PARTICIPATION FORMULA

Phase 2:

Define:	
$C_2 = \frac{\text{Total Remaining Primary Reserves at Phase 2 start; assume 1-1-97}}{\text{Primary Case PVP @ 20\% Primary Reserves Used in Economics}} *$	$= \frac{622.7 \text{ KBO}}{\$8\text{M}/1187.4 \text{ KBO}} *$
$= \$4.195385\text{M}$	
$F_2 = \frac{\text{Total Remaining Waterflood Reserves at Phase 2 start; assume 1-1-97}}{\text{Waterflood Case PVP @ 20\% Waterflood Reserves Used in Economics}} *$	$= \frac{7631.3 \text{ KBO}}{\$4\text{M}/8269.3 \text{ KBO}} *$
$= \$3.691389\text{M}$	
$I_2 = \text{Tertiary Case PVP @ 20\%}$	
$= \$10\text{M}$	
Then:	
$C = C_2 / (C_2 + F_2 + I_2) = 23.4552\%$	
$F = F_2 / (C_2 + F_2 + I_2) = 20.6375\%$	
$I = I_2 / (C_2 + F_2 + I_2) = 55.9073\%$	

EXHIBIT "C"
SCHEDULE OF TRACT PARTICIPATION

TRACT	PHASE 1 PARTICIPATION	PHASE 2 PARTICIPATION
1	0.000000	0.285823
2	58.690598	52.122430
3-A	1.567828	1.605034
3-B	4.106300	4.234308
3-C	0.003634	0.628173
3-D	3.444980	3.054857
3-E	0.000000	0.508146
4-A	0.000000	1.195020
4-B	0.000000	0.346801
5-A	4.468684	3.968035
5-B	1.803444	2.482897
5-C	5.138700	5.567460
5-D	5.283274	5.352419
5-E	1.773341	2.144879
5-F	0.314838	0.847206
6	0.000000	2.279299
7	0.000000	0.599402
8	0.036656	0.246187
9	0.000000	0.622812
10	12.888732	9.933423
11	0.478991	1.707508
12	0.000000	0.267881
TOTAL	100.000000	100.000000

PHASE PARTICIPATIONS BY WIO GROUP

WIO GROUP*	PHASE 1 PERCENTAGE	PHASE 2 PERCENTAGE
ANPC	4.833638	5.481625
Chevron (PENNSYLVANIA)	0.522045	1.260513
Claremont	0.211755	0.239281
Devon	0.635433	0.720320
Exxon	79.718394	72.529551
Hayes	0.000000	0.023017
Hudson	3.388077	3.828488
Kerr-McGee	0.204154	0.230691
McCall	0.000000	0.000194
Merit	0.000000	0.622812
Moore	0.000000	0.000078
MWJ	0.451003	0.663202
Oliver	0.000000	0.000048
Oxy	0.000000	0.339883
Premier	0.000000	2.279299
Redfern	0.099094	0.111975
Redfern, John	0.099094	0.111975
SSC	0.000000	0.004465
TROil	0.000000	0.002333
Yates	9.837315	11.550251
	100.000000	100.000000

*Individual owner participation given in Exhibit "E"

AVALON ECONOMIC SUMMARY
(EXHIBIT H-5)

WORKING INTEREST = 100%
NET INTEREST = 87.5%

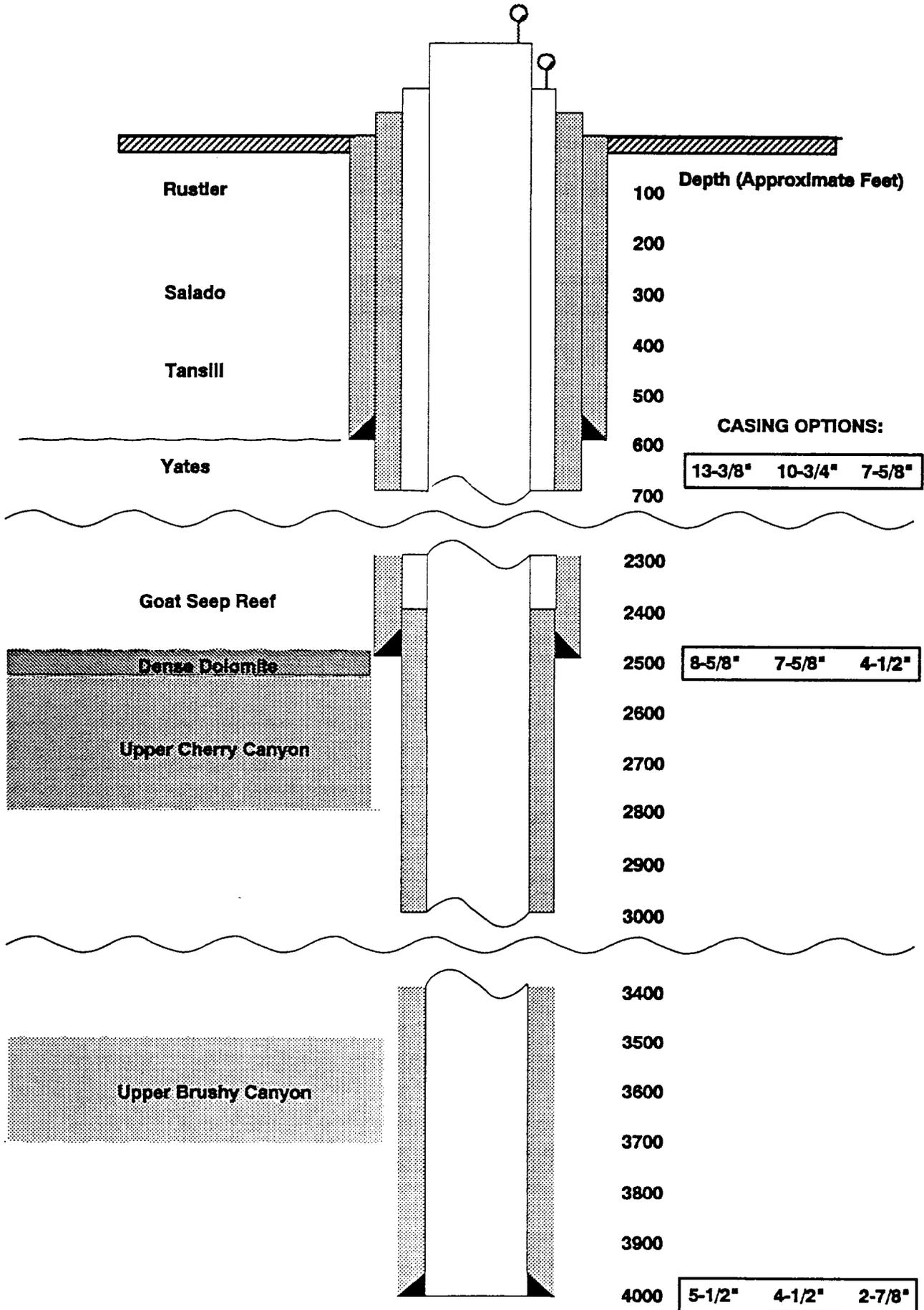
CASE#	CASE DESCRIPTION (1)	GROSS INVESTMENT (M\$)		NET RESERVES (MBO)	ROR (%)	PAYOUT (YRS)	PRESENT VALUE PROFIT (M\$)			CASE#		
		1992\$	AS SPENT \$				0%	5%	10%		15%	20%
BASE CASES:												
1	EOR PROJECT	84.2	102.7	42.2	25%	9.6	2,157	434	134	47	14	1
2	EOE PROJECT (INCREMENTAL OVER WF)	61.0	77.9	34.9	25%	-	1,927	364	106	35	10	2
PRICING SENSITIVITIES:												
3	OIL PRICE UP \$2 (\$23/BO)	84.2	102.7	42.2	27%	9.3	2,457	155	20	20	3	3
4	OIL PRICE DOWN \$2 (\$19/BO)	84.2	102.7	42.2	23%	10.0	1,857	113	8	8	4	4
5	FLAT PRICING (NO REAL GROWTH)	84.2	102.7	42.2	23%	9.9	1,177	99	8	8	5	5
6	CO2 PRICE UP \$0.25 (\$1.25/KCF)	84.2	102.7	42.2	24%	9.9	2,135	128	11	11	6	6
7	CO2 PRICE DOWN \$0.25 (\$0.75/KCF)	84.2	102.7	42.2	26%	9.4	2,179	140	17	17	7	7
8	INVESTMENTS UP 10%	92.7	113.0	42.2	23%	9.9	2,151	130	11	11	8	8
9	INVESTMENTS DOWN 10%	75.8	92.4	42.2	26%	9.4	2,163	139	18	18	9	9
PRODUCTION SENSITIVITIES:												
10	PRIMARY ONLY	0.2	0.2	1.0	>100%	-	17	13	11	9	8	10
11	WATERFLOOD	23.3	24.7	7.2	24%	5.9	230	70	28	12	4	11
12	HIGHER OIL SATURATION (+3% So)	84.2	102.7	50.6	30%	8.7	2,805	182	30	30	12	12
13	LOWER OIL SATURATION (-6% So)	84.2	102.7	25.8	17%	11.5	908	58	(9)	(9)	13	13
14	HIGHER INJECTIVITY (+40%)	91.0	111.1	43.7	29%	8.6	1,527	159	28	28	14	14
15	LOWER INJECTIVITY (-30%)	79.2	96.4	39.4	21%	10.8	2,667	107	3	3	15	15
16	HIGHER SLUG SIZE (.6 HCPV)	84.2	102.7	42.2	25%	9.6	2,200	131	13	13	16	16
17	LOWER SLUG SIZE (.4 HCPV)	84.2	102.7	38.3	24%	9.6	1,812	122	13	13	17	17

(1) UNLESS NOTED, ECONOMICS ARE INCREMENTAL OVER PRIMARY

INVESTMENT OPTIMIZATION IN PROGRESS

CATEGORY	INVESTMENTS (M\$)		COMMENTS
	TECH. REPORT	CURRENT	
Drilling	9.0	6.3	4-1/2" casing (vs. 5-1/2"); 19 wells (vs. 20); no CRA
Production Facilities	7.4	0.2	No CPF
Injection Facilities	5.8	4.0	Using mostly surplus equipment
Workover	0.9	1.0	13 add pays; 1 conversion
Artificial Lift	0.3	0.3	5 upgrades
Other	0.2	0.1	Formulation evaluation
Total	23.6	11.9	

Avalon EOR Project Proposed Drillwell



ECONOMIC OPTIMIZATION IN PROGRESS

CASE	ROR	CHANGE
Technical Report (WF)	24%	---
New Pricing	13%	\$21/BO @ 6% Escal. --> \$15/BO @ 4% Escal. (@ Startup)
Investments	24%	\$24M --> \$12M
Updated Timing	24%	10/92 Startup --> 10/94 Startup (Unit Approval)
CO2	18%	Not completely optimized for new pricing

Avalon Field Unitization

- **Next Meeting Proposed Agenda**
 - Significant issues (if any) provided Exxon in writing 1 week in advance of meeting
 - Review UA/UOA significant issues (if any)
 - » WIOs Present Suggested UA & UOA changes that have significant financial impact
 - » Group discusses, comments, & offers solutions
 - Provide any legal input on wording if time permits. Lawyers can coordinate in future.
- **Next Meeting Date (June 7 ; ??)**
 - WIO presentations on UA/UOA revisions if needed
- **Critique**



Facsimile Cover Sheet

From:	Ron Mayhew
Company:	Exxon SW Division
Phone:	915-688-7841
Fax:	915-688-7847
Date:	5/4
Pages including this cover page:	2

Distribution: Re: Meeting on 5/13/94, Reservoir Technology Conference Room, 10:00am Building: Claydessa A

Names	Location	phone	fax
Ken Jones	Premier Pet	214-386-6200	214-387-0551
Bill Hayworth	Patrick Pet	713-780-9494	713-780-9254
Dave Baneau	Yates Pet	505-748-1471	505-748-4585
copy: Tom Kane, Dave Contrill Gil Beukter, Rob Stuart			

Comments: Attached is an agenda for meeting to discuss Geology pick @ base of Upper Cherry. I will not likely be in attendance as mentioned earlier.

The meeting will be limited to this topic; however should you have suggestions contact Tom Kane, (915) 688-7965.

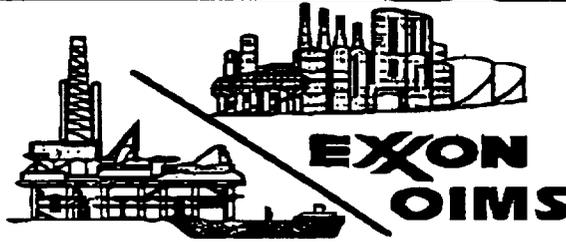
Go to main entrance of Claydessa B building to get visitors pass & have receptionist call Tom, Dave, or Gil.

Proposed Avalon (Delaware) Unit Technical Report Discussions

Date: Friday, May 13, 1994

Location: Exxon Building Claydesta A, RTG Conference Room 238, Midland, Tx

Agenda	Presenters	Duration	Time
	-----	-----	-----
I. Overview	Tom Kane	5 Min	10:00-10:05
A. Purpose			
B. Expected Outcomes			
II. Geologic Pick on Base of Upper Cherry Canyon Reservoir as Interpreted by Premier Production	Ken Jones, Paul White	45 Min	10:05-10:50
III. Stratigraphic Mapping Surface Methodology -Base of Upper Cherry Canyon Reservoir from Technical Report.	Tom Kane	45 Min	10:50-11:35
* Lunch *		70 Min	11:35-12:45
IV. Itemize Key Points from Presented Interpretations	All	30 Min	12:45-1:15
V. Discussion	All	60 Min	1:15-2:15
VI. Wrap Up -Conclusions -Next Step -Meeting Feedback	All	30 Min	2:15-2:45
TOTAL:		-----	4.75 Hours



Facsimile Cover Sheet

From:	Ron Mayhew
Company:	Exxon SW Division
Phone:	915-688-7841
Fax:	915-688-7847
Date:	5/6/94
Pages including this cover page:	2

Distribution: Re: Meeting on 5/13/94, Reservoir Technology Conference Room, 8:00am Building: Claydexter A

Names	Location	phone	fax
Ken Jones	Premier Pet	214-386-6200	214-387-0551
Bill Hayworth	Patrick Pet	713-780-9494	713-780-9254
Dave Baneau	Yates Pet	505-748-1471	505-748-4585
copy: Tom Kane, Dave Contrill Gil Beuhler, Rob Stuart			

Comments: Attached is an agenda for meeting to discuss Geology pick @ base of Upper Cherry. I will not likely be in attendance as mentioned earlier.

The meeting will be limited to this topic; however should you have suggestions contact Tom Kane, (915) 688-7965.

Go to main entrance of Claydexter B building to get visitors pass & have receptionist call Tom, Dave, or Gil.

Proposed Avalon (Delaware) Unit Technical Report Discussions

Date: Friday, May 13, 1994

Location: Exxon Building Claydesta A, RTG Conference Room 238, Midland, Tx

Agenda	Presenters	Duration	Time
	-----	-----	-----
I. Overview	Tom Kane	5 Min	8:00-8:05
A. Purpose			
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II. Geologic Pick on Base of Upper Cherry Canyon Reservoir as Interpreted by Premier Production	Ken Jones, Paul White	45 Min	8:05-8:50
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* Break *		10 Min	9:35-9:45
IV. Itemize Key Points from Presented Interpretations	All	30 Min	9:45-10:15
V. Discussion	All	60 Min	10:15-11:15
VI. Wrap Up -Conclusions -Next Step -Meeting Feedback	All	30 Min	11:15-11:45
TOTAL:		-----	3.75 Hours



3D

Proposed Avalon (Delaware) Unit Technical Report Discussions

Date: Friday, May 13, 1994

Location: Exxon Building Claydesta A, RTG Conference Room 238, Midland, Tx

Agenda	Presenters	Duration	Time
	-----	-----	-----
I. Overview	Tom Kane	5 Min	8:00-8:05
A. Purpose			
B. Expected Outcomes			
II. Geologic Pick on Base of Upper Cherry Canyon Reservoir as Interpreted by Premier Production	Ken Jones, Paul White	45 Min	8:05-8:50
III. Itemize Key Points from Presentation	All	15 Min	8:50-9:05
IV. Stratigraphic Mapping Surface Methodology -Base of Upper Cherry Canyon Reservoir from Technical Report	Tom Kane	45 Min	9:05-9:50
* Break *		10 Min	9:50-10:00
V. Itemize Key Points from Presentation	All	15 Min	10:00-10:15
VI. Discussion	All	60 Min	10:15-11:15
VII. Wrap Up	All	30 Min	11:15-11:45
-Conclusions			
-Next Step			
-Meeting Feedback			
TOTAL:		-----	
		3.75 Hours	

AVALON (DELAWARE) TECHNICAL REPORT DISCUSSIONS
MAY 13, 1994

- OVERVIEW
 - Technical report has been approved by >90% of potential Working Interest Owners.
 - Today's discussion is in response to a technical issue raised by Premier Production at the April 26, 1994 Working Interest Owner meeting.
 - The technical issue for today's discussion is the geologic pick at the base of Upper Cherry Canyon Reservoir.

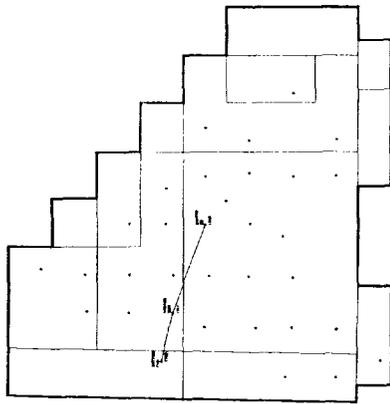
AVALON (DELAWARE) TECHNICAL REPORT DISCUSSIONS

MAY 13, 1994

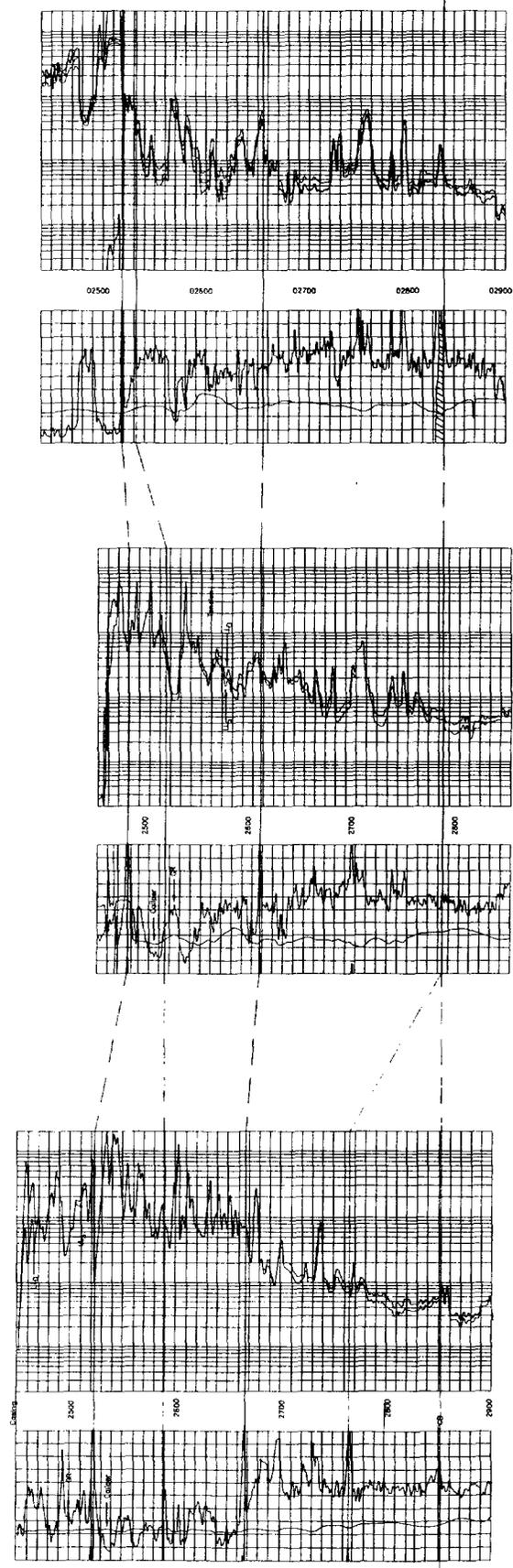
- **PURPOSE**
 - Information Exchange
 - Provide attendees an opportunity to review Premier Production's different interpretation of geologic pick at the base of Upper Cherry Canyon Reservoir (UCHB) in certain wells.
 - Provide attendees an additional review of the stratigraphic methodology and the UCHB from the Technical Committee Report.

- **EXPECTED OUTCOME**
 - Attendees have clear understanding of Premier's interpretation of the UCHB.
 - Attendees have clear understanding for the UCHB from the Technical Report.
 - Discussion about action item (if any) for next step regarding this issue.

Dual Lateral Cherry Canyon Base



Premier
Exxon
Common



PREMIER

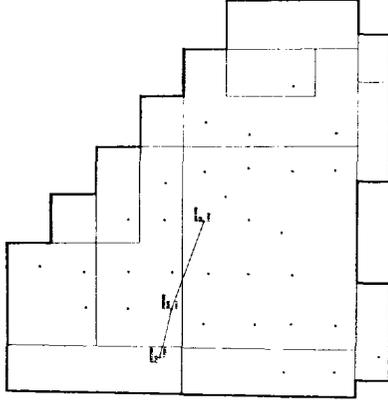
C3

WM4

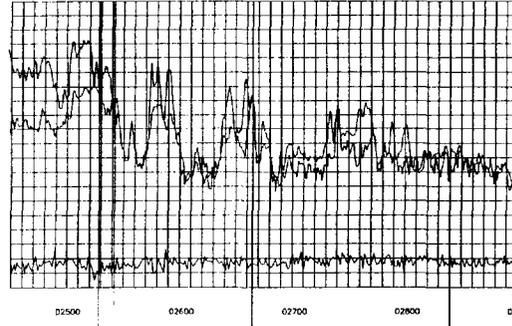
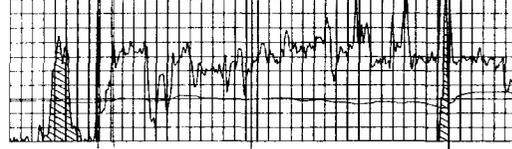
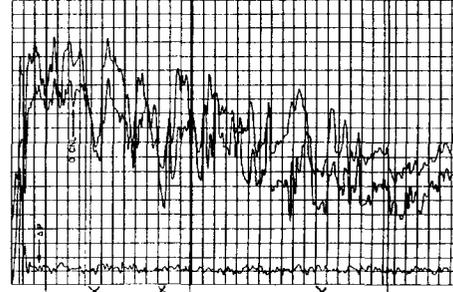
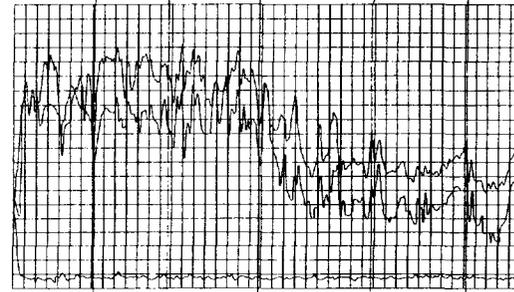
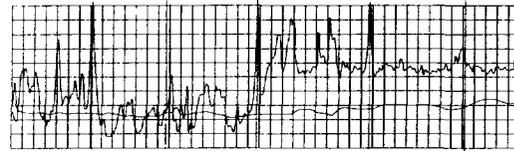
FV3

Gamma Ray Neutron

Datum: Cherry Canyon Base



Premier ---
 Exxon - - -
 Common ———



PREMIER

C3

WM4

FV3

AVALON (DELAWARE) FIELD MAPPING SURFACE METHODOLOGY

EXXON

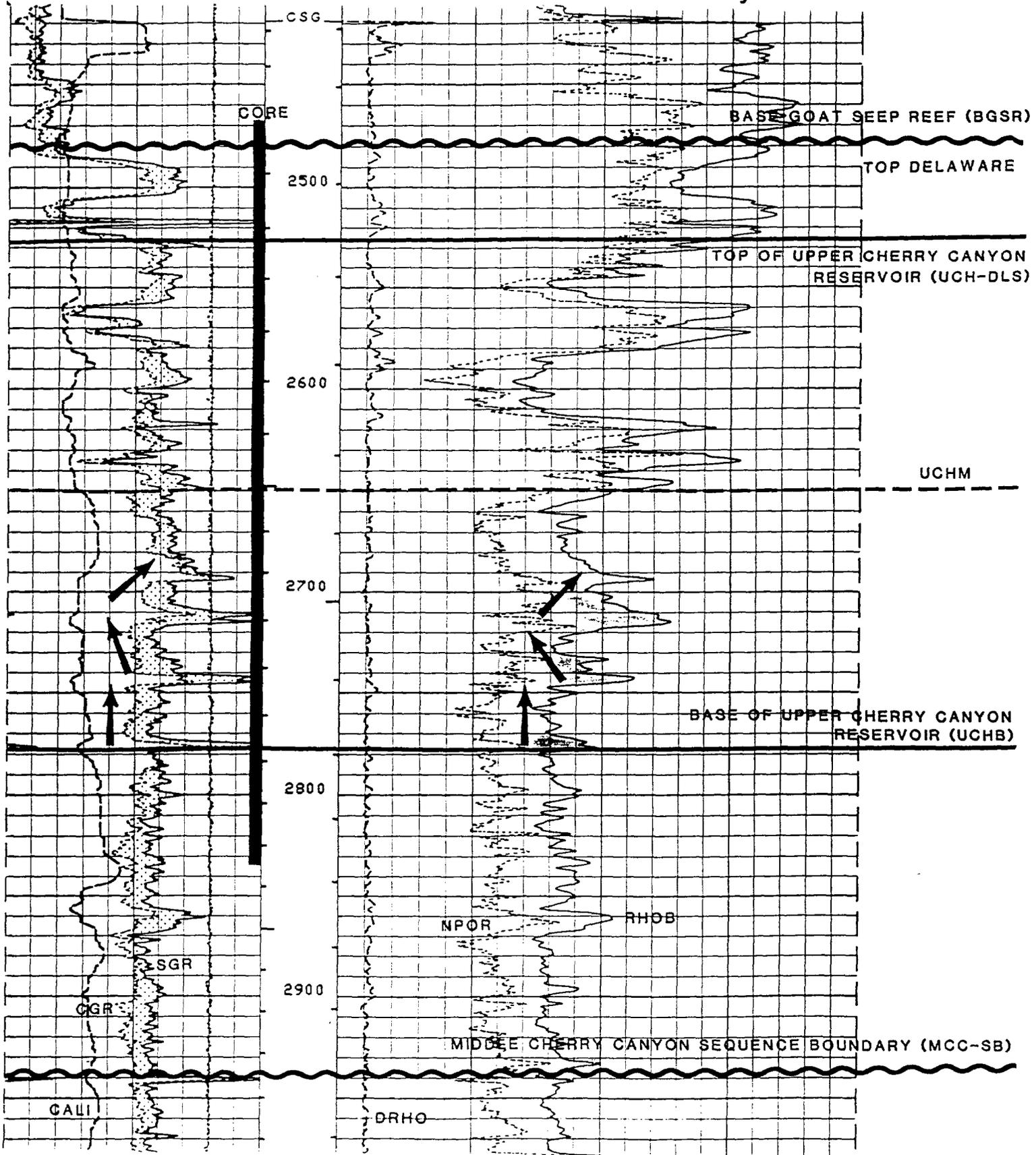
- Sequence stratigraphic framework developed from regional outcrop and seismic.
- Stratigraphic surfaces were defined in cores and well logs.
- Cross section grid was 'loop tied' to determine areally extensive surfaces.
- Multiple correlation markers were carried on well logs to constrain mapping surfaces.
- Mud log show data and current perforations confirmed reservoir intervals.
- Structure and gross interval isopach maps provided geologic validity of mapping surfaces.

BONEAU
5-13-94

TYPE LOG UPPER CHERRY CANYON RESERVOIR

EXXON Yates "C" Federal #36

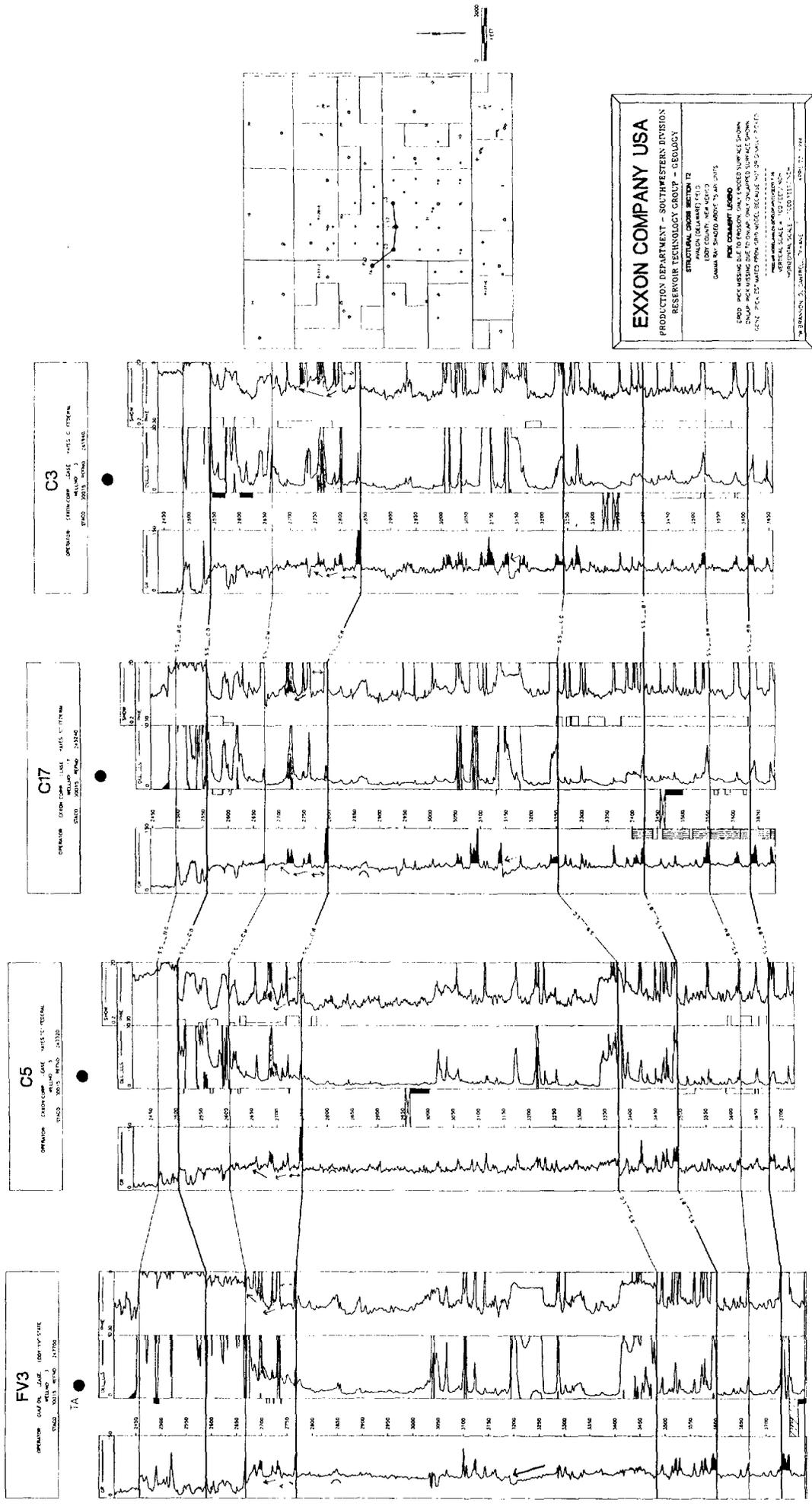
Neutron-Litho-Density



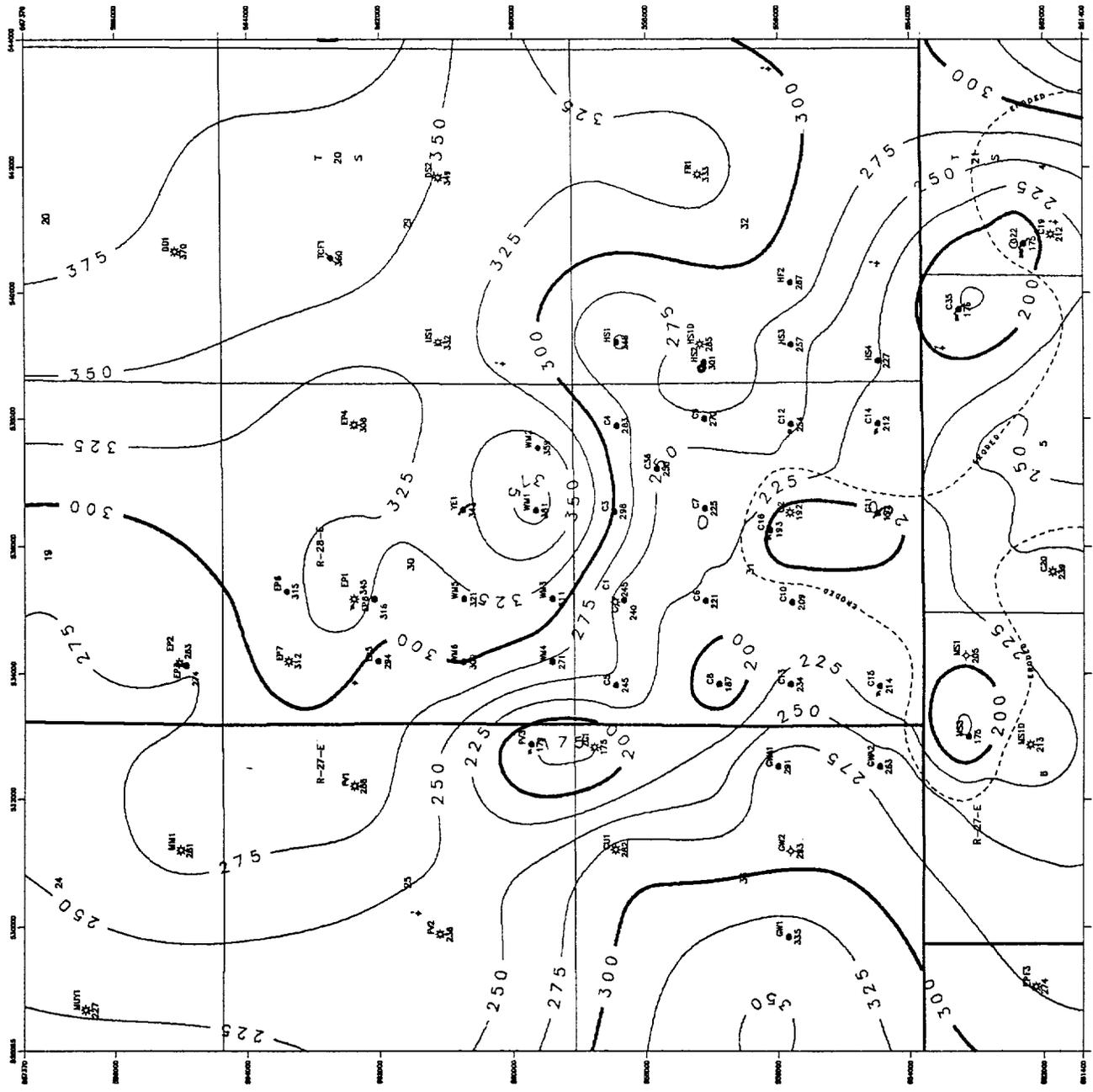
WEST

AVALON (DELAWARE) FIELD STRUCTURAL CROSS SECTION T2

EAST



UPPER CLEVELAND CANYON - CROSS THICKNESS



WELL STATUS SYMBOL LEGEND

- PRODUCING OIL WELL
- SHUT IN OIL WELL
- TEMPORARILY ABANDONED OIL WELL
- ABANDONED OIL WELL
- PRODUCING GAS WELL
- TEMPORARILY ABANDONED GAS WELL
- ACTIVE INJECTION WELL
- SALT WATER INJECTION WELL
- SALT WATER DISPOSAL WELL
- DRY HOLE
- DRY HOLE, JUNKED AND ABANDONED
- ABANDONED LOCATION

NOTE: ABOVE SYMBOLS ARE APPLIED TO ALL WELLS UNLESS OTHERWISE NOTED. SMALL SYMBOLS REPRESENT WELLS NOT USED IN LOCATING THIS MAP.

Map 7

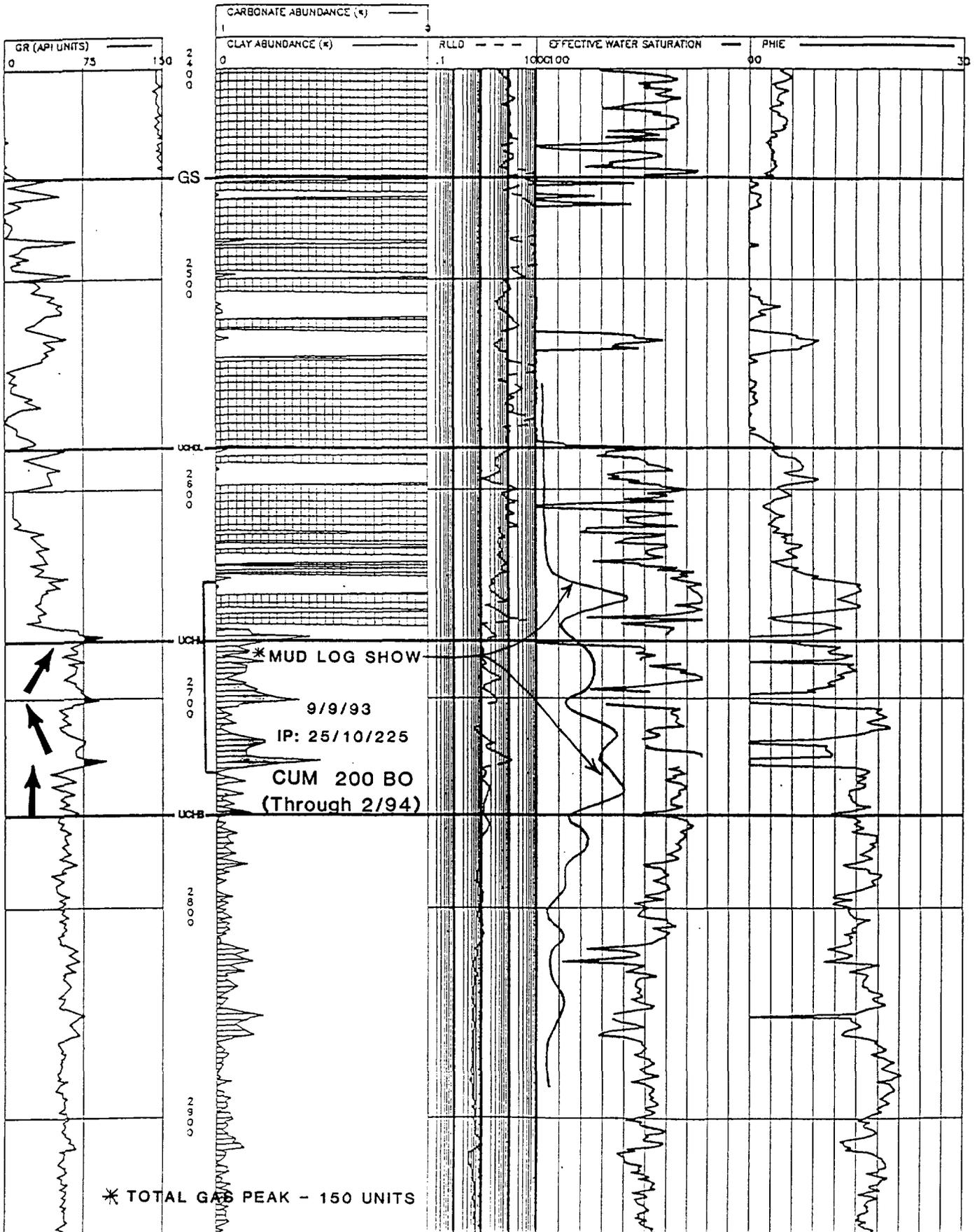
EXXON COMPANY USA
 PRODUCTION DEPARTMENT - SOUTHWESTERN DIVISION
 RESERVOIR TECHNOLOGY GROUP - GEOLOGY

TOTAL CROSS THICKNESS MAP
 ANALOGOUS TO ZONES CROWN OILS
 AMALON (DELAWARE) FIELD
 EDEY COUNTY, NEW MEXICO
 AMALON OIL FIELD, THICKNESS (FT)
 1960
 SHEET 331 - SCALE 1:600 (1/4" = 100')

BY BRANCO, D. CAMPBELL, W. GAYNE
 JULY 26, 1982

YATES PET CITDEL "ZG" 1

STACO: 30015 REFNO: 247240

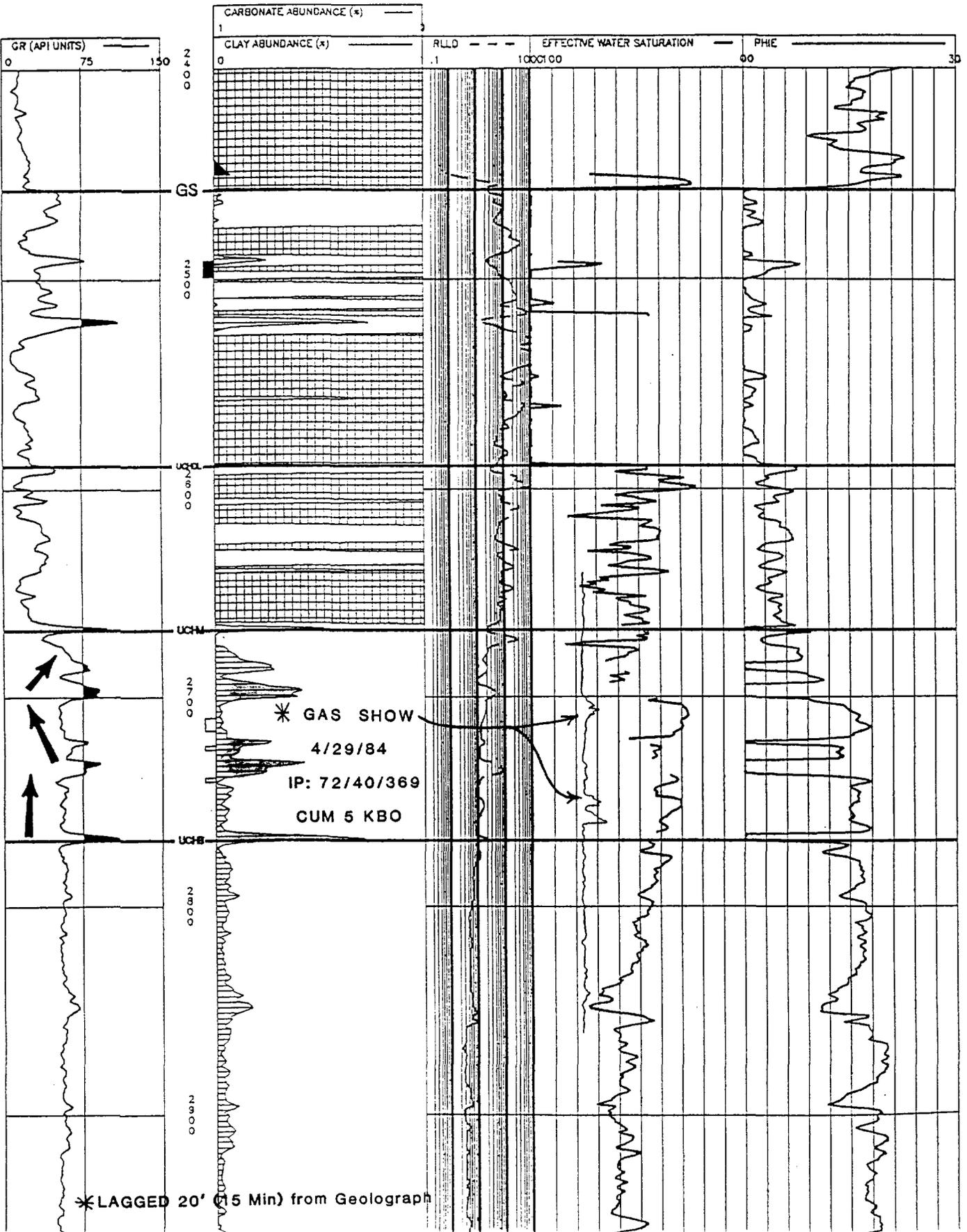


GULF OIL

EDDY "FV" STATE 3

STACC: 30015 REFNO: 247700

TA ●



3E

P REMIER OIL AND GAS, INC.

May 18, 1994

Exxon Company, U.S.A.
P. O. Box 1600
Midland, Texas 79702-1600

Attention: Mr. Ronald E. Mayhew
Avalon Project Manager

Re: Avalon Delaware Unitization

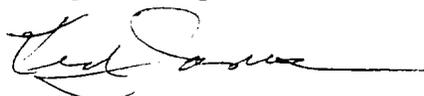
Dear Ron:

Thank you for the courtesy of allowing Premier to present its geological interpretation at the May 13 meeting. Premier still maintains that its interpretation of the UCC Reservoir is correct (i.e. the lower basinal sands between CM-CB markers are consistent and extend across the south half of Section 25, 20S-27E. Our view differs significantly with Exxon's interpretation of a pinch-out of the UCC at the east section line of the property).

Because of our disagreements involving the geological picks of the unit outline, the basis for Exxon's report is not a viable means of establishing a fair and reasonable equity for Premier's tract. Henceforth, we are withdrawing our tract from the proposed unit.

Thank you once again for your time and consideration.

Respectfully,



Ken Jones

*Letters Responding
to Proposed UA/UOA*

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 9, 1994

Ron Mayhew
Exxon
P. O. Box 1600
Midland, Texas 79702-1600

RE: Avalon Delaware

Dear Sir:

This note responds in a general way to the proposed agreements for the Avalon Delaware Unit. I will try to outline what I think are important issues and leave issues of wording, syntax and so forth for later. Major issues include:

1) Two-Phases

In earlier discussions and correspondence, Yates expressed reluctance to accept the idea that the CO₂ project in the developed primary area and the CO₂ project in the undeveloped "ring" area should be initiated at the same time under the same huge AFE. I thought Exxon eventually understood the Yates reluctance to a degree. But now, the proposed Exxon agreements return to the idea that CO₂ injection throughout the area is all part of a single grand Phase II. I fear that Exxon has not listened to anything Yates has said for the last two or three years. If you want multiple phases, there should be a phase break between CO₂ in the primary area and CO₂ in the ring area. I think the real answer is a single-phase formula for the unit.

2) Participation Formula

The components of the formula proposed by Exxon are extremely arbitrary. Exxon calculated present values for the primary, waterflood and CO₂ portions of the project. The results of the calculations are sensitive to the discount rate used. For no explained reason, Exxon used a discount rate of 20 percent per year. Exxon also omitted the large reduction in capital costs now expected and did not include these reductions in present value calculations. Both of these factors make the proposed formula favorable to Exxon.

3) Voting Percentage

Exxon proposed that an affirmative vote of 75 percent of the ownership be required to approve expenditures. In reality, this proposal means that Exxon totally controls each vote. This seems wrong to

Ron Mayhew

June 6, 1994

-2-

me. I think some combination of the second, third and fourth largest owners should be able to veto an expenditure. Thus, the affirmative vote must be set in the 85 to 90 percent range.

4) APO Interests

Exxon proposed that interests be calculated as if all wells have reached payout. This seems like an unnecessary breach of earlier agreements. I think the issue does not affect Exxon's ownership interest one way or the other. Exxon is willing to do the accounting work for multiple phases, but not the accounting to maintain agreements now in force. Yates operates units with well reversions, and it's no big deal. Exxon keeps track of reversions at Fogarty Creek Unit. I just don't see a reason why payouts can't be handled correctly.

I appreciate the fact that Exxon has prepared a first draft of the necessary agreements. Hopefully, the four concerns described above can help to focus our discussions on the major points of contention so that the group can progress toward consensus.

Sincerely,



David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

xc: Bob Fant
Janet Ricardson
Mike Slater
Peyton Yates
Randy Patterson

W. A. & E. R. HUDSON INC.
616 TEXAS STREET
FORT WORTH, TEXAS 76102-4612

EDWARD R. HUDSON JR
E. RANDALL HUDSON III

817-336-7109

FAX 817-334-0442

WILLIAM A. HUDSON II
LINDY HUDSON

May 18, 1994

Exxon Company, U. S. A.
P. O. Box 1600
Midland, Tx 79702-1600

RE: Proposed Unit Agreement and Unit Operating Agreement
Avalon Field
Eddy County, New Mexico

Gentlemen:

We have reviewed the proposed Unit and Unit Operating Agreement and have the following comments:

UNIT OPERATING AGREEMENT

Article 4, Section 4.3.2—We feel the required affirmative vote of 75% is too low given the large interest of Exxon. The addition of the one additional vote does not seem to provide a safeguard. We propose the percentage required be 90% to 95% for approval.

Article 20, Section 20.2 Restriction of Disposition and Withdrawal—The provision here makes it impossible for a working interest owner to withdraw without the consent of the other working interest owners if the burdens on his lease exceed 18.75%. Reviewing the schedule of interests, in most cases the burdens on the leases already exceed 18.75%.

When the Hudsons joined the Stonewall Unit, the basis for their interests in the proposed Avalon Unit, they put in a clean federal lease without any overrides. Overriding royalties have since been put on this lease, as well as the other leases that the Hudsons' acquired under the terms of the Unit, by parties other than the Hudsons. The requirement of Section 20.2 would either make withdrawal impossible or perhaps result in a withdrawing party giving up all of his interest in the Unit, but still being required to pay any excess override over 6.25%. We feel that the provision should be changed to "grandfather" any overrides existing at the time of the execution of the Unit and Unit Operating Agreement, not to exceed total burdens of 25%.

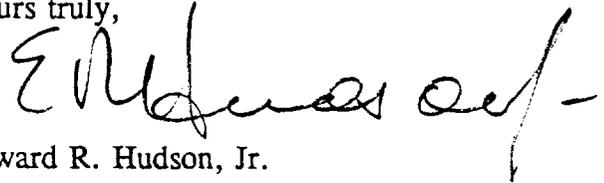
EXHIBIT F ACCOUNTING PROCEDURE

III. OVERHEAD—We feel the fixed rate basis of \$7292 for a drilling well and \$719 for producing and injection wells is too high. The figures that we have received from Ernst & Young for their overhead survey for the West Texas and Eastern New Mexico area (copy attached), show the mean and median rates for wells of this depth are \$3000 - \$3100 for a drilling well and \$300-\$323 for producing and injection wells. The difference of monthly fees on producing and injections wells from \$300 to \$719 is about \$400. This would result in an excess charge, in our opinion, to the joint account for the 129 wells of some \$51,600 a month or \$619,200 a year, which projected over the thirty plus years for the life of the project would total about \$19,000,000. These estimates do not include any escalation provisions

We appreciate Exxon's efforts on behalf of the Unit and hope we can settle these differences. I will be unavailable on June 2, but my brother, Bill Hudson, and my son, Randall Hudson, will attend the meeting.

With best wishes,

Yours truly,

A handwritten signature in black ink, appearing to read "E. Hudson, Jr.", with a long horizontal stroke extending to the right.

Edward R. Hudson, Jr.

ERHjr/vc

Ernst & Young Contacts in Oil and Gas Producing Areas

National Director of Energy Services
Charles O. Buckner
1221 McKinney, Suite 2400
Houston, Texas 77010

Alabama

Birmingham
Lucien P. Mistrot, Jr.
(205) 251-2000

California

Los Angeles
Barry Schehr
(213) 977-3330
San Francisco
Timothy R. Crichfield
(415) 951-3207

Colorado

Denver
Robert C. Caller
(303) 628-4378

Kansas

Wichita
Robert R. Crawford
(316) 265-9537

Kentucky

Louisville
Thomas E. Schoenbaechler
(502) 585-1400

Louisiana

New Orleans
Philip J. Gunn
(504) 581-4200

Ohio

Cleveland
Phillip A. Peters
(216) 861-8803
Canton
Ronald J. Manse
(216) 455-5555

Oklahoma

Oklahoma City
Richard D. Corn
(405) 278-6802
Tulsa
Porter R. Shults
(918) 560-3610

Pennsylvania

Pittsburgh
Albert J. D'Alo
(412) 644-0402

Texas

Dallas
Jack Morris
(214) 969-8421
Fort Worth
J. Turner Almond
(817) 878-7112
Houston
Terry Klebe
(713) 750-8160
San Antonio
Paul Mangum
(512) 554-0306

Utah

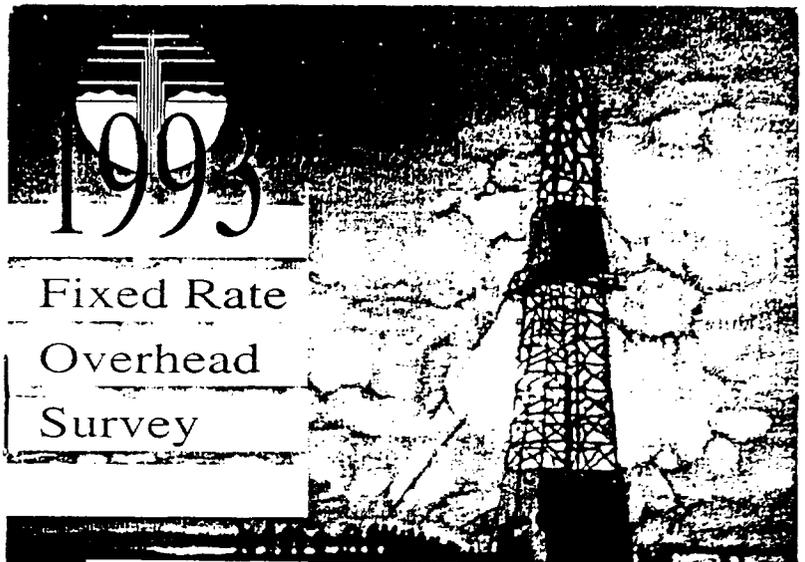
Salt Lake City
Ronald M. Aoki
(801) 350-3360

Virginia

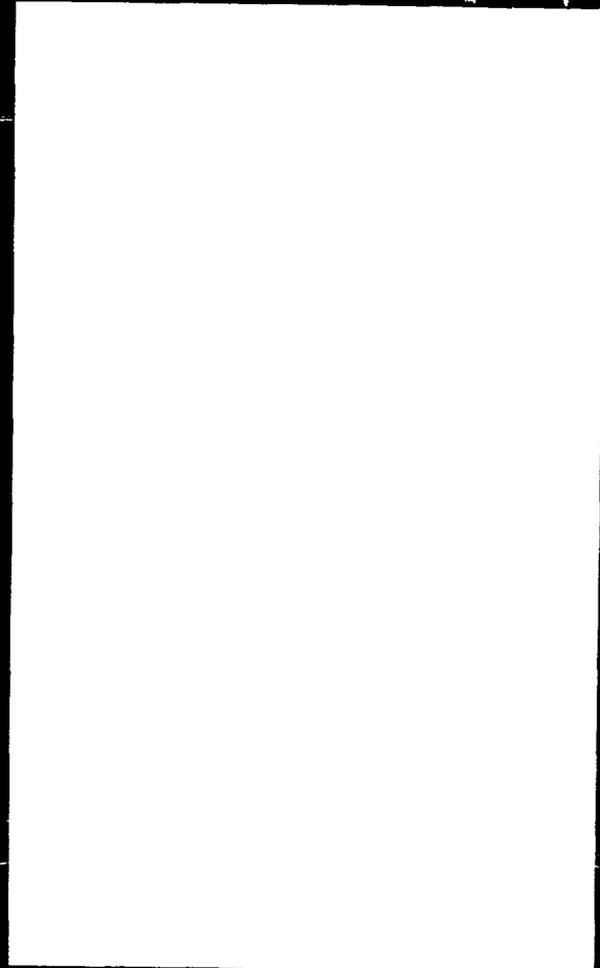
Fairfax
Michael F. Prendergast
(703) 846-5990

West Virginia

Charleston
Paul E. Arbogast
(304) 343-8971



1993
Fixed Rate
Overhead
Survey



ERNST & YOUNG

5 Oil Wells

West Texas and Eastern New Mexico

Responses 1993	1992	Depth in Feet	Monthly Drilling Well Rates		1992		1993		Monthly Producing Well Rates	
			Mean	Median	Mean	Median	Mean	Median	Mean	Median
141	173	0 - 5,000	\$3,093	\$3,000	\$3,271	\$3,000	\$323	\$300	\$326	\$300
114	142	5,001 - 10,000	4,136	4,000	4,311	4,000	450	425	550	400
42	35	10,001 - 15,000	5,146	5,000	5,185	5,000	502	500	501	500
5	6	15,001 - 20,000	5,590	5,000	6,529	7,618	538	450	623	668
1	1	20,001 -	4,500	4,500	8,500	8,500	400	400	850	850
8	7	No Depth Limit	4,018	4,000	3,405	3,650	476	476	372	330

5 Gas Wells

West Texas and Eastern New Mexico

Responses 1993	1992	Depth in Feet	Monthly Drilling Well Rates		1992		1993		Monthly Producing Well Rates	
			Mean	Median	Mean	Median	Mean	Median	Mean	Median
72	90	0 - 5,000	\$3,138	\$3,000	\$3,138	\$3,000	\$330	\$310	\$351	\$300
60	73	5,001 - 10,000	4,270	4,000	4,325	4,141	431	425	447	400
32	26	10,001 - 15,000	5,462	5,000	5,388	5,000	548	500	514	500
4	10	15,001 - 20,000	6,259	5,500	5,209	5,000	544	537	544	575
2	2	20,001 -	6,000	6,000	8,500	8,500	425	425	600	600
8	5	No Depth Limit	4,199	4,000	4,408	3,816	486	475	430	389



May 5, 1994

Mr. Ronald E. Mayhem
EXXON COMPANY, USA
P. O. Box 1600
Midland, Texas 79702-1600

RE: Avalon Field Unit
Eddy County, New Mexico

Dear Ron:

Whiting Petroleum Corporation has reviewed the proposed unit and unit operating agreement. The following are my comments and objections.

Comments:

Your proposed Exhibit "B" does not reflect Whiting's interest in tracts 3c, 3d, 3e, 5a, 5b, 5d and 5f. The enclosed recorded assignment covers the lands in each tract. It was an oversight that the well names were left off.

Objections:

Page 5 of the COPAS accounting procedure. Your drilling and producing well rates are excessive. Recommended rates for wells of this depth should be \$4,730 drilling and \$473 for producing and well overhead.

Please make these corrections to the proposed agreement and exhibits.

Very truly yours,

WHITING PETROLEUM CORPORATION

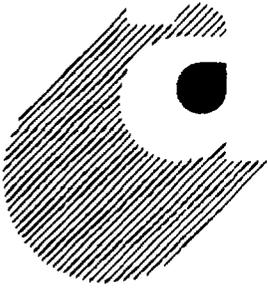
John R. Hazlett
Vice President - Land Department

JRH:glv:EXXON.L03/JRH01

cc: D. Sherwin Artus

WHITING PETROLEUM CORPORATION
MILE HIGH CENTER, 1700 BROADWAY, SUITE 2300, DENVER, COLORADO 80290-2301 (303) 837-1661 FAX (303) 861-4023
4804 REPUBLIC TOWERS II, 325 N. ST. PAUL ST., DALLAS, TX 75201 (214) 741-1650 FAX (214) 220-3940

An IES INDUSTRIES Company



American
National
Petroleum
Company

5847 San Felipe, Sta. 700
Houston, Texas 77057
P.O. Box 27725 (77227-7725)
(713) 780-9494
Fax: (713) 780-9254

June 15, 1994

R. E. Mayhew
CO2 Projects Coordinator
Exxon Company, U.S.A.
SW Division CDA #245
23 Desta Drive
Midland, Texas 79705

RE: Land and Engineering
Comments for Proposed
Avalon Unit, Eddy Co.
New Mexico

Dear Ron:

Please find attached comments and concerns pertaining to the proposed unit in general, the unit participation formula, the proposed Unit Agreement and proposed Unit Operating Agreement. After your review, please call if you want to discuss any issue. Mike Englert and I should be available to offer further clarification.

Again, I do apologize for the tardiness in returning our comments to you. As you and I have discussed, Patrick Petroleum Company i.e. ANPC, is for sale. The preparation of the data room has taken a significant amount of time away from day to day work.

Sincerely,
AMERICAN NATIONAL PETROLEUM CO.

Bill Hayworth

W. F. Hayworth
Engineering Manager

Attachments

cc: M. W. Englert

Engineering Problems & Comments

1) Economic Viability

Utilizing an economic study (results presented on H-5 and H-6) with a minimum value of \$19.00 per escalated at 6% is not practical. Prior to moving forward we need to view more realistic pricing combined with the new estimated investment to verify the project viability.

Specific Problems:

- a) Pricing and escalation factor are out of line from reality
- b) Hudson Inc.'s comments indicate that some of their leases are burdened much heavier than the 87.5% estimated in Exxon's economics. This could significantly affect the economics.
- c) Base charges for LEES are double of other operators - need to specifically address in Unit Operating Agreement what fixed costs administrative/lease overhead costs will be included.
- e) Comparison of Net Forecasts (using 87.5%)

	Model Primary		Model Waterflood		Incremental	
	BOPD	BOPY	BOPD	BOPY	BOPD	BOPY
1993	550	200750	889	*324485	339	123735
1994	408	148920	1021	372665	613	223745
1995	325	118625	1121	409165	796	290540

* H-6 economics match this number

Estimated remaining primary as of 1/1/93 - 1192.2 BO

Estimated remaining primary as of 1/1/94 - 986.6 BO
DIFFERENCE 205,600 BO

Economics should have been run on incremental oil production

2) Participation Formula

- a) Formula has little or no basis when you review economic run
- b) PV of 20% is arbitrary and immaterial. Keeping all other values the same, but utilizing PV of 10%, C = 24.61% and F = 75.39% (compared to PV 20% values where C = 62.43% & F = 37.5688%).
- c) Phase 1 formula uses a 1/1/93 remaining reserves denominator (1192.2) while weighting factors use a 1/1/94 remaining reserves (986.6).
- d) Using output (Present worth values) data from economic runs which have inappropriate oil prices, incorrect investments and some of the other problems identified in 1 above yields

nothing but FUNNY numbers.

- e) ANPC believes that the participants in the proposed unit need to move toward more traditional methods to determine tract factors and unit participation.

3) Waterflood Response Time

Although Exxon's model seems to predict the primary performance of the reservoir, I question the 60% increase in dayrate production for 1993 in comparison to 1992. Particularly as it relates to the start of the economic run in October 1992. It seems that the Ford Geraldine Unit response was closer to a year before significant response production was observed. What is the estimated time of fillup and response given that the reservoir has had two additional years of depletion?

4) Linking CO2 Injection with Waterflooding

If it is economically feasible, ANPC is interested in unitizing the Avalon Field for the purpose of waterflooding. Although Exxon sees great merit in initiating a CO2 Flood in the short term, ANPC is more interested in implementing a successful waterflood and based on an early response, verifying its economic viability. At that time, proceed forward in the setup a CO2 flood, if oil prices appear stable and the project is economically feasible.

ANPC prefers to drop all references to a Phase II "CO2 Flood" in the current documents. ANPC is not against the concept but believes that each phase should be managed individually. Exxon's has partially taken this approach by not equipping the wells with CO2 resistant tubulars. Given that there are a limited number of working interest owners in the proposed unit and that the reservoir responds to waterflooding as predicted by the model, it should be relatively easy to move from a secondary unit to a tertiary unit.



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June 15, 1994

Mr. Ron Mayhew
Exxon Company, U.S.A.
Southwest Division
P.O. Box 1600
Midland, Texas 79702-1600

Re: Unit and Unit Operating Agreements
Avalon (Delaware) Unit
Eddy County, New Mexico

Dear Ron:

Pursuant to your request, ANPC has reviewed the subject documents and have the following comments:

A. UNIT AGREEMENT:

1. Section 2., UNIT AREA AND DEFINITIONS.

- a. We ask that the location of the Exxon Yates "C" Federal #36 be verified as set forth in 2.(h).
- b. Phase 1 and Phase 2 should be defined.

2. Section 3., EXHIBITS.

- a. ANPC'S working interest needs an in-depth review and verification as ANPC's interest should now include the interest of Mrs. Francis B. Bunn as a result of a recent acquisition. We will contact your Land Department and discuss any necessary changes.

3. Section 4., EXPANSION AND CONTRACTION.

- a. "Contraction" of the unit is not specifically addressed even though the term is used.
- b. Since there are 53 separate Working Interest Owners, many of whom are grouped together, and Exxon owns 79.72% interest, we believe that voting rights and the overall approval process is critical. It is proposed that at least 50% of the Working Interest Owners owning not less than 85% should be required to approve expansions and/or contractions as well as certain other operational matters.
- c. It is proposed that no less than 50% of the Working Interest Owners owning not less than 85% interest be required to approve operational matters, including whether or not to approve or *not* approve of a Phase 2.

4. Section 11., PLAN OF OPERATIONS.

- a. Eighteen (18) months is an excessive amount of time to either commence operations or make a unilateral decision to terminate the project and agreement. It is proposed that this time frame be

Exxon Company U.S.A.
Avalon (Delaware) Unit

shortened to six (6) months.

5. Section 13., TRACT PARTICIPATION.

- a. ANPC's Engineering Department has *not* yet approved the Tract Participation formula and addresses this issue in its attached comments.

6. Section 15.B., EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL.

- a. This provision needs discussion.

7. Section 15.C., EXCESS IMPUTED STRIPPER CRUDE OIL.

- a. This provision needs discussion.

> what is this?
State Form
No explanation

8. Section 15.D., TAKING UNITIZED SUBSTANCES IN KIND.

- a. It is proposed that the "Prevailing Market Price" in the area include a bid process.

IMPORTANT →

9. Section 24., EFFECTIVE DATE AND TERM.

- a. It is proposed that no less than 50% of the Working Interest Owners owning not less than 85% interest be required to terminate the unit and project.

10. Section 32., NONJOINDER AND SUBSEQUENT JOINDER.

- a. Approval to set guidelines for joinder under this provision should be agreed upon by Working Interest Owners owning no less than 85% interest.

11. Section 39., STATUTORY UNITIZATION.

- a. This provision should be changed to read not less than 85%.

75% set by state

B. UNIT OPERATING AGREEMENT:

1. Article 3.2.4 **Expenditures.** It is proposed that at such time as project expenditures exceed AFE's by greater than 10%, except in an emergency situation, the working interest owners shall again have an option to proceed or go non-consent.

No non-consent on individual AFE's

- 2.. Article 4.3.1 **Voting Interest.**, describes a "vote to proceed to Phase 2" while the Unit Agreement describes a voting procedure "not to proceed to Phase 2". The agreement is unclear as to the exact intent of the plan and procedure to move from Phase 1 to Phase 2. This agreement also fails to define Phase 1 and Phase 2.

would release RING forever ← GOOD IDEA of 2 Phases

- 3.. Article 4.3.2 **Voting Required- Generally.**, It is proposed that 50% of the remaining owners with not less than 10% working interest be required under this provision.

Exxon Company U.S.A.
Avalon (Delaware) Unit

4. **Article 4.3.3 Vote Required to Amend Unit Operating Agreement.**, It is suggested that 50% of the owners be required to support an amendment of the Operating Agreement in the event one (1) party owns ninety percent (90).
5. **Article 5.4 Failure to Take Production in Kind.**, It is recommended that a bid process be established for oil sales.
6. **Article 7.11 Expenditures.** It is suggested that once a project has exceeded the AFE by 10%, each working interest owner shall have the option to again make an election to proceed or go non-consent, except in the case of an emergency situation.
7. **Article 10.4 Inventory and Valuations.**, it is recommended that an affirmative vote of 85% be binding, except where one (1) party owns or exceeds 85%, then it will require an affirmative vote of 50% of the remaining parties.
8. **Article 13.8 Carved-Out Interest.**, should be modified to provide that carved-out payments shall cease at such time as the party creating such interest ceases to be a working interest owner by virtue of a non-consent election or otherwise or that such payment is the sole responsibility of the party creating such interest. ORR
9. **Article 20.2 Restriction of Disposition and Withdrawal.** The files indicate that the burdens on ANPC leases exceed 18.75%. At this point, the working interest owners need to be prepared to accept the burdens of record of all parties.
10. **Exhibit "F", COPAS Accounting Procedure, Section III, 1. A. Overhead - Fixed Rate Basis** should have the rates reduced to be more in line with industry standards i.e. Drilling Well Rate of \$4,500 and Producing Well Rate of \$450.

We would appreciate Exxon's consideration to our suggested changes and/or comments regarding our interpretation of the agreements.

Yours very truly,

Michael W. Englert
Land Manager

MWE

Avalon Delaware Unit
June 17, 1994

Yates Petroleum Concerns

1) Formula

- a. One Phase
- b. Exxon Present - Value Method
 - i. 20% Discount Too High
 - ii. 1-1-95 More Likely Start Date
 - iii. These Effects are Important

<u>Method</u>	<u>%</u>	<u>Exxon</u>	<u>Yates</u>
<Exxon>	20	0.756	0.108
Yates	20	0.726 (0.733)	0.113 (0.11) w/ 1-1-94 START DATE
Yates	15	0.696	0.123
Yates	10	0.683	0.125

- c. Traditional Formulas
 - i. Parameters
 - Original Oil in Place
 - Remaining Primary Oil
 - Waterflood + Workover Oil
 - CO₂ Oil
 - ii. "Reasonable" Combinations give
 - Exxon 0.704 to 0.739
 - Yates 0.116 to 0.126

2) Voting Percentage for Approval

- a. 75% too low
Big Minority Owners need voice

3) After Payout Interests

- a. Exxon thinks \$^{#225,000}250,000 wellbore adjustment will help
- b. Yates rechecking nonconsent status - 5 wells
- c. At least three wells will not payout through inventory

4) Overhead Rate

5) Non-Consent in Unit

- a. Really talking about collecting bills?
- b. Complicated with interest.

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.43						
WF & WO	0.29						
CO2 Delta	0.28						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.001507
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.755635
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000103
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.025268
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.010588
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.001392
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.012634
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.003144
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.005524
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.008303
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.014410
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.053724
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.107768
	1.000000	1.000000	1.000000	1.000000			1.000000

AVERAGE EXXON 20% DISCOUNT CASE

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.29						
WF & WO	0.20						
CO2 Delta	0.51						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.002745
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.726117
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000168
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.026965
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.010923
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.002535
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.013482
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.005727
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.006292
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.010625
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.026246
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.054874
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.113301
	1.000000	1.000000	1.000000	1.000000			1.000000

YATES 20% DISCOUNT CASE

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.12						
WF & WO	0.23						
CO2 Delta	0.65						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.003499
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.695553
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000204
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.029416
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011750
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.003231
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.014707
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.007300
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.006991
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.012301
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.033451
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.058783
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.122816
	1.000000	1.000000	1.000000	1.000000			1.000000

YATES 15 % DISCOUNT CASE

AVALON DELAWARE UNIT							
Weighting Factors							
	OOIP	0.00					
	Rem Primary	0.06					
	WF & WO	0.19					
	CO2 Delta	0.75					
		1.00					
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.004037
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.682848
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000232
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.030139
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011889
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.003728
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.015069
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.008423
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.007322
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.013308
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.038597
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.059250
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.125158
	1.000000	1.000000	1.000000	1.000000			1.000000

YATES 10% DISCOUNT CASE

Parameter	Weight	Company	WI Partic	NRI Partici
New Rem Res	11.90%	ABO	1.136421%	0.861423%
Cum Prod		BLM	0.000000%	6.207346%
Primary RUR		Cities	0.353206%	0.309055%
Primary EUR		ZZZOthers	7.263136%	7.506554%
Workover EUR		Exxon	69.558184%	59.398970%
Workover Delta		Fee Other	0.000000%	0.279366%
WF EUR		GWA Others	0.000000%	0.000000%
WF+WO	22.49%	JJ Redfern Jr	0.117208%	0.099298%
CO2 EUR		Mary Hudson A	1.468714%	1.247991%
CO2 Delta	65.61%	Merit	0.736803%	0.644703%
Factor	Use	MWJ	0.695783%	0.594885%
YPC et al WI	12.26%	MYCO	3.353718%	2.489191%
YPC et al NRI	10.71%	Penzoil	1.235639%	1.537023%
YPC NRI-ORRI	9.25%	Premier	3.376482%	2.954421%
Total NRI/WI	87.38%	SLO	0.000000%	6.013288%
(NRI-ORRI)/WI	75.44%	W.A. Hudson, I	2.937429%	2.495985%
		Yates Acct 4	0.738291%	0.636320%
Checks	0.00	Yates Else	0.353206%	0.309055%
100.00%	100.00%	Yates ORRI	0.000000%	1.464441%
100.00%	100.00%	YDC	3.353718%	2.489191%
129796	129796	YPC	3.322062%	2.461492%
		YPC et al WI	12.257417%	10.711114%

ONE PHASE

START 1-1-95

15 % DISCOUNT FACTOR

$$C_1 = 837.7 \text{ MBO} \times \$9\text{M} / 1187.4 \text{ MBO} = \$6.3494 \text{ Million}$$

$$F_1 = 12$$

$$I_1 = 35$$

$$C = \frac{6.3494}{6.3494 + 12 + 35} = \frac{6.3494}{53.3494} = 0.1190$$

$$F = \frac{12}{53.3494} = 0.2249$$

$$I = \frac{35}{53.3494} = 0.6561$$

Parameter	Weight	Company	WI Partic	NRI Partic
New Rem Res	5.47%	ABO	1.162133%	0.880429%
Cum Prod		BLM	0.000000%	6.057083%
Primary RUR		Cities	0.402572%	0.352250%
Primary EUR		ZZZOthers	7.412897%	7.649319%
Workover EUR		Exxon	68.233127%	58.279148%
Workover Delta		Fee Other	0.000000%	0.307685%
WF EUR		GWA Others	0.000000%	0.000000%
WF+WO	19.75%	JJ Redfern Jr	0.119265%	0.101182%
CO2 EUR		Mary Hudson A	1.510730%	1.285709%
CO2 Delta	74.78%	Merit	0.839783%	0.734810%
Factor	Use	MWJ	0.731196%	0.626228%
YPC et al WI	12.55%	MYCO	3.423240%	2.539088%
YPC et al NRI	10.89%	Penzoil	1.330711%	1.642835%
YPC NRI-ORRI	9.46%	Premier	3.848396%	3.367347%
Total NRI/WI	86.77%	SLO	0.000000%	6.135233%
(NRI-ORRI)/WI	75.42%	W.A. Hudson, I	3.021461%	2.571421%
		Yates Acct 4	0.751442%	0.646473%
Checks	0.00%	Yates Else	0.402572%	0.352250%
100.00%	100.00%	Yates ORRI	0.000000%	1.424838%
100.00%	100.00%	YDC	3.423240%	2.539088%
129796	129796	YPC	3.387235%	2.507583%
		YPC et al WI	12.549862%	10.889750%

ONE PHASE

START 1-1-95

10 % DISCOUNT FACTOR

$$C_1 = 837.7 \text{ MBO} \times \frac{\$11 \text{ M}}{1187.4 \text{ MBO}}$$

$$F_1 = 28$$

$$I_1 = 106$$

$$C = \frac{C_1}{C_1 + F_1 + I_1} = 0.0547$$

$$F = \frac{F_1}{C_1 + F_1 + I_1} = 0.1975$$

$$I = \frac{I_1}{C_1 + F_1 + I_1} = 0.7478$$

Parameter	Weight	Company	WI Partic	NRI Partici
New Rem Res	28.77%	ABO	1.049685%	0.796260%
Cum Prod		BLM	0.000000%	6.545503%
Primary RUR		Cities	0.273908%	0.239669%
Primary EUR		ZZZOthers	6.725925%	6.965178%
Workover EUR		Exxon	72.681068%	62.044651%
Workover Delta		Fee Other	0.000000%	0.224759%
WF EUR		GWA Others	0.000000%	0.000000%
WF+WO	20.35%	JJ Redfern Jr	0.109006%	0.092183%
CO2 EUR		Mary Hudson A	1.345396%	1.140795%
CO2 Delta	50.88%	Merit	0.571385%	0.499962%
Factor	Use	MWJ	0.618458%	0.527491%
YPC et al WI	11.30%	MYCO	3.105617%	2.307131%
YPC et al NRI	10.08%	Penzoil	1.062737%	1.336610%
YPC NRI-ORRI	8.53%	Premier	2.618433%	2.291129%
Total NRI/WI	89.19%	SLO	0.000000%	5.729738%
(NRI-ORRI)/WI	75.46%	W.A. Hudson, I	2.690791%	2.281593%
		Yates Acct 4	0.687179%	0.593771%
Checks	0.00%	Yates Else	0.273908%	0.239669%
100.00%	100.00%	Yates ORRI	0.000000%	1.551284%
100.00%	100.00%	YDC	3.105617%	2.307131%
129796	129796	YPC	3.080887%	2.285493%

YPC et al WI 11.302893% 10.080740%

ONE PHASE
 START 1-1-95
 20% DISCOUNT

START 1-1-94

$$C_1 = 837.7 \text{ MBO} \times \frac{\$ 8M}{1187.4 \text{ MBO}} = \$ 5.6539 \text{ Million}$$

6.6431

$$F_1 = 4$$

$$I_1 = 10$$

$$C = \frac{C_1}{C_1 + F_1 + I_1} = \frac{5.6539}{19.6539} = 0.2877$$

0.3218

$$F = 0.2035$$

0.1938

$$I = 0.5088$$

0.4844



EXXON 73.2919
 Yates 11.0992

AVALON DELAWARE UNIT							
Weighting Factors							
	OOIP	0.00					
	Rem Primary	0.20					
	WF & WO	0.60					
	CO2 Delta	0.20					
		1.00					
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.001077
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.724494
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000069
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.029340
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.012516
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.000994
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.014670
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.002246
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.006020
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.008361
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.010293
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.063872
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.126048
	1.000000	1.000000	1.000000	1.000000			1.000000

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.20						
Rem Primary	0.20						
WF & WO	0.40						
CO2 Delta	0.20						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.003350
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.704491
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000347
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.029337
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011588
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.008266
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.014668
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.006890
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.008306
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.011107
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.021411
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.058406
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.121834
	1.000000	1.000000	1.000000	1.000000			1.000000

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.10						
Rem Primary	0.25						
WF & WO	0.40						
CO2 Delta	0.25						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.002483
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.720026
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000225
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.028362
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011535
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.004879
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.014181
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.005130
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.007110
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.009989
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.018425
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.058345
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.119312
	1.000000	1.000000	1.000000	1.000000			1.000000

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.10						
Rem Primary	0.30						
WF & WO	0.40						
CO2 Delta	0.20						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.002213
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.729350
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000212
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.027666
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011318
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.004630
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.013833
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.004568
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.006889
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.009424
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.015852
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.057354
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.116691
	1.000000	1.000000	1.000000	1.000000			1.000000

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.30						
WF & WO	0.50						
CO2 Delta	0.20						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.001077
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.739352
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000074
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.027667
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011782
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.000994
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.013833
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.002246
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.005747
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.008050
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.010293
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.060087
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.118798
	1.000000	1.000000	1.000000	1.000000			1.000000

AVALON DELAWARE UNIT						
Weighting Factors						
OOIP	0.25					
Rem Primary	0.25					
WF & WO	0.25					
CO2 Delta	0.25					
	1.00					
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta	OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383	Cities	0.004188
Exxon	0.602341	0.850937	0.702359	0.664458	Exxon	0.705024
GWA Others	0.001387	0.000041	0.000000	0.000306	GWA Others	0.000434
Hudson Brothers	0.033232	0.016519	0.033246	0.030441	Hudson Brothers	0.028360
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578	JJ Redfren Jr	0.010838
Keystone Others	0.036358	0.000000	0.000000	0.004971	Keystone Others	0.010332
Mary Ard	0.016616	0.008259	0.016623	0.015220	Mary Ard	0.014180
Merit	0.023220	0.000000	0.000000	0.011230	Merit	0.008613
MWJ	0.017660	0.003496	0.006234	0.007904	MWJ	0.008824
Pennzoil	0.021073	0.004236	0.007341	0.015545	Pennzoil	0.012049
Premier	0.055592	0.000000	0.000000	0.051463	Premier	0.026764
Stonewall Others	0.047720	0.037202	0.075049	0.057011	Stonewall Others	0.054246
Yates et al	0.123490	0.072063	0.144563	0.124490	Yates et al	0.116152
	1.000000	1.000000	1.000000	1.000000		1.000000

June 20, 1994

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

June 17 Meeting Notes
Avalon Field, Eddy Co., N. M.

Avalon Field Owners:

On June 17 meeting attendees provided feedback on the proposed Unit Agreement (UA) and Unit Operating Agreement (UOA) for the Avalon Field. The following companies were represented:

- Exxon
- American National Petroleum
- Pennzoil
- Yates Petroleum
- MWJ Producing

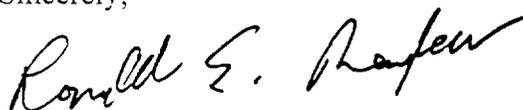
The attached table, Avalon Working Interest Owners Meeting Summary, June 17, 1994, provides an overview of the issues discussed, the rationale behind positions, and plans for resolution. Additionally, letters commenting on the UA and UOA are enclosed. The issues identified to be high priority were:

Issue	Action
1. Participation Formula	Yates will propose a single phase formula prior to a future meeting.
2. Voting Percent	Exxon will entertain higher voting percentage requirements after equities are established.
3. Bidding Oil/CO ₂	Exxon will look into adding to agreements.

It is anticipated that a **Single Phase Formula** being developed by Yates Petroleum will be mailed to Working Interest Owners in mid-July. If you did not attend the June 17 meeting, but are interested in attending the next Working Interest Owner meeting please notify me (915) 688-7841 so I can inform you of the date and location.

We anticipate the ballots to ratify the UA/UOA and the election to participate in the unit will be mailed to you thereafter.

Sincerely,



Ronald E. Mayhew
Avalon Project Manager

Avalon Working Interest Owners Meeting Summary, June 17, 1994

Issue	Companies Originating Issue	Company Rationale	Exxon Rationale	Solutions and Next Steps
Withdrawal from Unit	Premier	Disagree with other WIO reservoir interpretations		<ul style="list-style-type: none"> Remap unit boundaries to exclude Premier acreage [all agree]
Participation Formula	<ul style="list-style-type: none"> Yates Petroleum Company American National Petroleum (ANPC) 		<p>20% is based on risks associated with CO2 Project. Capital cost reduction is water injection phase related and much is a result of minimizing preinvestment in CO₂ phase.</p>	<ul style="list-style-type: none"> Yates: Will propose single phase formula and possibly 2 phase formula acceptable to Yates ANPC: Prefer single phase formula, but don't need to include outer ring now (can live with including it) Yates: Suggest using Discount Factor lower than 20%, and start date of 1/1/95
Voting Percentage	<ul style="list-style-type: none"> Yates Petroleum Company American National Petroleum (ANPC) 	<p>75% too low. Large Exxon interest.</p> <p>Should be in 85-90% range, or have some combination of 2nd, 3rd, or 4th largest owners.</p>	<p>75% plus one gave others control during CO₂ phase and Exxon control during water injection phase.</p>	<ul style="list-style-type: none"> Yates: Large minority interests should be able to preclude projects they don't like, suggest combination of 2nd-4th largest owners for approvals ANPC: Would prefer 90% approval requirement Exxon: Would prefer to focus on % requirements rather than number of WIO's All Agree: Wait until participation is finalized to review percentage requirements
After Payout (APO)	Yates Petroleum Company	Yates won't have 3 of 5 wells paid out with intangible portion of investment equalization.	Necessary to determine voting percentage and disposition of funds. Exxon perceived administrative burden to be large; therefore, unfair to impose on other WIO's.	<ul style="list-style-type: none"> Yates: Wishes to maintain status of non-consent parties that have not paid out Yates: If assume status, consider using bpo rather than apo ownership Exxon: Status of non-consent interests must be resolved among parties Yates will research payout status further
Withdrawal from Unit / Overrides	W.A. & E.R. Hudson	Makes withdrawal subject to other WIO. Withdrawing party loses interest.	Exxon has experienced unfair cost burdens elsewhere from high override percentages. Offers other WIO's some protection.	<ul style="list-style-type: none"> Penzoli: Appears that Hudson not affected, only other interests in tract Exxon: No action planned unless needs are defined further

Avalon Working Interest Owners Meeting Summary, June 17, 1994 (cont.)

Issue	Companies Originating Issue	Company Rationale	Exxon Rationale	Solutions and Next Steps
Overhead	<ul style="list-style-type: none"> • W.A. & E.R. Hudson • Whiting Petroleum 	Median rates \$3000-\$3100 drilling, \$300-\$323 for producing, See Ernst & Young rates.	<ul style="list-style-type: none"> • Rates paid Exxon in Eddy/Lea counties in \$700-\$800 range. • Hartzog Draw Unit (waterflood with potential CO₂): >\$700/well. • Ernst & Young not representative of water nor CO₂ floods. See basis of Ernst & Young rates. 	<ul style="list-style-type: none"> • Various parties: Overhead rates too high • Exxon: Ernst & Young rates quoted are not really comparable. Exxon's rates are comparable for similar operations. • Yates/ANPC will try to locate comparable overhead data
Define Phase 1 / 2	American National Petroleum (ANPC)	Clarify		<ul style="list-style-type: none"> • ANPC: Provide definitions if multiple phases retained
Maximize amount received for oil	American National Petroleum (ANPC)	Process to receive competitive oil price		<ul style="list-style-type: none"> • ANPC: Include bid process for selling oil • Exxon and ANPC will work together to resolve
Minimize price paid for CO ₂	American National Petroleum (ANPC)	Process to receive competitive CO ₂ price		<ul style="list-style-type: none"> • ANPC Modify Section 7.13 to require Operator bid CO₂ • Exxon and ANPC will work together to resolve
Operating Costs	American National Petroleum (ANPC)	General Concern of major oil companies		<ul style="list-style-type: none"> • ANPC believes Exxon's operating costs are too high • Exxon believes its costs are prudent and will work w/ANPC to resolve

Avalon Delaware Unit
June 17, 1994

Yates Petroleum Concerns

1) Formula

- a. One Phase
- b. Exxon Present - Value Method
 - i. 20% Discount Too High
 - ii. 1-1-95 More Likely Start Date
 - iii. These Effects are Important

<u>Method</u>	<u>%</u>	<u>Exxon</u>	<u>Yates</u>
<Exxon>	20	0.756	0.108
Yates	20	0.726	0.113
Yates	15	0.696	0.123
Yates	10	0.683	0.125

- c. Traditional Formulas
 - i. Parameters
 - Original Oil in Place
 - Remaining Primary Oil
 - Waterflood + Workover Oil
 - CO₂ Oil
 - ii. "Reasonable" Combinations give
 - Exxon 0.704 to 0.739
 - Yates 0.116 to 0.126

2) Voting Percentage for Approval

- a. 75% too low
- b. Big Minority Owners need voice

3) After Payout Interests

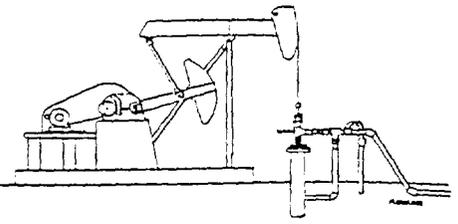
- a. Exxon thinks \$250,000 wellbore adjustment will help
- b. Yates rechecking nonconsent status - 5 wells
- c. At least three wells will not payout through inventory

4) Overhead Rate

5) Non-Consent in Unit

- a. Really talking about collecting bills?
- b. Complicated with interest.

Meeting Agenda



Topic: Proposed Avalon Field Unit
Date: Friday, June 17, 1994
Location: Exxon Building PC #4 Training Room, 3300 N. A St. Midland, Tx

Purpose: Potential Working Interest Owners of the Avalon Unit provide suggested changes to Exxon's recommended Unit Agreement and Unit Operating Agreement

Desired Outcomes:

1. Attendees understand issues presented by other companies and contribute ideas toward resolution.
2. Agree on next step(s) to progress Unitization.

Steps	Methods/Presenter	Min.	Time
Introduction	Welcome/ Ron Mayhew	5	10:00 am
Agenda Review	Ron Mayhew	5	10:05 am
Working Interest Owner Comments	<ul style="list-style-type: none"> • Each company presents issues in their letters. Priority issues clearly distinguished. WIO's offer/discuss resolutions to each issue after presented. • Ron Mayhew presents issues from owners not present. • Break where convenient 	110	10:10 am
Lunch	Provided onsite	30	12:00pm
Working Interest Owner Comments	<ul style="list-style-type: none"> • Continue as in above. 	30	12:30 pm
List Next Steps to Progress Unitization	<ul style="list-style-type: none"> • List Priority Items • Group offers suggestions on how to work them. Attempt to reach consensus. Vote if necessary. 	40	1:00 pm
Review notes	<ul style="list-style-type: none"> • Scott scrolls through; group clarifies as necessary 	15	1:40pm
Next Steps/Meeting; Exxon Contacts	Ron Mayhew presents	5	1:55pm
Adjourn			2:00 pm

Came

289--DFB--94

August 1, 1994

TO: Janet Richardson

FROM: Dave Boneau *Dave Boneau*

SUBJECT: Avalon Delaware Unit

You recall I told Exxon that Yates would propose a participation formula for the proposed Avalon Delaware Unit. I talked to Peyton who said we should get 12% interest, but less was all right for an initial period.

I present the participation formula below for your consideration within Yates Petroleum:

1. From unitization until 4-1-97, the (Phase I) formula will be
 - 65% Remaining Primary
 - 25% WF and WO Delta
 - 10% CO₂ Delta

2. After 4-1-97, the formula will be
 - 20% Remaining Primary
 - 30% WF and WO Delta
 - 50% CO₂ Delta

3. Operating Expenses will be charged according to the Phase I formula until 4-1-97 and according to the Phase II formula after 4-1-97.

4. Capital Expenses will be charged according to the Phase II formula at all times after unitization.

The proposed formula gives Yates and Exxon the interests shown below:

	<u>Phase I</u>	<u>Phase II</u>
Exxon	0.795145	0.713124
Yates	0.095431	0.120027

The date 4-1-97 is the time when remaining primary of 1190 MBO will be produced via continued operations plus a waterflood with a start date of 7-1-95. The numbers below came from Exhibits G-11 and G-14 in the Exxon Technical Report:

Janet Richardson
August 1, 1994
-2-

<u>Year</u>	(G-11) <u>Primary (MBO)</u>	(G-14) <u>WF (MBO)</u>	<u>Cum MBO</u>
1993	201	0	201
1994	149	0	350
1995	119	162	631
1996	96	348	1075
1997	81	391	1547

The cumulative reaches 1190 MBO about 4-1-97.

Attachments 1 and 2 show the interests for all the owners in Bob Fant's database. Note that Patrick Petroleum is included in "Stonewall Others".

Let's talk.

DFB/cvg

Attachment

xc: Mike Slater
Bob Fant
Randy Patterson
Kathy Porter
Peyton Yates

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.65						
WF & WO	0.25						
CO2 Delta	0.10						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.000538
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.795145
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000057
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.022093
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.009515
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.000497
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.011046
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.001123
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.004621
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.006143
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.005146
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.048645
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.095431
	1.000000	1.000000	1.000000	1.000000			1.000000

Phase I

AVALON DELAWARE UNIT							
Weighting Factors							
OOIP	0.00						
Rem Primary	0.20						
WF & WO	0.30						
CO2 Delta	0.50						
	1.00						
OWNER	OOIP	Rem Primary	WF&WO	CO2 Delta		OWNER	INTEREST
Cities	0.011368	0.000000	0.000000	0.005383		Cities	0.002692
Exxon	0.602341	0.850937	0.702359	0.664458		Exxon	0.713124
GWA Others	0.001387	0.000041	0.000000	0.000306		GWA Others	0.000161
Hudson Brothers	0.033232	0.016519	0.033246	0.030441		Hudson Brothers	0.028498
JJ Redfren Jr	0.009943	0.007247	0.014585	0.011578		JJ Redfren Jr	0.011614
Keystone Others	0.036358	0.000000	0.000000	0.004971		Keystone Others	0.002486
Mary Ard	0.016616	0.008259	0.016623	0.015220		Mary Ard	0.014249
Merit	0.023220	0.000000	0.000000	0.011230		Merit	0.005615
MWJ	0.017660	0.003496	0.006234	0.007904		MWJ	0.006521
Pennzoil	0.021073	0.004236	0.007341	0.015545		Pennzoil	0.010822
Premier	0.055592	0.000000	0.000000	0.051463		Premier	0.025732
Stonewall Others	0.047720	0.037202	0.075049	0.057011		Stonewall Others	0.058461
Yates et al	0.123490	0.072063	0.144563	0.124490		Yates et al	0.120027
	1.000000	1.000000	1.000000	1.000000			1.000000

Phase II

August 18, 1994

TO: Janet Richardson
FROM: Dave Boneau *Dave Boneau*
SUBJECT: Avalon Delaware Unit

This is my second internal note concerning a participation formula for the proposed Avalon Delaware Unit. Bob Fant now agrees with Exxon upon the Tract ownership of the 50+ parties involved. You recall that I said that Peyton thought Yates et al should own 12 % of the proposed unit, but that a lesser ownership was acceptable for an initial period.

I present the participation formula below for your consideration within Yates Petroleum:

1. From unitization until 4-1-97, the (Phase I) formula will be

65 % Remaining Primary
25 % Tract Waterflood Reserves
10 % Tract CO2 Reserves

2. After 4-1-97, the (Phase II) formula will be

20 % Remaining Primary
40 % Tract Waterflood Reserves
40 % Tract CO2 Reserves

3. Operating Expenses will be charged according to the Phase I formula until 4-1-97 and according to the Phase II formula after 4-1-97.

4. Capital Expenses will be charged according to the Phase II formula at all times after unitization.

The proposed formula gives Yates and Exxon the interests shown below:

	Phase I	Phase II
	-----	-----
Exxon	0.797976	0.724939
Yates	0.094800	0.120907

These numbers increase slightly if the Premier acreage is eliminated from the unit.

The date 4-1-97 is the time when remaining primary reserves of 1190 MBO will be produced via continued operations plus a waterflood with a start date of 7-1-95. The numbers below came from Exhibits G-11 and G-14 in the Exxon Technical Report:

Year	G-11 Primary (MBO)	G-14 WF (MBO)	Cum MBO
-----	-----	-----	-----
1993	201	0	201
1994	149	0	350
1995	119	162	631
1996	96	348	1075
1997	81	391	1547

The cumulative reaches 1190 MBO about 4-1-97.

Attachment 1 shows the interests for all owners under the assumption that Premier remains in the Unit. The numbers in Attachment 2 apply if the Premier acreage is deleted.

My hope is that you and Bob Fant and I can reach a decision so Yates can send a proposed formula to Exxon and the other owners.

Attachments

copies: Mike Slater
 Bob Fant
 Randy Patterson
 Kathy Porter
 Peyton Yates

	With Premier Acreage				
	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	20 % Primary + 40 % WF + 40 % CO2	65 % Primary + 25 % WF +10 % CO2
Abo Petroleum Corporation	0.6731%	1.3313%	1.1936%	1.1446%	0.8897%
American National Petroleum Corp.	2.8177%	5.5317%	4.7210%	4.6647%	3.6865%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	1.3519%	1.0786%
Bello, Ernie	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	1.0885%	0.6291%
Claremont Corporation	0.1549%	0.3063%	0.2500%	0.2535%	0.2022%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0.1132%	0.0903%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0.6414%	0.5115%
Exxon Corporation	85.0937%	70.7857%	67.9021%	72.4939%	79.7976%
Fox, Fred A. & D. Marjean Living Trust	0.0005%	0.0000%	0.0038%	0.0016%	0.0007%
Gendron Family Revocable Tr	0.0069%	0.0132%	0.0112%	0.0111%	0.0089%
Goodnow, David	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Hayes Partners I	0.0000%	0.0000%	0.0412%	0.0165%	0.0041%
Hodge, Joseph R.	0.0008%	0.0015%	0.0012%	0.0012%	0.0010%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0012%	0.0012%	0.0010%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0037%	0.0037%	0.0030%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3331%	1.3519%	1.0786%
Hudson, William A. II	0.8259%	1.6336%	1.3331%	1.3519%	1.0786%
Kawasaki, Isaac A.	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Keller, Betsy H.	0.0023%	0.0044%	0.0037%	0.0037%	0.0030%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2410%	0.2444%	0.1950%
LAJ Corporation	0.0010%	0.0000%	0.0073%	0.0031%	0.0014%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0040%	0.0010%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0016%	0.0007%
Martin, Williams, & Judson	0.3496%	0.6126%	0.7825%	0.6280%	0.4587%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0003%	0.0001%	0.0000%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3713%	0.1485%	0.0371%
Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3713%	0.1485%	0.0371%
Merit Energy Partners, L.P.	0.0000%	0.0000%	0.3713%	0.1485%	0.0371%
Moore, Charles Cline	0.0115%	0.0219%	0.0189%	0.0186%	0.0149%
Munroe, Vernon	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Myco Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3708%	2.6562%
Napeco	0.0000%	0.0000%	0.0719%	0.0287%	0.0072%
Oliver, Angus Cluthe Tr	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Oliver, William B. Tr	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5361%	0.2144%	0.0536%
Premier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	1.6308%	0.4077%
Redfern, John J. III, Indep Exec of Est of John J. Redfern,	0.0725%	0.1433%	0.1170%	0.1186%	0.0946%
Redfern, Rosalind	0.0725%	0.1433%	0.1170%	0.1186%	0.0946%
Schlagal, John L.	0.0005%	0.0000%	0.0032%	0.0014%	0.0006%
Martl, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0080%	0.0032%	0.0008%
Sigmar, Inc.	0.0016%	0.0000%	0.0111%	0.0048%	0.0021%
Space Building Corp.	0.0115%	0.0219%	0.0187%	0.0186%	0.0148%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4468%	0.5052%	0.4166%
TR Oil Corporation	0.0000%	0.0000%	0.0042%	0.0017%	0.0004%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0075%	0.0074%	0.0059%
Whiting Petroleum Corporation	0.3199%	0.6561%	0.4468%	0.5052%	0.4166%
Yates Drilling Company	2.0192%	3.9938%	3.3864%	3.3559%	2.6496%
Yates Petroleum Corporation	2.4800%	4.9051%	4.3094%	4.1818%	3.2692%
Yates, John A.	0.0049%	0.0000%	0.0446%	0.0188%	0.0076%
Yates, S. P.	0.0049%	0.0000%	0.0346%	0.0148%	0.0066%
	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2063%	14.2240%	12.3996%	12.0907%	9.4800%

ATTACHMENT 1

	Without Premier Acreage				
	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	20 % Primary + 40 % WF + 40 % CO2	65 % Primary + 25 % WF +10 % CO2
Abo Petroleum Corporation	0.6731%	1.3313%	1.2443%	1.1649%	0.8948%
American National Petroleum Corp.	2.8177%	5.5317%	4.9217%	4.7449%	3.7066%
Ard, Mary H.	0.8259%	1.6336%	1.3898%	1.3745%	1.0842%
Bello, Ernie	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Chevron PBC, Inc.	0.4236%	0.6857%	1.9014%	1.1195%	0.6369%
Claremont Corporation	0.1549%	0.3063%	0.2606%	0.2577%	0.2033%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1165%	0.1151%	0.0907%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6600%	0.6522%	0.5142%
Exxon Corporation	85.0937%	70.7857%	70.7881%	73.6483%	80.0862%
Fox, Fred A. & D. Marjean Living Trust	0.0005%	0.0000%	0.0040%	0.0017%	0.0007%
Gendron Family Revocable Tr	0.0069%	0.0132%	0.0117%	0.0113%	0.0090%
Goodnow, David	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Hayes Partners I	0.0000%	0.0000%	0.0429%	0.0172%	0.0043%
Hodge, Joseph R.	0.0008%	0.0015%	0.0013%	0.0013%	0.0010%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0013%	0.0013%	0.0010%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0039%	0.0038%	0.0030%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3898%	1.3745%	1.0842%
Hudson, William A. II	0.8259%	1.6336%	1.3898%	1.3745%	1.0842%
Kawasaki, Isaac A.	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Keller, Betsy H.	0.0023%	0.0044%	0.0039%	0.0038%	0.0030%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2512%	0.2485%	0.1960%
LAJ Corporation	0.0010%	0.0000%	0.0076%	0.0033%	0.0014%
Los Chicos	0.0000%	0.0000%	0.0104%	0.0042%	0.0010%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0040%	0.0017%	0.0007%
Martin, Williams, & Judson	0.3496%	0.6126%	0.8157%	0.6413%	0.4620%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0004%	0.0001%	0.0000%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Merit Energy Partners, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Moore, Charles Cline	0.0115%	0.0219%	0.0197%	0.0189%	0.0149%
Munroe, Vernon	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Mycos Industries, Inc.	2.0241%	3.9938%	3.5664%	3.4289%	2.6708%
Napcco	0.0000%	0.0000%	0.0749%	0.0300%	0.0075%
Oliver, Angus Cluthe Tr	0.0046%	0.0088%	0.0079%	0.0076%	0.0060%
Oliver, William B. Tr	0.0046%	0.0088%	0.0079%	0.0076%	0.0060%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5589%	0.2235%	0.0559%
Premier Oil & Gas, Inc.	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Redfern, John J. III, Indep Exec of Est of John J. Redfern,	0.0725%	0.1433%	0.1219%	0.1206%	0.0951%
Redfern, Rosalind	0.0725%	0.1433%	0.1219%	0.1206%	0.0951%
Schlagal, John L.	0.0005%	0.0000%	0.0034%	0.0014%	0.0006%
Martl, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0083%	0.0033%	0.0008%
Sigmar, Inc.	0.0016%	0.0000%	0.0116%	0.0049%	0.0022%
Space Building Corp.	0.0115%	0.0219%	0.0195%	0.0189%	0.0149%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4658%	0.5128%	0.4185%
TR Oil Corporation	0.0000%	0.0000%	0.0044%	0.0017%	0.0004%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0078%	0.0076%	0.0060%
Whiting Petroleum Corporation	0.3199%	0.6561%	0.4658%	0.5128%	0.4185%
Yates Drilling Company	2.0192%	3.9938%	3.5303%	3.4135%	2.6640%
Yates Petroleum Corporation	2.4800%	4.9051%	4.4925%	4.2550%	3.2875%
Yates, John A.	0.0049%	0.0000%	0.0465%	0.0196%	0.0078%
Yates, S. P.	0.0049%	0.0000%	0.0361%	0.0154%	0.0068%
	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2063%	14.2240%	12.9266%	12.3015%	9.5327%

ATTACHMENT 2



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

216

S. P. YATES
PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

September 6, 1994

Exxon Company, USA
P. O. Box 1600
Midland, Texas 79702-1600

ATTN: Ronald E. Mayhew

RE: Avalon Delaware Unit

Dear Sir:

Yates Petroleum proposes the following participation formula for the Avalon Delaware Unit:

1. The Phase I formula will be

60% Remaining Primary
30% Tract Waterflood Reserves
10% Tract CO₂

2. The Phase II formula will be

20% Remaining Primary
40% Tract Waterflood Reserves
40% Tract CO₂ Reserves

3. Phase I will end and Phase II will begin on 4-1-97 or when oil production from the Unit area (after 1-1-93) reaches 1190 KBO, whichever occurs earlier in time.

4. Operating Expenses during Phase I will be charged according to the Phase I formula and Operating Expenses during Phase II will be charged according to the Phase II formula.

5. Capital Expenses will be charged according to the Phase II formula at all times after unitization.

Ronald Mayhew
September 6, 1994
-2-

The proposed formula gives Exxon and Yates the interests shown below:

	<u>Phase I</u>	<u>Phase II</u>
Exxon	0.790822	0.724939
Yates	0.098309	0.120907

These interests increase slightly if the Premier acreage is eliminated from the Unit.

The date 4-1-97 is the time when remaining primary reserves of 1190 KBO will be produced via continued operations plus a waterflood with a start date of 7-1-95. The numbers below come from Exhibits G-11 and G-14 in the Avalon Technical Report:

<u>Year</u>	<u>G-11 Primary (KBO)</u>	<u>G-14 WF (KBO)</u>	<u>Cum KBO</u>
1993	201	0	201
1994	149	0	350
1995	119	162	631
1996	96	348	1075
1997	81	391	1547

The cumulative reaches 1190 KBO about 4-1-97.

Attachment 1 shows the interests for all owners under the assumption that Premier remains in the Unit. The numbers in Attachment 2 apply if the Premier acreage is deleted.

I ask that you forward this proposal to the Working Interest Owners and that all owners reply with questions and comments as appropriate.

Sincerely,



David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

Attachments

	With Premier Acreage				
	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	20 % Primary + 40 % WF + 40 % CO2	60 % Primary + 30 % WF + 10 % CO2
Abo Petroleum Corporation	0.6731%	1.3313%	1.1936%	1.1446%	0.9226%
American National Petroleum Corp.	2.8177%	5.5317%	4.7210%	4.6647%	3.8222%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	1.3519%	1.1189%
Bello, Ernie	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	1.0885%	0.6422%
Claremont Corporation	0.1549%	0.3063%	0.2500%	0.2535%	0.2098%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0.1132%	0.0937%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0.6414%	0.5307%
Exxon Corporation	85.0937%	70.7857%	67.9021%	72.4939%	79.0822%
Fox, Fred A. & D. Marjean Living Trust	0.0005%	0.0000%	0.0038%	0.0016%	0.0007%
Gendron Family Revocable Tr	0.0069%	0.0132%	0.0112%	0.0111%	0.0092%
Goodnow, David	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Hayes Partners I	0.0000%	0.0000%	0.0412%	0.0165%	0.0041%
Hodge, Joseph R.	0.0008%	0.0015%	0.0012%	0.0012%	0.0010%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0012%	0.0012%	0.0010%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0037%	0.0037%	0.0031%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3331%	1.3519%	1.1189%
Hudson, William A. II	0.8259%	1.6336%	1.3331%	1.3519%	1.1189%
Kawasaki, Isaac A.	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Keller, Betsy H.	0.0023%	0.0044%	0.0037%	0.0037%	0.0031%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2410%	0.2444%	0.2023%
LAJ Corporation	0.0010%	0.0000%	0.0073%	0.0031%	0.0014%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0040%	0.0010%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0016%	0.0007%
Martin, Williams, & Judson	0.3496%	0.6126%	0.7825%	0.6280%	0.4718%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0003%	0.0001%	0.0000%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3713%	0.1485%	0.0371%
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Munroe, Vernon	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Myco Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3708%	2.7547%
Napeco	0.0000%	0.0000%	0.0719%	0.0287%	0.0072%
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Oliver, William B. Tr	0.0046%	0.0088%	0.0075%	0.0074%	0.0062%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5361%	0.2144%	0.0536%
Premier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	1.6308%	0.4077%
Redfern, John J. III, Indep Exec of Est of John J. Redfern,	0.0725%	0.1433%	0.1170%	0.1186%	0.0982%
Redfern, Rosalind	0.0725%	0.1433%	0.1170%	0.1186%	0.0982%
Schlagal, John L.	0.0005%	0.0000%	0.0032%	0.0014%	0.0006%
Martl, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0075%	0.0074%	0.0061%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0080%	0.0032%	0.0008%
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Yates, John A.	0.0049%	0.0000%	0.0446%	0.0188%	0.0074%
Yates, S. P.	0.0049%	0.0000%	0.0346%	0.0148%	0.0064%
	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2063%	14.2240%	12.3996%	12.0907%	9.8309%

	Without Premier Acreage				
	G-24 1/1/93	G-24 Tract	G-24 Tract	20 % Primary	60 % Primary
	Rem Primary	Waterflood Reserves	CO2 Reserves	+ 40 % WF 40 % CO2	+ 30 % WF +10 % CO2
Abo Petroleum Corporation	0.6731%	1.3313%	1.2443%	1.1649%	0.9277%
American National Petroleum Corp.	2.8177%	5.5317%	4.9217%	4.7449%	3.8423%
Ard, Mary H.	0.8259%	1.6336%	1.3898%	1.3745%	1.1246%
Bello, Ernie	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Chevron PBC, Inc.	0.4236%	0.6857%	1.9014%	1.1195%	0.6500%
Claremont Corporation	0.1549%	0.3063%	0.2606%	0.2577%	0.2109%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1165%	0.1151%	0.0941%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6600%	0.6522%	0.5334%
Exxon Corporation	85.0937%	70.7857%	70.7881%	73.6483%	79.3708%
Fox, Fred A. & D. Marjean Living Trust	0.0005%	0.0000%	0.0040%	0.0017%	0.0007%
Gendron Family Revocable Tr	0.0069%	0.0132%	0.0117%	0.0113%	0.0093%
Goodnow, David	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Hayes Partners I	0.0000%	0.0000%	0.0429%	0.0172%	0.0043%
Hodge, Joseph R.	0.0008%	0.0015%	0.0013%	0.0013%	0.0010%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0013%	0.0013%	0.0010%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0039%	0.0038%	0.0031%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3898%	1.3745%	1.1246%
Hudson, William A. II	0.8259%	1.6336%	1.3898%	1.3745%	1.1246%
Kawasaki, Isaac A.	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Keller, Betsy H.	0.0023%	0.0044%	0.0039%	0.0038%	0.0031%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2512%	0.2485%	0.2033%
LAJ Corporation	0.0010%	0.0000%	0.0076%	0.0033%	0.0014%
Los Chicos	0.0000%	0.0000%	0.0104%	0.0042%	0.0010%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0040%	0.0017%	0.0007%
Martin, Williams, & Judson	0.3496%	0.6126%	0.8157%	0.6413%	0.4751%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0004%	0.0001%	0.0000%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Merit Energy Partners, L.P.	0.0000%	0.0000%	0.3871%	0.1548%	0.0387%
Moore, Charles Cline	0.0115%	0.0219%	0.0197%	0.0189%	0.0155%
Munroe, Vernon	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Myco Industries, Inc.	2.0241%	3.9938%	3.5664%	3.4289%	2.7693%
Napcco	0.0000%	0.0000%	0.0749%	0.0300%	0.0075%
Oliver, Angus Cluthe Tr	0.0046%	0.0088%	0.0079%	0.0076%	0.0062%
Oliver, William B. Tr	0.0046%	0.0088%	0.0079%	0.0076%	0.0062%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5589%	0.2235%	0.0559%
Premier Oil & Gas, Inc.	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Redfern, John J. III, Indep Exec of Est of John J. Redfern,	0.0725%	0.1433%	0.1219%	0.1206%	0.0987%
Redfern, Rosalind	0.0725%	0.1433%	0.1219%	0.1206%	0.0987%
Schlagal, John L.	0.0005%	0.0000%	0.0034%	0.0014%	0.0006%
Martl, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0083%	0.0033%	0.0008%
Sigmar, Inc.	0.0016%	0.0000%	0.0116%	0.0049%	0.0021%
Space Building Corp.	0.0115%	0.0219%	0.0195%	0.0189%	0.0154%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4658%	0.5128%	0.4353%
TR Oil Corporation	0.0000%	0.0000%	0.0044%	0.0017%	0.0004%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0078%	0.0076%	0.0062%
Whiting Petroleum Corporation	0.3199%	0.6561%	0.4658%	0.5128%	0.4353%
Yates Drilling Company	2.0192%	3.9938%	3.5303%	3.4135%	2.7627%
Yates Petroleum Corporation	2.4800%	4.9051%	4.4925%	4.2550%	3.4088%
Yates, John A.	0.0049%	0.0000%	0.0465%	0.0196%	0.0076%
Yates, S. P.	0.0049%	0.0000%	0.0361%	0.0154%	0.0065%
	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2063%	14.2240%	12.9266%	12.3015%	9.8836%



3J

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

October 10, 1994

Re: Yates Letter: Sept. 6, 1994
Avalon (Delaware) Field, Eddy Co., N.M.David Boneau, Reservoir Engineering Supervisor
Yates Petroleum Corporation
105 S. Fourth Street
Artesia, N. M. 88210

Dear Mr. Boneau:

One of the action items from our 6/17/94 Working Interest Owners' Meeting was for you to provide an alternative Equity Formula.

We have reviewed your proposal dated September 6, 1994. Instead of immediately circulating your letter, followed by our response, to the Working Interest Owners (WIO's) we believe it would be simpler if Yates and Exxon attempt to reach agreement on these matters, or at least clarify our positions as much as possible, prior to transmitting to WIOs. Our fundamental difference lies in equity resulting from how Phase 1 and 2 are defined.

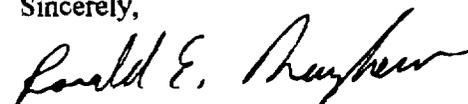
→ The waterflood is the reason the Unit has value to all of us and your representation of Phase 1 would be acceptable to us for the waterflood. The CO₂ flood has some probability of happening/not happening and your representation of Phase 2 is acceptable if a CO₂ flood is in the future at Avalon.

If your proposal is modified as follows we could support it:

- **Reference Item 4, your letter:** We prefer to vote for a Phase change coincident with WIO's agreeing to proceed with a CO₂ flood. However, if this is a problem, a compromise we would offer is to revise the automatic phase change date closer to an risked CO₂ injection date, such as the earlier of 12/31/2004 or the actual date of CO₂ injection.
- **Clarification, Item 5:** Investment equalization is not covered. It would seem consistent to treat it similar to Capital Expenditures, basing it on Phase 2 participation.
- **Clarification if Premier Acreage not in Unit:** Attachment 2 in your letter assumes a similar development plan if Premier acreage is not in the Unit. If Premier is not in the unit the 20 acre swath adjoining their 4 tracts could not be flooded; therefore, those reserves in those tracts would not be included in the calculation.

Our response to other areas of interest to you and other owners from our Working Interest Owners meeting are summarized in Attachment I. If these counterproposals are acceptable to you we will circulate the correspondence to all owners and request a vote under the pre-unit voting agreement.

Sincerely,

Ronald E. Mayhew
Avalon Project Manager

Attachment I: Other areas of interest, Avalon Unitization

Topic	WIO Issue	Exxon Proposal
Voting Percentage	75% approval level would give Exxon control of vote during Phase 1	Agree with WIO issue in concept; will work out exact details and numbers when participation determined
After Payout (APO)	requires a change in previous agreements	Unclear what Exxon as operator would need to do. Willing to consider if clear understanding of how to administer can be obtained.
Overhead	seems high compared to Ernst & Young data	<p>As discussed in WIO Meeting:</p> <ul style="list-style-type: none"> • Ernst & Young not comparable • no change unless comparable data for Avalon is submitted for discussion
Bidding Crude & CO₂	would like UOA to incorporate bidding of CO ₂ and crude oil by operator for WIO's	Done: Wording submitted to ANPC 8/25/94, who made this request



3K

11-21-94

Topics/Issues for Discussion

First Topics

Affect of Premier on Yates recoverable reserves:

Methodology for Reserve Calculation:

- Exxon - Tech. Report
- Yates: recoverable gas reserves added

Charging Investments during Yates Phase I at Phase II WI:

- How to explain as fair to owners who have 4 times Phase II interest as Phase I (Premier, Napeco, Merit, TR Oil, Hayes Partners, 77 Corp.)
- Likelihood of state approval with some of above contesting

Exxon Equity Methodology & Needs

- look at waterflood economics (keep CO₂ as upside)
- Equity approach recognizes relative timing and cost to produce primary, secondary, and tertiary barrels (present value)

Yates Equity Methodology & Needs

Second Topics

Voting Needs:

- Using Yates Phase 2 numbers:
 - 2nd: Yates=12.1
 - 3rd: ANPC=4.7
 - 4th: Hudson =2.8
 - 5th: Premier=1.6
 - 6th: Ard=1.4
 - 7th: Pennzoil=1.1
 - 8th: Tipperary=0.5
 - 9th: Whiting=0.5

Overhead:

APO:

Bidding of CO₂ and Crude: Done, language proposed to ANPC 8/94

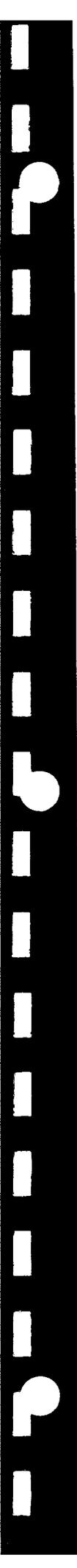
→ VOTING PROCEDURE ←

Equity Methodology, Unitizing Remaining Primary & Waterflood

Case	PVP @20% \$million	Exxon WI	Yates WI	Investment Basis	Other features
1. Exxon 4/94 (start 1/1/94)	4.08 wF	79.7	.098	investment & revenue same	Vote to change WI for CO ₂
2. Exxon 4/94 (start 7/1/95)	3.98	78.9	.103	investment & revenue same	Vote to change WI for CO ₂
3. Yates 9/94	3.55	79.1/72.5 after 4/97	.098/.121 after 4/97	Phase I investment at Phase II WI	
4. Exxon modified to Yates with 1/2000 for phase change, 10/94	3.98	79.1/72.5 after 1/2000	.098/.121 after 1/2000	Phase I investment at Phase II WI	changes date to recover some PVP

↑
EXXON'S SHARE

Phase I at Phase II → 200,000 to Exxon
PVP calculated at \$12 million + Today's price



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
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SECRETARY
DENNIS G. KINSEY
TREASURER

December 5, 1994

Exxon Company, USA
P. O. Box 1600
Midland, Texas 79702-1600

ATTN: Ronald E. Mayhew

RE: Avalon Delaware Unit

Dear Sir:

Yates Petroleum proposes two additional participation formulas (Yates Proposal B and Yates Proposal C) for the Avalon Delaware Unit:

I. Yates Proposal B

1. The Phase I formula will be

70% Remaining Primary
20% Tract Waterflood Reserves
10% Tract CO₂ Reserves

2. The Phase II formula will be

20% Remaining primary
40% Tract Waterflood Reserves
40% Tract CO₂ Reserves

3. Phase I will end and Phase II will begin on 1-1-98 or when oil production from the Unit area (after 1-1-93) reaches 1190 KBO, whichever occurs earlier in time.

4. Capital Expenses during Phase I will be charged according to the Phase I formula and Capital Expenses during Phase II will be charged according to the Phase II formula. These will be a reequalization of monies when the phase change occurs so that all Capital Expenses will ultimately be paid according to the Phase II formula.

Ron Mayhew
December 5, 1994

-2-

5. The initial overhead rate will be \$550 per producing well per month. The overhead rate will increase by 27 percent when CO₂ injection begins and shall continue at the elevated rate as long as CO₂ is injected into any Unit wells. When CO₂ injection ceases, the overhead rate will decrease by 22 percent.

II. Yates Proposal C

1. The Phase I formula will be
 - 60% Remaining Primary
 - 30% Tract Waterflood Reserves
 - 10% Tract CO₂ Reserves
2. Phase II formula as above
3. Phase change as above
4. Capital Expenses will be charged according to the Phase II formula at all times after unitization with the exception described in the next few sentences. "Special Phase II Owners" are those owners with non-zero Tract CO₂ Reserves, but with zero Remaining Primary and zero Tract Waterflood Reserves. Capital Expenses to these "Special Phase II Owners" will be charged according to the Phase I formula during Phase I, and there will be a reequalization of monies when the phase change occurs. The result will be "unbilled" Capital Expenses of about \$180,000 during Phase I. These "unbilled" Capital Expenses will be charged 8/9 to Exxon and 1/9 to Yates Petroleum. The effect is an interest-free loan from Exxon and Yates to the "Special Phase II Owners."
5. Overhead as above

On the subject of APO interests, Yates agrees that the Stonewall YE #1, WM #1, WM #2, EP #6 and EP #7 should all enter the Unit on an APO basis. The wellbore and equipment at Stonewall YE #1 is owned on a different basis (shown in Attachment 1). To repeat, Yates agrees that the participation formula should be based on APO interests for all wells; and Yates asks that the inventory adjustment for Stonewall YE #1 use the actual equipment owners as shown in Attachment 1.

Ron Mayhew
December 5, 1994

-3-

The rest of this note explains that the Yates proposals do not meet the Exxon present-value target, but do meet the present-value target defined by Exxon's share of the primary oil reserves plus Exxon's share of the secondary oil reserves. As you have heard before, I believe the Exxon present-value target has been set unreasonably high by Exxon. You will see that the Yates proposals calculate to be fair on a present-value basis.

On November 21, 1994, you told Bob Fant and me that the Exxon proposal of April (adjusted to a WF start date of 7-1-95) has a present value of \$3.98 million at a discount rate of 20 percent per year. We at Yates adjusted and normalized our economic calculations to give a present value at a discount rate of 20% per year equal to the same \$3.98 million with the same production flow streams and ownership assumed by Exxon. The present values calculated by Yates at 10% and 15% discount rates are shown in Line 1 of Attachment 2. I believe that Line 1 represents a reasonable description of the present-value target selected by Exxon.

Next Yates calculated present values for a) primary production with Exxon WI = 0.851 and b) secondary production with Exxon WI = 0.708 and a waterflood start date of 1-1-96. The Capital and Operating Expenses were the same as were used in "duplicating" the Exxon present-value of \$3.98 million. These two results are shown in Lines 2 and 3 of Attachment 2 with the two cases summed in Line 4. My contention is that Line 4 represents a fair present-value target for Exxon in these discussions and Yates should try to meet the collective target in Line 4. Obviously, this target is lower than the target selected by Exxon, the target displayed in Line 1.

Line 5 of Attachment 2 shows the present value of Exxon interest under Yates Proposal A that you received in September of 1994. My comparison of Line 4 and Line 5 says that our original proposal was "fair" as defined by Yates.

Line 6 shows the present value of the Exxon interest under Yates Proposal B outlined at the start of this note. Again, the present values in Lines 4 and 6 are very similar. From another point of view, Yates has taken away the benefit to Exxon of capital costs being billed at Phase II during Phase I. In our "pseudo Exxon framework", we calculate that this change decreases Exxon's present value at 15 percent discount by \$147K.

Ron Mayhew
December 5, 1994

-4-

Yates has given Exxon a later date for the automatic phase change which is worth \$50K. Yates has also given Exxon a higher interest in Phase I which is worth \$63K. The result is that Proposal B gives Exxon a present value about \$30K less than provided by Proposal A.

Line 7 of Attachment 2 shows the present value calculated by Yates for the Exxon interest under Proposal C. Compared to Proposal A, Exxon loses about \$30K to cover interest on the loan to the "Special Phase II Owners" and Exxon gains about \$50K by moving back the date of the automatic phase change. The result is that Proposal C gives Exxon a present value about \$20K more than provided by Proposal A.

In conclusion, all three Yates proposals give present values clustered very near what Exxon would get from its absolute share of the Remaining Primary and from its absolute share of the Tract Waterflood Reserves. I have tried to make it clear to Exxon why Yates thinks its proposals are fair and how much room Yates has to balance the various components. We are in trouble if the Exxon target remains far from the Yates target, but we can reach agreement if we can see both targets from the same firing position.

Sincerely,



David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

Attachments

xc: Mike Slater
Janet Richardson
Bob Fant

Attachment 1

Stonewall YE #1 SWD System

<u>Working Interest Owners</u>	<u>WI</u>
Abo Petroleum Corporation	0.04305167
Claremont Corporation	0.00990534
Coquina Oil Corporation	0.21972916
Flag-Redfern Oil Company	0.00954979
Edward R. Heidson, Jr.	0.15848528
MWJ	0.01981069
Mobil Producing TX NM	0.11326129
MYCO Industrices, Inc.	0.12915504
Rosalind Redfern	0.00927066
Yates Drilling Company	0.12915504
Yates Petroleum Corporation	0.12915502
YPC, Account 4	<u>0.02947102</u>
	1.00000000

Attachment 2

Avalon Delaware - Comparison of Present Values for Exxon/Yates Proposals

Present Value in Million of Dollars

Line	Case	Exxon PV at 10%	Exxon PV at 15%	Exxon PV at 20%	Exxon WI Phase I	Exxon WI Phase II	Date of Phase Change	Phase Modeled in Economics	Capital WI in Phase I
1	Exxon 4/94	9.33	6.09	3.98*	0.789	NA	Vote to change WI for CO ₂	Primary & Secondary	Phase I
2	Exxon Primary	2.64	2.27	2.00	0.851	---		Primary only	
3	Exxon Secondary	6.65	3.57	1.88	---	0.708	Start WF 1-1-96	Secondary only	
4	Exxon Primary & Secondary	9.29	5.85	3.88	0.851	0.708	Start WF 1-1-96	Primary & Secondary	
5	Yates Proposal A (9/94)	9.33	5.85	3.85	0.791	0.725	4-1-97	Primary & Secondary	Phase II
6	Yates Proposal B (12/94)	9.35	5.82	3.80	0.805	0.725	1-1-98	Primary & Secondary	Phase I
7	Yates Proposal C (12/94)	9.38	5.87	3.87	0.791	0.725	1-1-98	Primary & Secondary	Phase II**

* Calculated by Exxon and matched by Yates economics. All other PV numbers came from Yates economic calculations.

** Exception for "Special Phase II Owners" as explained in cover letter.

3M

To: Janet Richardson
From: Dave Boneau *Dave Boneau*
Date: December 30, 1994
Subject: Proposed Avalon Delaware Unit

Yesterday, Exxon responded by telephone to my letter of December 5, which outlined two participation formulas which Yates could support (Yates B and Yates C proposals). The good news is that Exxon made a concrete counterproposal. The bad news is that Exxon wants every crumb we've ever talked about plus more.

In detail, the Exxon proposal goes as follows:

- 1) Phase I participation is based upon
 - 70% Remaining Primary
 - 20% Tract Waterflood Reserves
 - 10% Tract CO₂ Reserves

This gives Exxon WI = 0.805129 and Yates WI = 0.091292 as in Yates Proposal B

- 2) Phase II participation is based upon
 - 20% Remaining Primary
 - 40% Tract Waterflood Reserves
 - 40% Tract CO₂ Reserves

This gives Exxon WI = 0.724939 and Yates WI = 0.120907 just as Yates has consistently proposed from the start.

- 3) Phase I will end and Phase II will begin on 1-1-99 or when oil production from the Unit area (after 1-1-93) reaches 1190 MBO, whichever occurs earlier in time.

I have proposed changeover dates from 4-1-97 to 1-1-98. At the start of the telephone conversation, Ron Mayhew of Exxon wanted to eliminate the mandatory changeover date. I said we couldn't do that and Exxon settled on 1-1-99. Over the months, Exxon has gone from 2005 AD to 2000 AD to 1999.

- 4) Capital Expenses will be changed according to the Phase II formula at all times. The exception is for those owners (mainly Premier) who have only CO₂ Reserves so their Phase II interest is about four times their Phase I interest. These people will be charged according to Phase I during Phase I. Exxon and Yates Petroleum will "lend" these people the difference at zero interest until Phase II begins, with Exxon providing 8/9 and Yates 1/9.

It was our idea to charge Capital costs at the Phase II formula during Phase I. The modification for Premier et al is a cheap change (< \$5000 to YPC) to keep some small owners from being hurt.

5) Exxon wants overhead charged at \$729 per month per producing well. Exxon will accept my proposal of \$700 per month during actual injection of CO₂ and \$550 per month otherwise if the other owners agree that Exxon can ballot for approval of an AFE to pay Exxon for specified pre-CO₂ Engineering work.

Exxon knows it must lower the \$729 per month number, but Exxon wants to lower it very little. Yates must decide which of the suggested approaches makes sense.

The Attachment compares the Exxon and Yates proposals. Pretty much, Exxon wants the best we have offered in each area plus a later changeover date and an Engineering AFE. My two main concerns are 1) that Yates has 12+ percent of Phase II, and 2) that Phase II not be delayed unreasonably. Exxon agrees that Yates can have 12.1 percent of Phase II, while Yates and Exxon are one year apart on the changeover date. I don't want more than a two-year delay from the time Yates pays for 12% of the waterflood to the time Yates receives waterflood income based on 12%. I don't think we should give Exxon everything it wants; and I especially want to roll the changeover date back into 1998.

Exxon expects some reaction from Yates by the evening of January 4 so I hope we can talk to Peyton early next week.

cc Mike Slater
Bob Fant
Randy Patterson
Peyton Yates

DFB/mjr

Avalon Delaware Unit -- Comparison of Exxon and Yates Proposals for Participation

Item	Issue	Exxon Wants	Yates A	Yates B	Yates C
1	Phase I Formula	70% Primary	60% Primary	70% Primary	60% Primary
		20% WF	30% WF	20% WF	30% WF
		10% CO2	10% CO2	10% CO2	10% CO2
2	Phase II Formula	20% Primary	20% Primary	20% Primary	20% Primary
		40% WF	40% WF	40% WF	40% WF
		40% CO2	40% CO2	40% CO2	40% CO2
	Exxon WI Phase I	0.805129	0.790822	0.805129	0.790822
	Exxon WI Phase II	0.724939	0.724939	0.724939	0.724939
	Yates WI Phase I	0.091292	0.098309	0.091292	0.098309
	Yates WI Phase II	0.120907	0.120907	0.120907	0.120907
3	Phase Change Date	1190 MBO or 1-Jan-99	1190 MBO or 1-Apr-97	1190 MBO or 1-Jan-98	1190 MBO or 1-Jan-98
4	Who Pays Phase I Capital Costs	Modified Phase II	Phase II WI	Phase I WI	Modified Phase II
5	Overhead Charges	\$729/Prod Well or \$550 WF + \$700 CO2 with Consultant AFE	NA	\$550 WF + \$700 CO2	\$550 WF + \$700 CO2



3N

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



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

DBS
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RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

January 5, 1995

Exxon Company, USA
P. O. Box 1600
Midland, Texas 79702-1600

ATTN: Ronald E. Mayhew

RE: Avalon Delaware Unit

Dear Sir:

Attached is the internal Yates memo you and I discussed on the telephone on January 4, 1995. The memo sets out our position concerning the five areas where Yates and Exxon are trying to reach agreement.

Sincerely,

David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

Attachment

January 4, 1995

TO: Janet Richardson
FROM: Dave Boneau *Dave Boneau*
SUBJECT: Proposed Avalon Delaware Unit

This note attempts to outline the Yates response to Exxon after our discussion with Peyton Yates this morning.

1. Phase I Formula

Yates will accept a Phase I formula based upon

70% Remaining Primary
20% Tract Waterflood Reserves
10% Tract CO₂ Reserves.

This gives Exxon WI = 0.805129 and Yates WI = 0.091292.

2. Phase II Formula

Yates will accept a Phase II formula based upon

20% Remaining Primary
40% Tract Waterflood Reserves
40% Tract CO₂ Reserves

This gives Exxon WI = 0.724939 and Yates WI = 0.120907.

3. Phase Change Date

Phase I will end and Phase II will begin on 5-1-98 or when oil production from the Unit area (after 1-1-93) reaches 1190 MBO, whichever occurs earlier in time.

Peyton says that, if Exxon wants to move the date into the future past May 1, 1998, that Yates must have a Phase II formula that gives Yates greater than 12.1 percent in order to compensate Yates for the added risk taken by Yates during Phase I.

Janet Richardson
January 4, 1995
-2-

4. Who Pays Phase I Capital Costs

Yates will accept that Capital Costs during Phase I are charged to Phase II owners (modified for the "Special Phase II Owners") as long as the following thoughts are considered and discussed:

- a) No AFE for CO₂ installations may be submitted during Phase I. Yates believes we should eliminate any remote chance that Phase II owners pay for a CO₂ flood during Phase I.
- b) Yates believes we should think about the scenario where the waterflood is marginal and the "Special Phase II Owners" have little incentive to repay the loan from Exxon and Yates. In general, Yates thinks the Special Phase II Owners must pay the loan debt on time or take some penalty. Ideas for the penalty include i) Exxon and Yates absorb unpaid ownership, ii) we get access to some other collateral such as deep rights, iii) some imputed interest is added to the loan so the tax write-off is greater. Probably Exxon has some better ideas and Yates surely encourages those. Yates realizes we may have entered an area where a Side Agreement might be necessary.

5. Overhead Charges

Yates would prefer to forget the Exxon idea of paying Exxon for CO₂ Engineering work via a special Engineering AFE. However, Yates would go along if the idea is subjected to safeguards such as i) a one-time event with a dollar limit equal to something like six months of overhead charges and/or ii) a bidding process where Exxon and two or more outsiders submit written bids to do the work as specified by a Unit Technical Committee.

DFB/cvg

Attachment

xc: Peyton Yates
Bob Fant
Mike Slater

Avalon Delaware Unit -- Comparison of Exxon and Yates Proposals for Participation

Item	Issue	Exxon Wants	Yates A	Yates B	Yates C
1	Phase I Formula	70% Primary	60% Primary	70% Primary	60% Primary
		20% WF	30% WF	20% WF	30% WF
		10% CO2	10% CO2	10% CO2	10% CO2
2	Phase II Formula	20% Primary	20% Primary	20% Primary	20% Primary
		40% WF	40% WF	40% WF	40% WF
		40% CO2	40% CO2	40% CO2	40% CO2
	Exxon WI Phase I	0.805129	0.790822	0.805129	0.790822
	Exxon WI Phase II	0.724939	0.724939	0.724939	0.724939
	Yates WI Phase I	0.091292	0.098309	0.091292	0.098309
	Yates WI Phase II	0.120907	0.120907	0.120907	0.120907
3	Phase Change Date	1190 MBO or 1-Jan-99	1190 MBO or 1-Apr-97	1190 MBO or 1-Jan-98	1190 MBO or 1-Jan-98
4	Who Pays Phase I Capital Costs	Modified Phase II	Phase II WI	Phase I WI	Modified Phase II
5	Overhead Charges	\$729/Prod Well or \$550 WF + \$700 CO2 with Consultant AFE	NA	\$550 WF + \$700 CO2	\$550 WF + \$700 CO2

January 18, 1995

TO: Janet Richardson

FROM: Dave Boneau *Dave Boneau*

SUBJECT: Avalon Delaware Unit

You recall that Peyton Yates told us yesterday that Yates needs 12+ percent working interest in a single-phase formula for the proposed Avalon Delaware Unit. I believe Exxon numbers say the minimum Exxon interest is 73.2 percent. An acceptable formula seems to be:

23% Primary Reserves
47% Tract Waterflood Reserves
30% Tract CO₂ Reserves.

This formula gives Exxon 73.21 percent and Yates 12.06 percent. It attributes a significant fraction (30%) to the CO₂ target and splits the remainder 1/3 to primary and 2/3 to waterflood. The interests of all owners under this formula are shown in the Attachment.

My intention is to submit the formula above as a proposal to Exxon.

DFB/cvg

Attachment

xc: Mike Slater
Peyton Yates
Bob Fant

1-18-95
EXXON

	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	23 % Primary + 47 % WF + 30 % CO2
Abo Petroleum Corporation	0.6731%	1.3313%	1.1936%	1.1386%
American National Petroleum Corp.	2.8177%	5.5317%	4.7210%	4.6643%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	1.3577%
Bello, Ernie	0.0046%	0.0088%	0.0075%	0.0074%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0075%	0.0074%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	0.9668%
Claremont Corporation	0.1549%	0.3063%	0.2500%	0.2546%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0.1137%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0.6441%
Exxon Corporation	85.0937%	70.7857%	67.9021%	73.2115%
Fox, Fred A & D Marjean Living Trust	0.0005%	0.0000%	0.0038%	0.0013%
Gendron Family Revocable Tr	0.0069%	0.0132%	0.0112%	0.0111%
Goodnow, David	0.0046%	0.0088%	0.0075%	0.0074%
Hayes Partners I	0.0000%	0.0000%	0.0412%	0.0124%
Hodge, Joseph R.	0.0008%	0.0015%	0.0012%	0.0012%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0012%	0.0012%
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Kerr-McGee Corporation	0.1493%	0.2953%	0.2410%	0.2454%
L.A.J. Corporation	0.0010%	0.0000%	0.0073%	0.0024%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0030%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0013%
Martin, Williams, & Judson	0.3496%	0.6126%	0.7825%	0.6031%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0003%	0.0001%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3713%	0.1114%
Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3713%	0.1114%
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Munroe, Vernon	0.0046%	0.0088%	0.0075%	0.0074%
Mycos Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3689%
Napcco	0.0000%	0.0000%	0.0719%	0.0216%
Oliver, Angus Cluthe Tr	0.0046%	0.0088%	0.0075%	0.0074%
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Premier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	1.2231%
Redfern, John J. III, Indep Exec of Est of	0.0725%	0.1433%	0.1170%	0.1191%
Redfern, Rosalind	0.0725%	0.1433%	0.1170%	0.1191%
Schlagal, John L.	0.0005%	0.0000%	0.0032%	0.0011%
Martl, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0075%	0.0074%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0080%	0.0024%
Sigmar, Inc.	0.0016%	0.0000%	0.0111%	0.0037%
Space Building Corp.	0.0115%	0.0219%	0.0187%	0.0186%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4468%	0.5160%
TR Oil Corporation	0.0000%	0.0000%	0.0042%	0.0013%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0075%	0.0074%
Whiting Petroleum Corporation	0.3199%	0.6561%	0.4468%	0.5160%
Yates Drilling Company	2.0192%	3.9938%	3.3864%	3.3574%
Yates Petroleum Corporation	2.4800%	4.9051%	4.3094%	4.1686%
Yates, John A.	0.0049%	0.0000%	0.0446%	0.0145%
Yates, S. P.	0.0049%	0.0000%	0.0346%	0.0115%
	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2063%	14.2240%	12.3996%	12.0626%



4A

Letterhead

DRAFT
Single Phase

Date

Avalon (Delaware) Field Unitization
Eddy Co., N. M.

Working Interest Owners:

The last correspondence you received was my letter dated June 20, 1994, which summarized the June 17 Working Interest Owners (WIO) meeting. Several WIO's expressed a strong interest for a single phase formula. An action item of the meeting was for Yates Petroleum to develop an alternative participation formula from the one we proposed.

Letters that summarize the Yates formula and our suggested modifications are attached, dated September 6, October 10 and December 5, 1994. Our single phase proposal, along with modifications to the previously transmitted (April 1994) Unit and Unit Operating Agreements is described in Attachment II and resulting participation in Attachment III of this letter.

This single phase proposal is a significant concession of equity for Exxon compared to our original 2 phase proposal with a vote required for Phase 2. If the single phase proposal is not acceptable, we would prefer to return to a 2 phase formula similar to our original recommendation.

At this time we are requesting either 1.) your concurrence with provisions that are now acceptable to both Exxon and Yates Petroleum or 2.) your suggested changes (return Attachment I). Should you have questions feel free to call me at (915) 688 - 7841. We appreciate your continued support.

Sincerely,

Ronald E. Mayhew
Avalon Project Manager

Attachments I-III

Attachment I: Response to Exxon on Revised Unitization Proposal

Responses requested by February 24, 1995

Mail to: R. E. Mayhew, Avalon Response
Exxon USA
P.O. Box 1600
Midland, TX 79702-1600 or fax to (915) 688-6258

Please provide your response by checking one box and completing the information below:

Company Name (s): _____

We agree with the unitization proposal as described in this letter (Attachment II). Exxon should proceed with incorporating these modifications into revised Unit and Unit Operating Agreements.

By (typed or written): _____ Title: _____

Signature: _____ Phone: _____

We agree with the unitization proposal as described in this letter (Attachment II), but would like consideration of the issue(s) in our attached letter.

By (typed or written): _____ Title: _____

Signature: _____ Phone: _____

We disagree with the unitization proposal as described in this letter (Attachment II). Our proposal for changes along with our rationale is provided in the attached letter.

By (typed or written): _____ Title: _____

Signature: _____ Phone: _____

Attachment II: Summary Description of Proposed Modifications to Avalon Field Unit and Unit Operating Agreements

Abbreviations The following abbreviations are used:

WI working interest
 WIO working interest owners
 AFE Authority For Expenditure

Equity The table below describes proposed revisions to equity participation in the Avalon (Delaware Field) Unit from what Exxon proposed in the previously provided Unit and Unit Operating Agreements.

Feature	Description
Phases	Participation will be in a single phase only; which was requested by several attendees at the June 94 WIO meeting.
Reserve Factors	Participation will be based on tract reserves with the following Reserve Factors: <ul style="list-style-type: none"> • 25 % Remaining Primary • 50 % Waterflood • 25 % CO₂ Note: These percentages are multiplied by each owners tract reserves percentage (by Primary, waterflood, and CO ₂), then summed to obtain a Unit Equity (percentage) as shown on Attachment III.
Rationale behind Reserve Factors	The rationale used in developing the reserve factors was based on several items listed below: <ul style="list-style-type: none"> • Primary reserves have a higher value/barrel by orders of magnitude (i.e. investments have been made and production is indicator of future potential) • the Unit is being put together to repressure the reservoir, implement a waterflood and gather data for evaluating CO₂ potential • CO₂ reserves are high, but have a relatively low value due to risks because of unknowns associated with the reservoir and of doing a CO₂ project • CO₂ reserves have substantially lower discounted profit per barrel Note: see Technical Report Vol. 1, Exhibit H5 for more information
Why include CO ₂ reserves	About 2/3 of the CO ₂ reserves are within the area to be unitized for water injection. A CO ₂ flood would likely be initiated in this portion of the field and if successful expanded to the outer ring (tracts outside the waterflood area) that was not waterflooded. As potential operator we see some planning and development advantages of including the outside ring in the unit. This outer ring has no commercial primary and/or waterflood potential.
Owner participation	A summary of owner participation is provided in Attachment III.

Continued on next page

Attachment II: Summary Description of Proposed Modifications to Avalon Field Unit and Unit Operating Agreements, Continued

Capital Expenditures & Contributed Investments

All expenditures (capital and operating expense), along with existing investments of use to the Unit would be at the Single Phase participation percentage shown on Attachment III.

Examples:

- Capital Expenditure: \$13M waterflood and/or future AFEs/ballots: Each owner pays WI% times \$13M and/or ballot amounts
- Operating Expense: Each owner pays WI% times monthly operating cost
- Investment Equalization: If a well or portion of surface facility equipment can be utilized in waterflood or CO₂ operations each owner will be credited with the determined value. Then each owner will be debited with an amount equal to their WI% times (Sum of the values of all wells/equipment brought into the Unit).

Note: Under a single phase formula an owner cannot go non-consent on investment equalization and participate in the unit development or vice versa.

Overhead

Overhead rate will be charged as follows:

- initial overhead rate will be \$550/producing well
- overhead will increase 27% when a CO₂ project is approved by Unit Owners
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Exception: Exxon may submit AFE's prior to approval of a CO₂ Project to Working Interest Owners to conduct CO₂ Project studies that will be considered as an operating expense outside the overhead category. Approval must be voted in similar to other AFEs.

Examples: These studies could include computer modeling, injectivity test planning & analysis, cost/production estimates, etc.

Voting

Ballots submitted for approval to Working Interest Owners will be considered approved if either of the following conditions are met:

- 80% of the WIO participation approves the ballot
- If one owner has interest > 70%, that owners interest plus 10% of the remaining interest.

Approval = largest owner WI{(if > 70%)+0.10 (100% - Largest Owners WI)}

> 2.5%
 2 beyond Yates, ANPC
 3 beyond Yates, ANPC, (Hudson)

Attachment III: Avalon (Delaware) Participation (25,50,25)

	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	Single Phase Formula Participation: 25% Primary, 50% Waterflood, and 25% CO2 flood
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American National Pet. Corp.	2.8177%	5.5317%	4.7210%	4.6505%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	0.8259%
Beilo, Ernie	0.0046%	0.0088%	0.0075%	0.0074%
Bunn, Mrs. Francis B	0.0046%	0.0088%	0.0075%	0.0074%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	0.4236%
Claremont Corporation	0.1549%	0.3063%	0.2500%	0.2544%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0
Exxon Corporation	85.0939%	70.7855%	67.9026%	73.6419%
Fox, Fred A. & D. Marjane Living Trust	0.0005%	0.0000%	0.0038%	0.0011%
Gendron Family Revocable Trust	0.0069%	0.0132%	0.0112%	0.0111%
Goodnow, David	0.0046%	0.0088%	0.0075%	0.0074%
Hayes Partners I	0.0000%	0.0000%	0.0412%	0.0103%
Hodge, Joseph R.	0.0008%	0.0015%	0.0012%	0.0013%
Hodge, Sanford J III	0.0008%	0.0015%	0.0012%	0.0013%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0037%	0.0037%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3331%	1.3566%
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Keller, Betsy H.	0.0023%	0.0044%	0.0037%	0.0037%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2410%	0.2452%
LAJ Corporation	0.0010%	0.0000%	0.0073%	0.0021%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0025%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0011%
Martin, Williams, & Judson	0.3496%	0.6126%	0.7825%	0.3496%
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Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3713%	0.0928%
Merit Energy Partners, L.P.	0.0000%	0.0000%	0.3713%	0.0928%
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Myco Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3582%
Napeca	0.0000%	0.0000%	0.0719%	0.0180%
Oliver, Angus Cluete Tr	0.0046%	0.0088%	0.0075%	0.0074%
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Pemier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	0.0000%
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Space Building Corp.	0.0115%	0.0219%	0.0187%	0.0185%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4468%	0.3199%
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Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0075%	0.0074%
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Yates Drilling Company	2.0192%	3.9938%	3.3864%	3.3483%
Yates Petroleum Corporation	2.4800%	4.9051%	4.3094%	4.1499%
Yates, John A.	0.0049%	0.0000%	0.0446%	0.0124%
Yates, S. P	0.0049%	0.0000%	0.0446%	0.0099%
	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2062%	14.2240%	12.3996%	12.0135%
Exxon with Merit	85.0939%	70.7855%	69.0165%	73.9204%

1.3566

0.9049

0.1136

0.6435

0.5893 INVESTMENT = GAIN

1.0192

0.5197

0.5197



4B

February 1, 1995

TO: Janet Richardson
FROM: Dave Boneau 
SUBJECT: Proposed Avalon Delaware Unit

Attached is Exxon's response to the various proposals Yates has submitted in the past few months. The Exxon communication has the form of a letter to the Working Interest Owners that lays out changes to the original Exxon proposals that are agreeable to both Exxon and Yates. So the question is whether the position outlined in the letter is agreeable to Yates. You will see that I do not like the voting procedure devised by Exxon.

The main points are:

1. The participation formula for the life of the unit is:
 - a) 25 Percent Remaining Primary Reserves
 - b) 50 Percent Tract Waterflood Reserves
 - c) 25 Percent Tract CO₂ Reserves.

The result gives 12.01 % to Yates and 73.92 % to Exxon (including Exxon's purchase of the Merit interests).

2. The overhead rate will be \$550 per producing well. The overhead rate will increase by 27% (to \$700 escalated) when a CO₂ project is approved by the owners and will decrease back to \$550 (escalated) when CO₂ injection ends. The agreement will allow AFE's to pay Exxon for CO₂ Project Studies.
3. Since Exxon will own over 70 percent, the voting procedure allows approval with the affirmative vote of Exxon plus owners of 2.6 percent additional.

The participation formula meets our needs. The voting procedure stinks, and the voting procedure is doubly important since it is linked to AFE's for Exxon CO₂ Project Studies. Last night I told Ron Mayhew of Exxon that I did not see how we could accept the voting procedure. I have told Exxon all along that the big minority owners should be able to veto an AFE if they all vote against it. Exxon feels that small owners will be bought out or will go non-consent or simply never return ballots so that Exxon will be

Janet Richardson

February 1, 1995

-2-

pressed to get 2.6 percent without Yates and the few "major" people left. An alternative I have considered is that an Exxon AFE is approved unless we get 18 or 20 percent to vote negative.

So, the summary is that we have the voting procedure as a remaining major hurdle. I ask that you review the treatment of non-consents and investment equalization since they impact our discussion of the voting procedure. Exxon expects an immediate response from Yates so we will meet this week if possible.

DFB/cvg

Attachments

xc: Mike Slater
Randy Patterson
Pinson McWhorter
Bob Fant
Peyton Yates

Letterhead

DRAFT
Single Phase

Date

Avalon (Delaware) Field Unitization
Eddy Co., N. M.

Working Interest Owners:

The last correspondence you received was my letter dated June 20, 1994, which summarized the June 17 Working Interest Owners (WIO) meeting. Several WIO's expressed a strong interest for a single phase formula. An action item of the meeting was for Yates Petroleum to develop an alternative participation formula from the one we proposed.

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At this time we are requesting either 1.) your concurrence with provisions that are now acceptable to both Exxon and Yates Petroleum or 2.) your suggested changes (return Attachment I). Should you have questions feel free to call me at (915) 688 - 7841. We appreciate your continued support.

Sincerely,

Ronald E. Mayhew
Avalon Project Manager

Attachments I-III

Attachment I: Response to Exxon on Revised Unitization Proposal

Responses requested by February 24, 1995

Mail to: R. E. Mayhew, Avalon Response
Exxon USA
P.O. Box 1600
Midland, TX 79702-1600 or fax to (915) 688-6258

Please provide your response by checking one box and completing the information below:

Company Name (s): _____

We agree with the unitization proposal as described in this letter (Attachment II). Exxon should proceed with incorporating these modifications into revised Unit and Unit Operating Agreements.

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Approval = largest owner WI (if > 70%) + 0.10 (100% - Largest Owners WI)

> 2.570
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 3 beyond Yates, ANPC, (Hund 107)

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Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0.1117%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0.6331%
Exxon Corporation	85.0939%	70.7855%	67.9026%	73.6419%
Fox, Fred A. & D. Marjane Living Trust	0.0005%	0.0000%	0.0038%	0.0011%
Gendron Family Revocable Trust	0.0069%	0.0152%	0.0112%	0.0111%
Goodnow, David	0.0046%	0.0088%	0.0075%	0.0074%
Hayes Partners I	0.0000%	0.0000%	0.0412%	0.0103%
Hodge, Joseph R.	0.0008%	0.0015%	0.0012%	0.0013%
Hodge, Sanford J. III	0.0008%	0.0015%	0.0012%	0.0013%
Holden, E. G. Testamentary Tr	0.0023%	0.0044%	0.0037%	0.0037%
Hudson, Edward R. Jr.	0.8259%	1.6336%	1.3331%	1.3566%
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Kawasaki, Isaac A.	0.0046%	0.0088%	0.0075%	0.0074%
Keller, Betsy H.	0.0023%	0.0044%	0.0037%	0.0037%
Kerr-McGee Corporation	0.1493%	0.2953%	0.2410%	0.2452%
LJ Corporation	0.0010%	0.0000%	0.0073%	0.0021%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0025%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0011%
Martin, Williams, & Jusson	0.3496%	0.6125%	0.7825%	0.7825%
McCall, Jack O Estate of	0.0000%	0.0000%	0.0003%	0.0001%
Merit Energy Partners, II, L.P.	0.0000%	0.0000%	0.3713%	0.0928%
Merit Energy Partners, III, L.P.	0.0000%	0.0000%	0.3713%	0.0928%
Merit Energy Partners, L.P.	0.0000%	0.0000%	0.3713%	0.0928%
Moore, Charles Cline	0.0115%	0.0219%	0.0189%	0.0186%
Munroe, Vernon	0.0046%	0.0088%	0.0075%	0.0074%
Mycos Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3582%
Napeco	0.0000%	0.0000%	0.0719%	0.0180%
Oliver, Angus Cluete Tr	0.0046%	0.0088%	0.0075%	0.0074%
Oliver, William B Tr	0.0046%	0.0088%	0.0075%	0.0074%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5361%	0.1340%
Pernier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	4.0769%
Redfern, John J. III, Indep Exec of Est of	0.0725%	0.1433%	0.1170%	0.1190%
Redfern, Rosalind	0.0725%	0.1433%	0.1170%	0.1190%
Schlagal, John L.	0.0005%	0.0000%	0.0032%	0.0009%
Mard, Adolpn P. Schuman Tr	0.0046%	0.0088%	0.0075%	0.0074%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0080%	0.0020%
Sigmar, Inc.	0.0016%	0.0000%	0.0111%	0.0032%
Space Building Corp.	0.0115%	0.0219%	0.0187%	0.0185%
Tipperary Oil Corporation	0.3199%	0.5551%	0.4468%	0.4468%
TR Oil Corporation	0.0000%	0.0000%	0.0042%	0.0011%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0075%	0.0074%
Whiting Petroleum Corporation	0.3199%	0.5551%	0.4468%	0.4468%
Yates Drilling Company	2.0192%	3.9933%	3.3864%	3.3483%
Yates Petroleum Corporation	2.4800%	4.9011%	4.3094%	4.1499%
Yates, John A.	0.0049%	0.0000%	0.0446%	0.0124%
Yates, S. P.	0.0049%	0.0000%	0.0446%	0.0099%
	100.0000%	100.0000%	100.0000%	100.0000%
YPC Et al	7.2062%	14.2240%	12.3996%	12.0135%
Exxon with Merit	85.0939%	70.7855%	69.0165%	73.9204%

1.3566

0.9049

0.1136

0.6435

0.5893 INVESTMENT = GAIN

1.0192

0.5197

0.5197



Have 65. owner, Yates Vet
505 - 748 - 4585

Avalon Voting Approaches

Philosophy

- Exxon agrees that some significant level of WI should agree with ballots for them to be approved.
 - Yates Petroleum agrees that they should not have veto power under current ownership or the future (with considerations of acquisitions and potential for WIO's to go non-consent)
-

Recommended Procedure

The following voting procedure is recommended to meet the philosophy above.

- Approval = Largest Owner + 20% of (Unit WI less Yates & Exxon), unless...
 - there are < 6 non-Yates, non-Exxon owners; then largest owner can approve
Note: Approval = Exxon plus 2.81% under current ownership (76.73%)
-

Alternate Procedure

The following voting procedure can also meet the philosophy above.

- Approval = 76.7 %, unless
 - Exxon > 76.7 % or Yates > 19%; then largest owner plus 3 consenting WIOs approve, unless
 - there are < 6 non-Yates, non-Exxon owners; then largest owner can approve
-

Procedure Clarifications

The following clarifications are provided to clarify the 2 above procedures.

- Yates: The WI of the 7 companies with Avalon WI affiliated with Yates Petroleum Company
 - If 1 or more of the Yates 7 companies and/or another Yates Petroleum affiliate acquires additional WI, then this WI is added to Yates WI
 - Non-consent WI will be added to the voting WI of the WIOs who carry them
-

Continued on next page

Avalon Voting Approach, Continued

Largest WIOs The largest WIO voting groups are listed below in Columns 1 & 2.

Column 3 shows Cumulative WIO (excluding Yates, ANPC, and 2 Hudsons); where Ard, Premier, and Chevron/PBC with Exxon would exceed 76.5%.

Column 4 shows Cumulative WIO (excluding Yates, ANPC, and 2 Hudsons); where Tipperary, Whiting, MWJ, Devons, and Chevron/PBC would exceed 76.5%.

1. WIO	2. %	3. Cumulative w/o Yates, ANPC, Hudson (large to small)	4. Cumulative w/o Yates, ANPC, Hudson (small to large)
Exxon	73.92	73.92	73.92
Yates et al	12.01		
ANPC	4.65		
Hudsons(2)	2.71		
1. Ard	1.36	75.28	79.59
2. Premier	1.02	76.30	78.23
3. Chevron/ PBC	0.90	77.20	77.21
4. Devon(2)	0.76	77.96	76.31
5. MWJ	0.59	78.55	75.55
6. Whiting	0.52	79.07	74.96
7. Tipperary	0.52	79.59	74.44
30 others	1.04		

The table below shows WIO needed for various approval %. The rationale for needing 76.5% is that 3 of 7 largest OR 5 of 7 smallest are needed to make 76.5%.

Approval %	WIO needed large to small	WIO needed small to large
75	1	5,6,7
75.5	1,2	5,6,7
76	1,2	4,5,6,7
76.5	1,2,3	3,4,5,6,7
77	1,2,3	3,4,5,6,7
77.5	1,2,3,4	2,3,4,5,6,7
78	1,2,3,4,5	2,3,4,5,6,7



4D

DB

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 9, 1995

Ron Mayhew
Exxon Company USA
P. O. Box 1600
Midland, Texas 79702-1600

RE: Avalon Delaware Voting

Dear Ron,

As you did in your fax dated February 8, I wish to clarify the philosophy related to Avalon voting. Also, this note tries to bring you up to date on relevant activities here at Yates.

Bob Fant and I met with Peyton Yates for an hour or more Monday evening. I met with Randy Patterson, Land Manager, for a long time on Tuesday morning and Randy met with Peyton yesterday before he left for the Dallas Federal Reserve meeting. It is now clearer to me where Exxon and Yates agree and disagree on the approach to the problem.

These are three philosophical areas where clarity might help:

1. Veto - I told you and Yates Management agrees that a minority owner of 15 percent or less should not be able to veto action. Yates Management believes that a minority owners of 20 percent should be able to veto action since the Avalon project is expensive in our eyes. I think Exxon believes that no minority owner should ever have a veto, so we have a clear problem to address.
2. Buyouts - Yates has purchased no interests in the Avalon Delaware area whereas Exxon has purchased Mesa wells plus interests in wells operated by Yates plus interests in non-producing acreage. Recently, Exxon bought the Merit interests. It is true that Yates has made offers to a few owners. These have been rejected. Yates is simply not going to seek aggressively to increase its ownership in a project that is risky and expensive.

Ron Mayhew
February 9, 1995
-2-

3. Non Consents - Our reading of the Proposed Agreements leads me to believe that the Yates interest can not increase significantly via the non-consent procedures. If Yates chooses to pick up non-consents to the maximum extent, we gain 0.1 percent while Exxon gains 0.6 so that the Exxon ownership grows rapidly. If everyone else goes non-consent, the final tally is Exxon 86 percent and Yates 14 percent. You need to explain better what Exxon fears in this area.

At this point, Peyton Yates has said Yates would accept the following variation of your earlier proposal:

Ballots submitted for approval to Working Interest Owners will be considered approved if both of the two conditions below are met:

1. 80% of the WIO participation approves the ballot, and
2. the largest owner plus 15% of the remaining interest approve the ballot.

I think you can see that this proposal reflects the philosophy outlined above.

Sincerely,



David F. Boneau
Manager of Non-Op Properties

DFB/cvg

Attachment

xc: Peyton Yates
Randy Patterson
Janet Richardson
Bob Fant

WAVE DOCUMENT, 1-1-95
505-748-4585

Avalon Voting Approaches

Philosophy

- Exxon agrees that some significant level of WI should agree with ballots for them to be approved.
 - Yates Petroleum agrees that they should not have veto power under current ownership or the future (with considerations of acquisitions and potential for WIO's to go non-consent)
-

Recommended Procedure

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 - there are < 6 non-Yates, non-Exxon owners; then largest owner can approve
Note: Approval = Exxon plus 2.81% under current ownership (76.73%)
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77.5	1,2,3,4	2,3,4,5,6,7
78	1,2,3,4,5	2,3,4,5,6,7



Fax: Dave Boneau, Yates Petroleum 505-748-4585

Avalon Proposed Voting: draft for discussion purposes only

1. Expenditures requiring ballot approval change from \$50,000 to \$100,000.
2. Waterflood AFE (approximately \$13M): Unit cannot not be effective until AFE approved.
3. AFE's under \$5M done during normal operations: Approval to be largest owner WI (includes non-consent WI carried at time of Unltization) plus 10% of difference between 100% and largest owner WI
4. CO₂ Project AFE and CO₂ (Overhead) Studies prior to Project:
Choice 1: Largest 2 owners must approve. Yates Petroleum 7 affiliates defined as a single owner for this purpose. Should these interests be sold a new 2nd largest owner could occur.

Choice 2: 85% approve or Largest owner plus 10% and at least 80%, similar to your previous letter except using 10% instead of 15%.

4F

Avalon Proposed Voting: Yates draft 2/21/95

- ✓ 1. Expenditures greater than \$100,000 require ballot approval.
- ✓ 2. Waterflood AFE (approximately \$13M): Unit cannot be effective until AFE approved as provided in the existing Pre-Utilization Agreement.
- 3. AFE's under \$1M: Approval to be largest owner WI (includes non-consent WI carried at time of Utilization) plus ¹⁰8% of difference between 100% and largest owner WI. ~~11.5%~~
Min = 17.5%
- 4. Expenditures of ¹⁻²\$1MM or greater: Approval of 85% of WI ownership. 80% + 15% of A w/largest owner
- ✓ 5. ~~Special Exception: For Tertiary (overhead) Studies prior to Project, Secondary and Tertiary Projects, Pilots for and expansions of such projects, both in the Primary Area and in the Ring Area, and drilling of one or more wells.~~ } confusing

Largest 2 owners must approve. Yates Petroleum 7 affiliates defined as a single owner for this purpose. Should these Yates interests be sold a new 2nd largest owner could occur.

- 6. Large Owner Exception: If any single owner controls greater than 85% WI:
Alteration of any Flood Pattern and Centralization of Production Facilities will be added to the operations requiring approval under 5. Special Exception above.

What \$ level?

What are concerns here?
Is this conversion, add funds, changing Act Lift?

Avalon Proposed Voting: Yates draft 2/21/95

- 1. Expenditures greater than \$100,000 require ballot approval.**
- 2. Waterflood AFE (approximately \$13M): Unit cannot be effective until AFE approved as provided in the existing Pre-Unitization Agreement.**
- 3. AFE's under \$1M: Approval to be largest owner WI (includes non-consent WI carried at time of Unitization) plus 15% of difference between 100% and largest owner WI.**
- 4. Expenditures of \$1MM or greater: Approval of 85% of WI ownership.**
- 5. Special Exception : For Tertiary (overhead) Studies prior to Project, Secondary and Tertiary Projects, Pilots for and expansions of such projects, both in the Primary Area and in the Ring Area, and drilling of one or more wells:**

Largest 2 owners must approve. Yates Petroleum 7 affiliates defined as a single owner for this purpose. Should these Yates interests be sold a new 2nd largest owner could occur.

- 6. Large Owner Exception: If any single owner controls greater than 85% WI:**

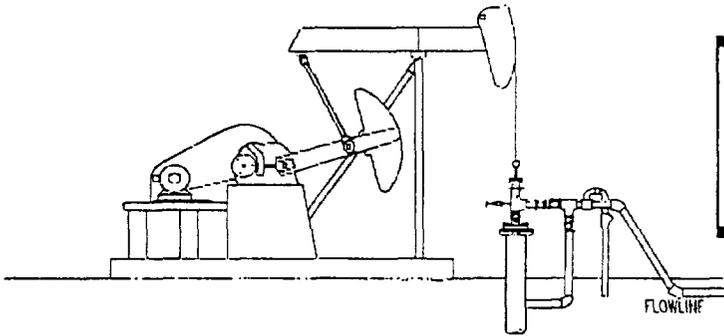
Alteration of any Flood Pattern and Centralization of Production Facilities will be added to the operations requiring approval under 5. Special Exception above.

4G

FAX Exxon USA

Courier: Midland Production ML 71, 23
Desta Drive, Midland, TX 79705

Mail: P.O. Box 1600, 79702-1600



Date: _____

Number of pages including cover sheet: 3

To:	Fax /phone:
Dave Boncua	505-748-4585
Yates Petroleum	phone/ 9172
c: Gil Beukler	656-1495

From: Ron Mayhew	
Phone:	915 - 688 - 7841
Fax:	915 - 688 - 6258
Backup: Call Nancee 688 - 7930	

REMARKS: Urgent For your review Reply ASAP Please comment

Dave,
Attached is letter I plan to
send to WLD's @ 3pm tomorrow.
I'm at my limit on voting, so
if we are far apart I'll need to
talk with Peyton direct to resolve his
concerns. Thanks for your continued
patience, but its time to get on with
the Project if we want a Unit.
c: Gil Beukler Ron 2/22

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT
MIDLAND PRODUCTION ORGANIZATION

February 22, 1995

Avalon (Delaware) Field Unitization
Eddy Co., N. M.

Working Interest Owners:

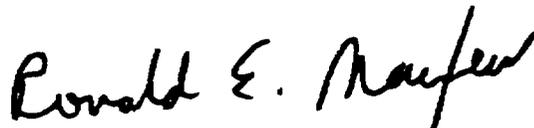
We are in the process of preparing revised Unit and Unit Operating Agreements (UA/UOA) for your approval to form the Avalon (Delaware) Field Unit with modifications that address all of the issues raised at the June 17, 1994 Working Interest Owner (WIO) Meeting (summarized in my letter of June 20, 1994). We appreciate the feedback provided by WIO's to develop these revisions, which are summarized in Attachment II.

The primary issue at the WIO Meeting was the framework for the equity formula. At that meeting, several WIO's expressed a strong interest for a single phase formula. An action item of the meeting was for Yates Petroleum to develop an alternative participation formula to the two-phase formula proposed by Exxon.

Letters that cover various formulas are attached for your information, dated September 6, October 10 and December 5, 1994. The resulting formula agreeable to both Yates and Exxon is summarized in Attachment II with WIO participation shown on Attachment III.

At this time we are requesting either 1.) your concurrence with provisions that are now acceptable to both Exxon and Yates Petroleum or 2.) your proposed changes/rationale (return Attachment I by March 17, 1995). This is not considered to be approval of the Unit/Unit Operating Agreements, but an endorsement to modify provisions in them; therefore is non-binding. Should you have questions feel free to call me at (915) 688-7841. We appreciate your continued support.

Sincerely,



Ronald E. Mayhew
Avalon Project Manager

Attachments I-III



Attachment I: Response to Exxon on Revised Unitization Proposal

Responses requested by March 17, 1995

Mail to: R. E. Mayhew, Avalon Response
Exxon USA
P.O. Box 1600
Midland, TX 79702-1600 or fax to (915) 688-6258

Please provide your response by checking one box and completing the information below:

Company Name (s): _____

We agree with the unitization proposal as described in this letter (and Attachments). Exxon should proceed with modifying the Unit and Unit Operating Agreements.
By (typed or written): _____ Title: _____
Signature: _____ Phone: _____

We disagree with the unitization proposal as described in this letter (and Attachments). Our proposal for changes along with our rationale is provided in the attached letter.
By (typed or written): _____ Title: _____
Signature: _____ Phone: _____

Note: This is not considered to be approval of the Unit/Unit Operating Agreements, but an endorsement to modify provisions in them; therefore is non-binding.

Attachment II: Summary Description of Proposed Modifications to Avalon Field Unit and Unit Operating Agreements

Abbreviations The following abbreviations are used:
 WI working interest
 WIO working interest owners
 AFE Authority For Expenditure

Equity The table below describes proposed revisions to equity participation in the Avalon (Delaware Field) Unit from what Exxon proposed in the previously provided Unit and Unit Operating Agreements.

Feature	Description								
Phases	Participation will be in a single phase only; which was requested by several attendees at the June 94 WIO meeting.								
Reserve Weighting Factors	<p>Participation will be based on tract reserves with the following Reserve Weighting Factors:</p> <table border="1"> <thead> <tr> <th>Reserve Weighting</th> <th>Rationale</th> </tr> </thead> <tbody> <tr> <td>25 % Remaining Primary</td> <td>low risk near term production highest value</td> </tr> <tr> <td>50 % Waterflood</td> <td>main purpose of unitization</td> </tr> <tr> <td>25 % CO₂</td> <td>highest technical, economic, and implementation risk</td> </tr> </tbody> </table> <p>Note: These percentages are multiplied by each owners tract reserves percentage (by Primary, Waterflood, and CO₂), then summed to obtain a Unit Equity (percentage) as shown on Attachment III.</p>	Reserve Weighting	Rationale	25 % Remaining Primary	low risk near term production highest value	50 % Waterflood	main purpose of unitization	25 % CO ₂	highest technical, economic, and implementation risk
Reserve Weighting	Rationale								
25 % Remaining Primary	low risk near term production highest value								
50 % Waterflood	main purpose of unitization								
25 % CO ₂	highest technical, economic, and implementation risk								
Owner participation	A summary of owner participation is provided in Attachment III.								

Bidding of CO₂ and crude The bidding of crude oil sales and CO₂ supply have been incorporated into the agreements. Contact Scott Lansdown (915) 688-4982 if you would like to review wording.

Continued on next page

Attachment II: Summary Description of Proposed Modifications to Avalon Field Unit and Unit Operating Agreements, Continued

Capital Expenditures & Contributed Investments

All expenditures (capital and operating expense), along with existing investments of use to the Unit would be at the Single Phase participation percentage shown on Attachment III.

Examples:

- Capital Expenditure: \$14M waterflood and/or future AFEs/ballots: Each owner pays WI fraction times \$14M and/or ballot amounts
- Operating Expense: Each owner pays WI fraction times monthly operating cost
- Investment Equalization: If a well or portion of surface facility equipment can be utilized in waterflood or CO₂ operations each owner will be credited with the determined value. Then each owner will be debited with an amount equal to their WI fraction times the sum of the values of all wells/equipment brought into the Unit.

Overhead

Overhead rate will be charged as follows:

- initial overhead rate will be \$550/ producing and injection well
- overhead will increase 27% when a CO₂ project is approved by Unit Owners
- overhead will decrease 22% when CO₂ injection ceases

Exception: Exxon may submit AFE's prior to approval of a CO₂ Project to WIOs to conduct CO₂ Project Studies that will be considered as an operating expense outside the overhead category for the purpose of recovering costs for company and consulting personnel.

Examples: These studies could include computer modeling, injectivity test planning & analysis, cost/production estimates, etc. Note: for approval requirements see Voting below

Voting

Ballots/AFE's to WIOs will be considered approved if:

Note: AFE's under \$100k do not require WIO approval

- **CO₂ Study AFE's (see Overhead above) and CO₂ Project AFE's (both pilot and full scale)**: Largest 2 owners must approve in addition to \$ requirement.
Note: Yates Petroleum's 7 affiliates are defined as a single owner for this purpose. Should these Yates interests be sold a new 2nd largest owner could occur.
 - **AFE's < \$ 1M (to be escalated 3%/year)**: Largest Owner + 10% remaining WI
 - **AFE's ≥ \$1M (to be escalated 3%/year)**: 84 % of the WIO participation
-

Attachment III: Avalon (Delaware) Participation (25,50,25)

	G-24 1/1/93 Rem Primary	G-24 Tract Waterflood Reserves	G-24 Tract CO2 Reserves	Single Phase Formula Participation: 25% Primary, Waterflood, and 25% CO2 flood
Aho Petroleum Corporation	0.6731%	1.3313%	1.1936%	1.1323%
American National Pet. Corp.	2.9177%	5.5317%	4.7210%	4.6505%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	1.3566%
Bello, Eric	0.0046%	0.0088%	0.0075%	0.0074%
Bunn, Mrs. Francis B.	0.0046%	0.0088%	0.0075%	0.0074%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	0.9047%
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Keller, Betsy H.	0.0023%	0.0044%	0.0037%	0.0037%
Kerr-McGee Corporation	0.1493%	0.2933%	0.2410%	0.2452%
LAJ Corporation	0.0010%	0.0000%	0.0073%	0.0021%
Los Chicos	0.0000%	0.0000%	0.0100%	0.0025%
Martin, James L. Jr., Trust	0.0005%	0.0000%	0.0038%	0.0011%
Martin, Williams, & Judson	0.3496%	0.6126%	0.7825%	0.5893%
McCall, Jack O. Estate of	0.0000%	0.0000%	0.0003%	0.0001%
Merit Energy Partners, II, L.P.*	0.0000%	0.0000%	0.3713%	0.0928%
Merit Energy Partners, III, L.P. *	0.0000%	0.0000%	0.3713%	0.0928%
Merit Energy Partners, L.P. *	0.0000%	0.0000%	0.3713%	0.0928%
Moore, Charles Cline	0.0115%	0.0219%	0.0189%	0.0186%
Munroe, Vernon	0.0046%	0.0088%	0.0075%	0.0074%
Myco Industries, Inc.	2.0241%	3.9938%	3.4210%	3.3582%
Napoco	0.0000%	0.0000%	0.0719%	0.0180%
Oliver, Angus Cluthe Tr	0.0046%	0.0088%	0.0075%	0.0074%
Oliver, William B. Tr	0.0046%	0.0088%	0.0075%	0.0074%
Oxy U.S.A., Inc.	0.0000%	0.0000%	0.5361%	0.1340%
Premier Oil & Gas, Inc.	0.0000%	0.0000%	4.0769%	1.0192%
Redfern, John J. III, Indep Exec of Est of	0.0725%	0.1433%	0.1170%	0.1190%
Redfern, Rosalind	0.0725%	0.1433%	0.1170%	0.1190%
Schlagal, John L.	0.0005%	0.0000%	0.0032%	0.0009%
Mzil, Adolph P. Schuman Tr	0.0046%	0.0088%	0.0075%	0.0074%
Seventy-Seven Corporation	0.0000%	0.0000%	0.0080%	0.0020%
Sigmar, Inc.	0.0016%	0.0000%	0.0111%	0.0032%
Space Building Corp.	0.0115%	0.0219%	0.0187%	0.0185%
Tipperary Oil Corporation	0.3199%	0.6561%	0.4468%	0.5197%
TR Oil Corporation	0.0000%	0.0000%	0.0042%	0.0011%
Van Vranken, J. F. Jr.	0.0046%	0.0088%	0.0075%	0.0074%
Whiting Petroleum Corporation	0.3199%	0.6561%	0.4468%	0.5197%
Yates Drilling Company	2.0192%	3.9938%	3.3864%	3.3483%
Yates Petroleum Corporation	2.4800%	4.9051%	4.3094%	4.1499%
Yates, John A.	0.0049%	0.0000%	0.0446%	0.0124%
Yates, S. P.	0.0049%	0.0000%	0.0446%	0.0099%
	100.0000%	100.0000%	100.0000%	100.0000%
*Note: Exxon purchased Merit interest in 1/95				

4H

February 23, 1995

Avalon (Delaware) Field Unitization
Eddy Co., N. M.

David F. Boneau, Manager Non-Op Properties
Yates Petroleum Corporation
105 S. Fourth St.
Artesia, NM 88210

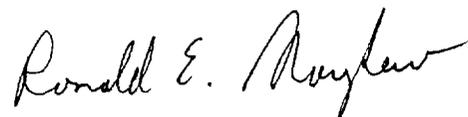
Dear Dave:

We will agree with the 4 requests in your fax dated today, to foster a spirit of cooperation and to progress the project. This is with the assumption that these are the final changes. The wording that I will pass on to our Unit Agreement Drafting Committee is provided below:

Voting	Ballots/AFE's to WIOs will be considered approved if: Note: AFE's under \$100k do not require WIO approval <ul style="list-style-type: none">• CO₂ Study AFE's (see Overhead above) and Tertiary Project AFE's (both pilot ant full scale, both primary and ring areas): Largest 2 owners must approve in addition to \$ requirement. Note: Yates Petroleum's 7 affiliates are defined as a single owner for this purpose. Should these Yates interests be sold a new 2nd largest owner could occur.• AFE's < \$ 1M: Largest Owner + 10% remaining WI; Minimum of 75%• AFE's ≥ \$1M and drilling of one or more wells: 85 % of the WIO participation
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I look forward to continuing our work in forming the Avalon Unit and in implementing the project.

Sincerely,



Ronald E. Mayhew
Avalon Project Manager

Voting

Ballots/AFE's to WIOs will be considered approved if:

Note: AFE's under \$100k do not require WIO approval

- **CO₂ Study AFE's (see Overhead above) and Tertiary Project AFE's (both pilot and full scale, both primary area and ring area):** Largest 2 owners must approve in addition to \$ requirement.
Note: Yates Petroleum's 7 affiliates are defined as a single owner for this purpose. Should these Yates interests be sold a new 2nd largest owner could occur.
- **AFE's < \$1M:** Largest Owner + 10% remaining WI; Minimum of 77.5%
- **AFE's ≥ \$1M and drilling of one or more wells:** 85% of the WIO participation

2-23-95

RON

This is as far as Peyton Yates will go.

- ① CO₂ → Tertiary
- ② Include drilling with > \$1 MILLION
- ③ 84 → 85
- ④ 3% GONE

If you send letter with Exxon version of voting, please change cover letter so others do not get idea that Yates agrees to voting procedure. Also, Yates would send letter to other owners explaining where Yates and Exxon differ and why.

Dave Bonear

 *** ACTIVITY REPORT ***

TRANSMISSION OK

TX/RX NO.	4715
CONNECTION TEL	919156886258
CONNECTION ID	PROD MGMT & TECH
START TIME	02/23 15:47
USAGE TIME	00'56
PAGES	2
RESULT	OK

