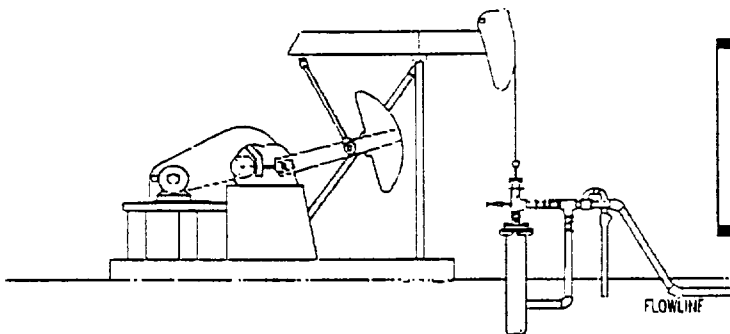


4G

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 Boncun	505-748-4585
Yates Petroleum	phone / 9172
c: Gil Benkler	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 WIO'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 Benkler 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:**

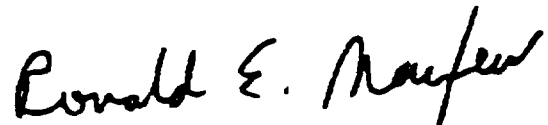
We are in the process of preparing revised Unit and Unit Operating Agreements (UA/UOA) for your approval to form the Avalon (Delaware) Field Unit with modifications that address all of the issues raised at the June 17, 1994 Working Interest Owner (WIO) Meeting (summarized in my letter of June 20, 1994). 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" style="margin-left: 40px;"> <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, 30% Waterflood, and 25% CO2 flood
Abo Petroleum Corporation	0.6731%	1.3313%	1.1936%	1.1323%
American National Pet. Corp.	2.8177%	5.5317%	4.7210%	4.6505%
Ard, Mary H.	0.8259%	1.6336%	1.3331%	1.3566%
Bello, Ernie	0.0046%	0.0088%	0.0075%	0.0074%
Buan, Mrs. Francis B.	0.0046%	0.0088%	0.0075%	0.0074%
Chevron PBC, Inc.	0.4236%	0.6857%	1.8238%	0.9047%
Claremont Corporation	0.1549%	0.3063%	0.2500%	0.2544%
Devon Energy Corporation (NV)	0.0691%	0.1367%	0.1117%	0.1136%
Devon Energy Partners L.P.	0.3916%	0.7746%	0.6331%	0.6435%
Exxon Corporation	85.0939%	70.7855%	67.9026%	73.6419%
Fox, Fred A. & D. Marjean 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%
Hudson, William A. II	0.8259%	1.6336%	1.3331%	1.3566%
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%
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%
Napco	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%
Schlegel, John L.	0.0005%	0.0000%	0.0032%	0.0009%
Maril, 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				