

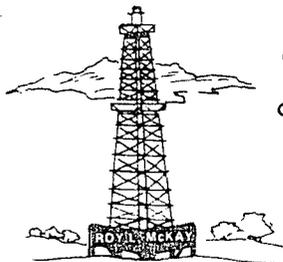
# McKay Oil Corporation

Copy

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505 / 624 - 2202



August 5, 1991

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

Attention: Mecca Mauritsen

Re: Farmout Request  
SE/4 of Section 25  
T-20-S, R-24-E  
Eddy County, New Mexico

Dear Mecca:

Pursuant to our numerous telephone conversations we have had regarding my lease NM-34647 covering other acreage as well as the referenced acreage, I will try to settle our dispute as follows:

McKay Oil Corporation will farmout the captioned acreage to you for the formation of a S/2 unit of Section 25 for Yates to serve as operator. The farmout will be limited in depth from the surface to 100 feet below deepest depth drilled, but in no event below 8100 feet. Yates will earn 100% of McKay's interest in the subject acreage with McKay retaining an overriding royalty equal to the difference between 25% and existing burdens with option to convert this ORRI to a 25% working interest after payout subject, of course, to proportional reductions.

If these terms are acceptable to you or if you have any questions concerning our counter proposal, please advise.

Very truly yours,

MCKAY OIL CORPORATION

Roy L. McKay, President

BEFORE EXAMINER CATA...

OIL CONSERVATION DIVISION

McKay EXHIBIT NO. 27

CASE NO. 10386

RLM:ml

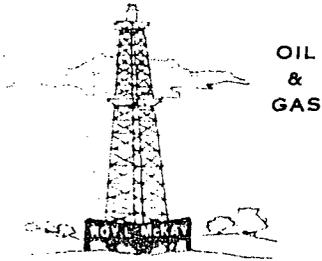
27:RLM7

# McKay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505/623-4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505/624-2202



August 5, 1991

Yates Petroleum Corporation  
Abo Petroleum Corporation  
MYCO Industries, Inc.  
Yates Drilling Company  
207 South Fourth Street  
Artesia, New Mexico 88210

Attention: Mecca Mauritsen

Re: Charolette McKay Federal #2 & #3  
E/2; N/2 NW/4 and SE/4 NW/4  
of Section 25, T-20-S, R-24-E  
Eddy County, New Mexico

Dear Mecca:

Pursuant to our numerous telephone conversations regarding the captioned property, perhaps my proposal will benefit and satisfy all parties involved.

McKay Oil Corporation is proposing to drill an 8100' Canyon well located 660 FNL and 660 FWL, and reenter and test the Canyon in the former RS Federal #1 Well, located 660 FNL and 1980 FWL, both located in the N/2 of Section 25, Township 20 South, Range 24 East. Enclosed for your review are two (2) copies of an Authority for Expenditure for each well. Also enclosed is one (1) copy of the Operating Agreement for these wells along with two (2) Ratification Agreements. If you would like to participate in the drilling of these wells, please execute one of the Authority for Expenditures for each well and one Ratification Agreement to the Operating Agreement and return to our office.

If you do not wish to participate in the drilling of these wells, McKay Oil Corporation would be willing to obtain a farmout of your acreage. McKay Oil Corporation would earn 100% of your interest in the subject acreage from the surface to the base of the Canyon formation. You would retain an overriding royalty equal to the difference between 20% and existing burdens, with the option to convert this overriding royalty to a 25% working interest after payout, subject to proportionate reduction.

Yates Petroleum Corporation  
August 5, 1991  
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If one of these two options are acceptable to you, or you have any questions concerning the above, please feel free to call me at the above number.

Very truly yours,

McKAY OIL CORPORATION

James L. Schultz  
V.P. Land & Legal

JLS:ml  
27:RLM6





**DETAILED WELL COST ESTIMATE  
AND  
AUTHORITY FOR EXPENDITURES**

Well Name Charolette Kelly Fed 2 Loc. Sec 25-20S-24E Co. Eddy State NM

Estimated T. D. \_\_\_\_\_ Field or Prospect \_\_\_\_\_ Formation \_\_\_\_\_

	● Dry Hole	Estimated Producer
<b>Intangible Costs:</b>		
Supervision	7,500	10,000
Location: Damages & R.O.W.	7,000	7,000
Roads & Location	5,000	5,000
Drilling:		
Footage Drilling <u>8100'</u> ft. @ <u>15.50</u> /ft.	125,550	125,550
Daywork:		
Drilling <u>3</u> days @ <u>4500</u> WDP	13,500	13,500
Completing <u>3</u> days @ _____	-----	7,500
Mud Materials & Special Equipment	10,000	10,000
Fuel	-----	-----
Water	18,000	20,000
Transportation	-----	-----
Cement, Cementing & Accessories	12,500	22,000
Logging	11,000	11,000
Coring & Core Analysis	-----	-----
Testing	-----	-----
Perforating		7,000
Stimulation		12,000
Special Services		2,500
Tool Rental		1,500
Miscellaneous		2,500
<b>TOTAL INTANGIBLE COSTS</b>	<b>212,550</b>	<b>257,050</b>
<b>Tangible Well Costs:</b>		
Wellhead	2,200	12,000
Casing: <u>9 5/8" 36# K-55 @ 1200'</u>	16,800	16,800
<u>7" K-55 / N-80 @ 8100'</u>		80,190
Tubing: <u>2 7/8" 6.4# J-55 at 7700'</u>		15,400
Artificial Lift Equipment		75,000
Miscellaneous Well Equipment		5,000
<b>TOTAL TANGIBLE WELL COSTS</b>	<b>19,000</b>	<b>204,390</b>
<b>Tangible Lease Costs:</b>		
Tankage		10,000
Separating & Treating		6,000
Flowlines		1,000
Structures & Bldgs.		
Measuring Equipment		
Special Equipment		
Miscellaneous Valves & Fittings		1,000
Transportation, Installation & Labor		1,000
<b>TOTAL TANGIBLE LEASE COSTS</b>	<b>19,000</b>	<b>241,590</b>
<b>TOTAL WELL COSTS</b>	<b>231,550</b>	<b>480,440</b>
Ownership Division: _____ %		
Others _____ %		

Prepared for: \_\_\_\_\_  
By: \_\_\_\_\_

Joint Interest Approval  
Company \_\_\_\_\_  
By: \_\_\_\_\_  
Date: \_\_\_\_\_ 19\_\_\_\_

DETAILED WELL COST ESTIMATE  
AND  
AUTHORITY FOR EXPENDITURES

Well Name Charolette McKay Fed 3 Loc. Sec 25-20S-24E Co. Eddy State NM

Estimated TD 8100' Field or Prospect S. Dagger Draw Formation Canyon

	Estimated	
	Dry Hole	Producer
<b>Intangible Costs:</b>		
Supervision:	5,000	5,000
Location: Damages R.O.W. Roads, Location & Working Pits	7,000	7,000
Completion Unit: <u>7 days</u> <del>XXX</del> @ <u>2640/day</u>	18,500	18,500
Drilling Equipment: <u>5 days</u> Hrs @ _____	16,500	16,500
Bits: <u>7 7/8" tri-cone bit</u>	1,200	1,200
Drill Pipe: <u>300 feet</u> @ <u>7.00/FT</u> <u>4 3/4 DC</u>	1,200	1,200
Mud Materials: <u>Salt water gel</u>	9,000	9,000
Fuel:	500	500
Water:	1,000	1,000
Transportation:	300	300
Trucking:	800	800
Cement & Cement Accessories: <u>Production</u>	20,000	20,000
Logging:		
Testing:		
Perforating:		12,000
Stimulation:		20,000
Special Services:		
Tool Rental: <u>BOP, racks, cat walk, etc.</u>	1,500	1,500
Miscellaneous, Subs & Contingencies	2,500	2,500
TOTAL INTANGIBLE COSTS	85,000	117,000
<b>Tangible Well Costs:</b>		
Well Head <u>10"-900 X 6"-900 series</u>	2,200	12,000
Casing: <u>5 1/2" Inch 8100' FT</u>		56,700
_____ Inch _____ FT		
_____ Inch _____ FT		
Tubing: <u>2 7/8" Inch 8000' FT</u>		14,800
_____ Inch _____ FT		
Artificial Lift Equipment:		75,000
Miscellaneous Well Equipment:		1,000
TOTAL TANGIBLE COSTS:	2,200	159,500
<b>Tangible Lease Costs</b>		
Tankage:		10,000
Separating & Treating:		7,000
Flowlines:		500
Measuring Equipment:		3,500
Special Equipment:		
Miscellaneous Valves & Fittings:		1,000
Transportation, Installation & Labor:		2,000
TOTAL TANGIBLE LEASE COSTS:	-0-	24,000
<b>TOTAL WELL COSTS:</b>	87,200	300,500

Ownership : \_\_\_\_\_ %  
Others: \_\_\_\_\_ %

Prepared for: McKay Oil Corporation  
By: Dale Kelton

Joint Interest Approval  
Company \_\_\_\_\_  
By: \_\_\_\_\_  
Date: \_\_\_\_\_, 19\_\_\_\_