3E

PREMIER 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

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

YATES PETROLEUM CORPORATION

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TELEPHONE (505) 748-1471

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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 CO_2 project in the developed primary area and the CO_2 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 CO_2 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 CO_2 in the primary area and CO_2 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 CO_2 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 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,

Dave Boneau

David F. Boneau
Reservoir Engineering Supervisor

DFB/cvg

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

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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,

E R Hudson Jr.

Edward R. Hudson, Jr.

ERHJr/vc

Ernst & Young Contacts in Oil and Gas Producing Areas

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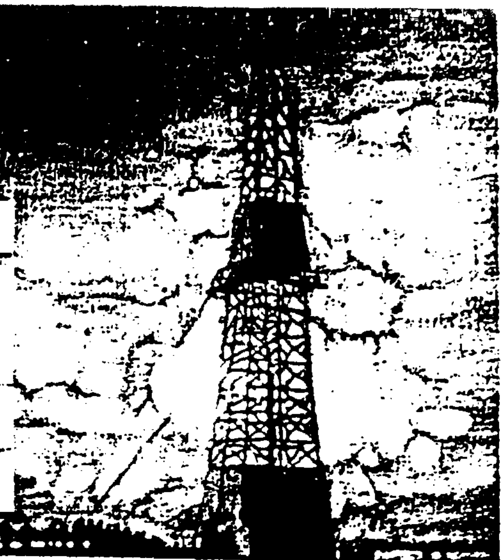
SCORE Retrieval File No. 100008

1993 Fixed Rate Overhead Survey



Ernst & Young

West Texas and Eastern New Mexico

5 Oil Wells

Responses		Depth in Feet	Monthly Drilling Well Rates				Monthly Producing Well Rates			
			1993		1992		1993		1992	
1993	1992		**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

West Texas and Eastern New Mexico

5 Gas Wells

Responses		Depth in Feet	Monthly Drilling Well Rates				Monthly Producing Well Rates			
			1993		1992		1993		1992	
1993	1992		**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

WHITING

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.

<u>Comments</u>:

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.

<u>Objections</u>:

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

John R. Hazlett
Vice President - Land Department

JRH:glv:EXXON.LO3/JRH01

cc: D. Sherwin Artus

American
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Petroleum
Company

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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 Waterfooding

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 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.

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

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 if 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 ORR 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 resonsibility of the party creating such interest.

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