

Yates Energy Corporation

SECURITY DOCUMENT
CLASSIFIED BY
YEC
CASE NO. 10295

April 3, 1991

Chevron U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

Attention: James E. Baca

Re: Thornbush Federal #2
SW/4SW/4 Section 1-18S-31E
Eddy County, New Mexico

Gentlemen:

As you are aware, the captioned well was originally proposed as a Bone Spring Formation test but was not drilled. After further evaluation, we are now submitting for your review our AFE to drill the captioned well to 5,600 feet to test the San Andres Formation.

Enclosed please find two forms of AFE for your approval, a copy of the geological brief prepared by Bill Baker, Jr., Chief Geologist and our Thornbush Prospect Operating Agreement dated September 1, 1989 for your execution. The Operating Agreement will be amended to reflect separate contract areas upon your execution.

In the event you do not wish to participate in the drilling of said well, we would appreciate the opportunity to discuss this matter with you or negotiate a possible farmout. Therefore, your prompt attention is appreciated.

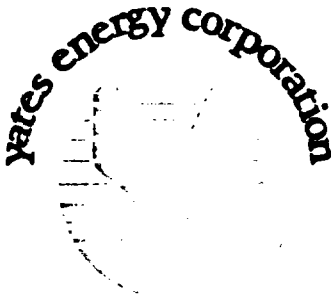
Yours very truly,

YATES ENERGY CORPORATION



Sharon R. Hamilton
Landman

SRH/jj
Enclosure



April 3, 1991

Spiral, Inc.
Explorers Petroleum Corporation
HEYCO Employees, Ltd.
P. O. Box 1933
Roswell, New Mexico 88202-1933

Attention: Shari A. Darr
Landman

Re: Thornbush Federal #2
SW/4SW/4 Section 1-18S-31E
Eddy County, New Mexico

Gentlemen:

As you are aware, the captioned well was originally proposed as a Bone Spring Formation test but was not drilled. After further evaluation, we are now submitting for your review our AFE to drill the captioned well to 5,600 feet to test the San Andres Formation.

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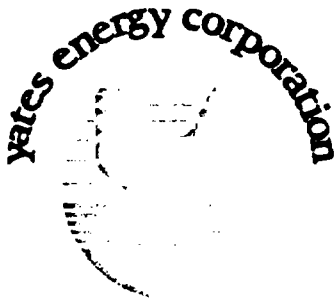
Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, which appears to read "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

SRH/jj
Enclosure



February 27, 1991

VIA FAX 915/687-7666

Chevron U.S.A. Inc.
P. O. Box 1150
Midland, Texas 79705

Attention: Mr. James E. Baca

Re: Working Interest Unit
Thornbush Federal
S/2 Section 1-18S-31E
Prickly Pear Federal
N/2 Section 12-18S-31E
Eddy County, New Mexico

Gentlemen:

We are in receipt of your letter dated January 21, 1991 and hereby request the following revisions to your proposal. To simplify this matter, we will respond to the specific items of your letter.

1. A) Delete the Thornbush Federal #1 well, SE/4SW/4 of Section 1, substituting the East Prickly Pear Federal #1 well, SE/4NE/4 of Section 12.

Note: We prefer to delete the Thornbush Federal #1 well as it has been on production for some time. For your information, the well is presently producing water after a recent frac job.

Request option to earn to base of Bone Spring formation in the Thornbush Federal #3 well, NE/4SW/4 of Section 1.

1. B) Initial earning well would be the Prickly Pear Federal #2 well, SW/4NW/4 of Section 12.
1. D) Chevron agrees to deliver a 73% net revenue interest lease on all acreage.

2. In Section 1, right to earn surface to base of Bone Spring formation.
3. This issue has been resolved with the other owners.
4. Proposed JOA to contain a 200%/400% non-consent penalty provision.
5. Timing of well proposals and drilling operations will not apply to the five locations under farmout.

Farmout to third party, after election of consenting drilling parties to not share in such farmout, will be subject to approval by Operator, said approval will not be unreasonably withheld.

General terms of farmout would be for Chevron to deliver a 73% net revenue interest.

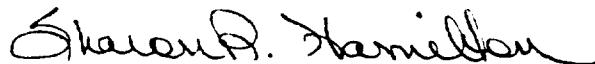
6. If agreement is reached, Yates Energy would dismiss the interest of Chevron under the current force pool orders and pending applications. However, as other WI owners are involved, said cases can not be dismissed entirely.
7. Deleted.
8. Yates Energy does not feel that WI owner approval is necessary, but has agreed under provision 1. F) to offer all drilling parties under such acreage their prorata share.

All other terms and provisions stated in your February 21, 1991 proposal are acceptable as stated.

If the herein stated revisions are acceptable to you, please indicate by executing in the space provided below. Should you wish to discuss this matter, please contact the undersigned at 505/623-4935. Your assistance and consideration in this matter is greatly appreciated.

Yours very truly,

YATES ENERGY CORPORATION

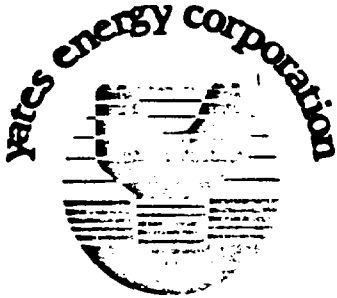


Sharon R. Hamilton
Landman

AGREED AND ACCEPTED THIS _____ day of _____, 1991.

CHEVRON U.S.A. INC.

By: _____
Title: _____



February 7, 1991

Harvey E. Yates Company
HEYCO Development Corporation
Spiral, Inc.
Explorers Petroleum Corporation
HEYCO Employees, Ltd.
P. O. Box 1933
Roswell, New Mexico 88202-1933

Attention: Shari A. Darr

Re: Thornbush Prospect Area
Section 1-18S-31E
Eddy County, NM

Gentlemen:

Pursuant to our telephone conversation this date, Yates Energy Corporation ("YEC") herein requests a farmout wherein Harvey E. Yates Company, HEYCO Development Corporation, Spiral, Inc., Explorers Petroleum Corporation, and HEYCO Employees, Ltd. ("HEYCO et al") would deliver 100% of their working interest and retain a 6.25% ORI, proportionately reduced, delivering a 75% NRI lease, with no backin. YEC would request the following lands to be covered by said farmout:

Township 18 South, Range 31 East, N.M.P.M.

Section 1: SW/4SW/4, NE/4SW/4,
NW/4SW/4, SW/4SE/4,
plus one additional forty acre tract
to be determined at a location of
our choice in the SE/4.

Additional terms would include:

1. Drill to earn provision.
2. Rights earned limited to 100 feet below total depth drilled.
3. 180 days between wells, with time to be cumulative.
4. Initial well to be drilled on or before 60 days from the date of the Farmout Agreement.



January 3, 1991

VIA FAX (915) 687-7666

Chevron USA, Inc.
P. O. Box 1150
Midland, Texas 79702

Attention: Sam H. Martin

Re: Thornbush Prospect
All of Section 1-18S-31E
Prickly Pear Prospect
N/2 Section 12-18S-31E
Eddy County, New Mexico

Gentlemen:

Pursuant to our telephone conversation this date, please be advised that Yates Energy would accept the farmout terms proposed by Chevron, with Chevron retaining a 12.5% ORI before payout delivering a 75% NRI lease and converting to a 17.5% ORI after payout delivering a 70% NRI lease. Yates Energy would request the following lands to be covered by said farmout:

Township 18 South, Range 31 East, N.M.P.M.

Section 1: S/2 (covering all depths)
Section 12: SW/4NW/4, NW/4NW/4, NE/4NW/4,
NW/4NE/4, NE/4NE/4, SE/4NE/4
(covering rights from surface to the
Base of the Delaware Formation)
Section 12: SE/4NW/4, SW/4NE/4
(covering rights from surface to 3595')

Additional terms would include:

1. Drill to earn provision
2. Rights earned to 100 feet below total depth drilled

Chevron USA, Inc.
January 1, 1991
Page 2

3. 180 days between wells, with time to be cumulative.

In the event Chevron agrees to said farmout terms, a formal agreement will be prepared for execution. Your prompt attention and assistance in this request is appreciated.

Yours very truly,

YATES ENERGY CORPORATION



Sharon R. Hamilton
Landman

SRH/jj

AGREED TO AND ACCEPTED THIS _____ day of January, 1991

CHEVRON USA, INC.

By: _____

Title: _____