

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



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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

November 1, 1993

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Nearburg Producing Company
3300 North "A" Street
Suite 8100
Midland, Texas 79705

Attention: Mr. Bob Shelton

Re: NMOCD Case No. 10790
S/2 Section 2, T22S-R24E
NMOCD Case No. 10788
E/2 Section 2, T22S-R24E
NMOCD Case No. 10823
W/2 Section 10, T22S-R24E
Eddy County, New Mexico

Dear Mr. Shelton:

As we discussed by telephone on Friday, October 29, 1993, Yates Petroleum Corporation desires to come to an amicable settlement of the De Novo hearings which have been filed on the captioned cases. Specifically, Yates has filed De Novo on your Canyon force pooling on the E/2 of Section 2, Township 22 South, Range 24 East, and you have filed De Novo on the denial of your force pooling in the W/2 of Section 10, located in the same township.

We propose to settle these disputed cases in the following manner:

1. Yates Petroleum will drop our De Novo hearing on Section 2 and will join with Nearburg in the drilling of a Canyon well on the E/2 of Section 2 at either your or our proposed location under the terms of a mutually acceptable operating agreement. Nearburg will spud and diligently prosecute said well prior to December 1, 1993, the expiration date of Yates' lease.
2. Nearburg will drop your De Novo hearing on the W/2 of Section 10, T22S-R24E. Yates will drill our well in the N/2 of Section 10 and Nearburg may independently develop your lease as you see fit.

Nearburg Producing
November 1, 1993

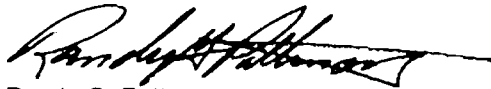
Page 2

We respectfully request that you favorably consider this proposal of settlement since it allows Nearburg the opportunity to drill and operate the only jointly-owned well in the area and it further allows each of us to independently develop our leases in the balance of the area.

Thank you for your consideration of this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in black ink, appearing to read "Randy G. Patterson", with a long horizontal flourish extending to the right.

Randy G. Patterson
Land Manager

RGP/mw

xc: Mr. Bill LeMay - New Mexico Oil Conservation Division
Mr. Jim Bruce - Hinkle Cox Eaton Coffield & Hensley Law Firm
Mr. Ernest Carroll - Losee Carson Haas & Carroll Law Firm

Nearburg Producing Company

Exploration and Production
3300 North "A" Street
Suite 8100
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

November 4, 1993

Mr. Randy Patterson
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Re: NMOCD Case Nos. 10790 and 10788
S/2 & NE/4 Section 2, T-22-S, R-24-E
Eddy County, New Mexico
NMOCD Case No. 10823; W/2 Section 10,
T-22-S, R-24-E, Eddy County, New Mexico

Dear Mr. Patterson:

On October 27, 1993, Nearburg Producing Company proposed a settlement offer made in connection with the two de novo appeals made by our companies. We are in receipt of your November 1, 1993 reply to our offer. Your offer acknowledges that our proposal is satisfactory with regard to the Section 2 well, the Big Walt 2 State #2, Case Nos. 10790 and 10788, and will allow for a well to be commenced in sufficient time to preserve your oil and gas lease expiring December 1, 1993. However, your position on the Section 10 well and Case No. 10823 remains in conflict with the concept of contributing acreage reasonably expected to be productive to a spacing unit for the well located thereon. Section 70-2-17.B of the New Mexico Compulsory Pooling statute provides "the division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well." As geologic mapping presented by both Nearburg and Yates in NMOCD Case No. 10823 clearly indicates, the W/2 of Section 10 holds the substantial majority of reserves which would be drained from a well located in the NW/4 of Section 10.

As we made in our proposal of October 27, 1993, Nearburg is agreeable to allowing Yates to operate the Section 10 well while asking only that productive acreage as required by the New Mexico statutes be included in the spacing unit for the well.

As both companies are aware, it is desirable that a settlement be made as soon as possible. Rigs are available in the area and upon reaching a settlement, we will, as provided in our proposal, endeavor to commence the well in Section 2 in a timely manner.

Nearburg wishes to settle these disputes to avoid further litigation with respect to both the de novo appeals. While we recognize the de novo

Mr. Randy Patterson
November 4, 1993
Page 2

appeal process is an alternative, we believe that our October 27, 1993, proposal to Yates is an equitable settlement offer for both companies. It allows both companies to proceed with their planned activity in the area. Furthermore, it saves valuable time and resources for our companies and the New Mexico Oil Conservation Division, and adheres to the statutes governing the NMOCD.

Let's work together and move forward.

Very truly yours,

NEARBURG PRODUCING COMPANY



Bob Shelton
Consulting Landman

BS:kg

xc: Mr. Bill LeMay
New Mexico Oil Conservation Division
P. O. Box 1148
Santa Fe, New Mexico 87504

Mr. Jim Bruce
Hinkle, Cox, Eaton, Coffield and Hensley
218 Montezuma
Santa Fe, New Mexico 87501

Mr. Ernest Carroll
Losee, Carson, Haas and Carroll Law Firm
P. O. Drawer 239
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Mr. Floyd Prando
New Mexico State Land Office
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*NOT LICENSED IN NEW MEXICO

December 7, 1993

HAND DELIVERED

William LeMay
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87503

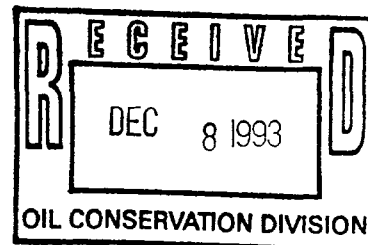
Re: **Order No. R-9964**

Dear Mr. LeMay:

This letter is to request that you reconsider Nearburg Producing Company's request for a stay of the well commencement deadline (January 1, 1994), which you denied in your letter of December 3, 1993. Your denial letter was based on the possibility of settlement between the parties, which is highly unlikely due to the following:

1. Yates' letter to you of November 30, 1993 (objecting to the stay) apparently led you to believe Yates made an offer to Nearburg for settlement. Enclosed is a copy of a November 1, 1993 letter from Yates to Nearburg, the only offer Nearburg has received to date. Paragraph 1 of this offer required Nearburg to spud the well by December 1, 1993, while Paragraph 2 requires Nearburg to drop its de novo hearing in Case No. 10823 (which covers land not involved in Case No. 10788). Since the December 1st date has passed, this proposal is no longer valid, and no other proposal has been made.

2. Pursuant to Order No. R-9964, on September 23, 1993, Nearburg sent Yates a notice to elect to join in the well (received by Yates on September 24, 1993). Yates responded by letter dated November 18, 1993, which was well after the 30-day election period.



Mr. William LeMay
December 7, 1993
Page 2

As a result, Yates election was not timely and Yates is subject to the risk penalty. With Yates now in a non-consent position, we do not believe Yates will agree to drop their appeal; no such offer has been made to Nearburg.

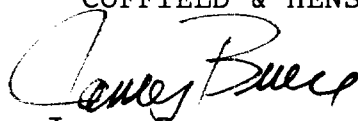
3. The denial of the extension puts Nearburg in an impossible situation. If Nearburg commences the well by January 1, but Yates is successful on appeal and is named operator and/or is allowed a new election period, Nearburg will have taken 100% of the risk, but may lose 47%¹ of its interest. Also, the well may be completed by the time the election period expires, allowing Yates an unfair advantage after Nearburg takes the risk. We again assert that the only equitable remedy for all parties is to stay the order pending the de novo decision.

4. More importantly, if Nearburg does not commence the well by January 1, we expect Yates to move to dismiss the appeal as moot, although the Yates order on the S $\frac{1}{2}$ of the section may be valid if they timely commence their well. This could subject the Division to a new round of compulsory pooling hearings, with Yates possibly having drilled a well to the Morrow, passing through the Cisco-Canyon formation, by the time a new compulsory hearing is held. The well bore then in place would certainly affect these hearings.

While we are hesitant to thrust this before you again, we believe that a stay of the commencement deadline is fair to both parties.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

JB:jr

cc: Ernest Carroll
Robert Shelton

¹ The working interest of Yates in an E $\frac{1}{2}$ unit.

HINKLE, COX, EATON, COFFIELD & HENSLEY

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December 13, 1993

*NOT LICENSED IN NEW MEXICO

Mr. William LeMay
New Mexico Oil Conservation Division
Energy, Minerals and Natural Resources Department
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 10788
Order No. R-9964

DEC

Dear Mr. LeMay:

I understand you have reconsidered your decision of December 3, 1993, and may allow a 60-day extension of the well commencement deadline in the above order. In the event you do, enclosed is a draft letter allowing the extension. Please call me as soon as the extension is granted, so I can pick up the letter.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY


James Bruce

JB/bc

Enclosure

Nearburg Exploration Company

Exploration and Production
3900 North 14th Street
Suite 8100
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

OIL CONSERVATION
RECEIVED
93 DEC 17 AM 8 37

December 13, 1993

Mr. William LeMay
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

FAX: 505/827-5741

Re: Order No. R-9964; Application of Nearburg
Producing Company for Compulsory Pooling;
E/2 Section 2, T-22-S, R-24-E,
Eddy County, New Mexico

Dear Mr. LeMay:

As we discussed in your office on December 9th and by telephone on December 10th, I have made a proposal to Yates Petroleum Corporation which would allow for their dismissal of the de novo appeal set on the January 13, 1994 docket. Yates Petroleum Corporation and Nearburg Exploration Company are in agreement on the following items:

- 1) Nearburg Exploration Company will allow Yates Petroleum Corporation to participate and pay its proportionate share of drilling costs of the Big Walt 2 State #2 well.
- 2) Yates Petroleum Corporation agrees to drop its de novo appeal.
- 2) As an additional settlement between the parties, both parties agree to discontinue field rule amendment attempts with regard to the Indian Basin Upper Pennsylvanian Associated Pool now set before the NMOCD on the docket for December 16th.

As discussed, Nearburg's offer was made subject to Nearburg being allowed to commence the well under an extension granted by the NMOCD. **I was informed by Mr. Randy Patterson that Yates is not agreeable to our offer unless we commence the well on or before January 1, 1994, the current drilling date deadline; therefore, our offer has been refused by Yates.**

Mr. William LeMay
December 13, 1993
Page -2-

I request that you grant Nearburg the sixty (60) day extension to commence the required well under Order R-9964. All other matters being settled, this should provide a basis for settlement. I have requested Mr. Bruce furnish you a letter for your execution authorizing the extension.

Thank you for your help, and we still hope this issue can be resolved.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Bob Shelton', with a long horizontal flourish extending to the right.

Bob Shelton
Consulting Landman

xc: Mr. Jim Bruce

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LOSEE, CARSON, HAAS & CARROLL, P. A.

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P. O. DRAWER 239
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(505) 746-6316

MARY LYNN BOGLE

December 15, 1993

VIA FACSIMILE AND FIRST CLASS MAIL

Mr. William LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87503

DEC 20 1993

Re: Order No. R-9964

Dear Mr. LeMay:

I am writing on behalf of Yates Petroleum Corporation concerning a letter that was hand-delivered to you on December 7, 1993, written by Mr. James Bruce, Esq. on behalf of Nearburg Producing Company. That letter, though hand-delivered to you on December 7, 1993, was not received in my office until December 13, 1993, and because I was in Houston at that time and on the 14th, I was not able to respond to it until today's date.

In Mr. Bruce's letter, he attempts to persuade you to reverse your decision concerning the extension of the January 1, 1994, commencement deadline for Nearburg Producing's well pursuant to the above-referenced order. He advises that a settlement between the parties is highly unlikely due to several circumstances. Mr. Bruce apparently considers your denial of their extension to be based on the possibility of settlement between the parties. I disagree with Mr. Bruce; it is my interpretation of your order that Mr. Bruce did not present sufficient grounds to order an extension. Yates Petroleum Corporation's position is that your decision was correct.

With respect to the first issue discussed in Mr. Bruce's letter, I would state that the facts related are not as stated. While it is correct that Yates made a written offer dated November 1, 1993, the fact is that numerous oral conversations occurred between the parties since that date in which the position that I set forth in my response of November 30, 1993, to the initial request for extension, was conveyed to Nearburg. Furthermore, I have personally conveyed to Mr. Bruce that if Nearburg would go ahead and drill the well, the de novo request would be dismissed with no other conditions attached. Also, it is hard to conceive how Yates letter of November 18, 1993, referred to in Mr. Bruce's letter could be construed as anything other than an unconditional letter to participate in Nearburg's well, acceptance of which would necessarily require Yates' dismissing its de novo request. Any other position would be inconsistent. A copy of that letter was furnished to you at its time of writing.

Mr. William LeMay
December 15, 1993
Page 2

As to issue 2, concerning the election Yates has made to join in to the well, that issue should have no bearing as to whether or not a request for an extension should be approved, however, it does have some bearing on the highly technical stand Nearburg is taking in trying to keep Yates from having the chance to join in the well. Furthermore, it ignores the position that Yates stands to lose its lease on that section unless a well is timely prosecuted and completed. It is interesting to note that not one mention of that December 1, 1993, expiration date was made by Mr. Bruce.

With respect to issue 3, wherein Mr. Bruce attempts to develop the fact that Nearburg is going to be prejudiced because Yates' election was not timely is based on the claim that Nearburg will have taken 100% of the risk of drilling the well, and it would be unfair to expose them to that risk factor. Until the well is spudded, no risk has been assumed by Nearburg. If risk is a factor in this case, all Nearburg has to do to absolve itself of any risk is to allow Yates to participate in the well. This argument is without merit and should be dismissed accordingly.

The issues raised in point 4 of Mr. Bruce's letter are without any merit. The need for further hearings in the future will arise only if Nearburg does not drill its well timely and fails to allow Yates to participate.

A stay of the deadlines is not only unfair to Yates, but places them in a position to be unfairly hurt by Nearburg because of Yates' expiring lease.

Very truly yours,

LOSEE, CARSON, HAAS & CARROLL, P.A.



Ernest L. Carroll

ELC:kth

xc: Mr. Jim Bruce
Mr. Randy Patterson

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*NOT LICENSED IN NEW MEXICO

January 11, 1994

HAND DELIVERED

William J. LeMay
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

Re: De Novo Cases 10788, 10790, and 10823

Dear Mr. LeMay:

I believe Nearburg and Yates have reached an agreement to (a) dismiss Case 10790 (the Yates case), and (b) in Case 10788, stipulate that Yates has timely elected to voluntarily join in Nearburg's well in the E½ of Section 2. If Mr. Carroll and I can sign an appropriate letter agreement, we will request that an order be entered in Case 10788 pending the parties' approval of an operating agreement.

Nearburg also requests that Case 10823 be continued for one month. I hope that the parties can resolve this case later. However, Yates has not yet agreed to the continuance.

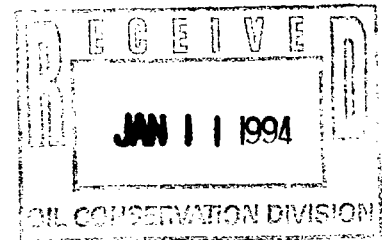
Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

JB:jr

cc: Ernest Carroll VIA FACSIMILE TRANSMISSION



LAW OFFICES

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(505) 746-6316

January 12, 1994

VIA FACSIMILE

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re Novo Cases 10788, 10790, and 10823

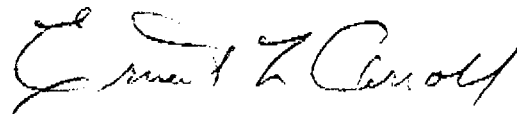
Dear Mr. LeMay:

I am in receipt of Mr. Bruce's letter of January 11, 1994. I would advise you that Yates has agreed to dismiss Case 10790, and in Case 10788, Nearburg and Yates will stipulate that Yates has timely elected to voluntarily join in Nearburg's well in the E/2 of Section 2.

However, Yates has advised Nearburg that it is opposed to the continuation of Case 10823, and would advise you that such a continuance would be harmful and costly to Yates, and would not further any chances of settlement. Certain of Yates' witnesses are already in route to Santa Fe, and we are prepared to present our case tomorrow.

Very truly yours,

LOSEE, CARSON, HAAS & CARROLL, P.A.


Ernest L. Carroll

ELC:kth
Enclosures

cc: Mr. Randy Patterson
Mr. Jim Bruce

HINKLE, COX, EATON, COFFIELD & HENSLEY

LEWIS C COX
PAUL W EATON
CONRAD E COFFIELD
HAROLD L HENSLEY, JR
STUART D SHANOR
ERIC D LANPHERE
C D MARTIN
ROBERT P TINNIN, JR
MARSHALL G MARTIN
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T CALDER EZZELL, JR
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RICHARD R WILFONG*
THOMAS J MCBRIDE
JAMES J WECHSLER
NANCY S CUSACK
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H R THOMAS
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CHRISTOPHER M MOODY
S BARRY PAISNER
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MARGARET R MCNETT
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BRADLEY W HOWARD
NORMAN D EWART
DARREN T GROCE*
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DARLA M SILVA

ATTORNEYS AT LAW

218 MONTEZUMA

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*NOT LICENSED IN NEW MEXICO

January 12, 1994

HAND DELIVERED

William J. Lemay
Oil Conservation Division
Santa Fe, NM

JAN 12 1994

Re: Case 10823

Dear Mr. Lemay:

I have received Mr. Carroll's letter opposing Nearburg's requested continuance. Yates claims it will be harmed by a one month continuance. However, I have been informed by Mr. Carroll of BLM restrictions in this area (due to an environmental survey) which will prevent production operations, so I fail to see how a short continuance is detrimental to Yates. Please let me know of your decision as soon as possible, so that my clients can travel to Santa Fe if necessary.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

cc: E. Carroll (via fax)

MARTIN L. YATES, III
1912 - 1985
RECEIVED
FRANK W. YATES
1936 - 1986
'94 JAN 20 AM 8 57



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

January 18, 1994

Nearburg Producing Company
3300 North "A" Street
Suite 8100
Midland, Texas 79705

Attention: Mr. Bob Shelton

Re: Big Walt 2 State #2 Well
Eddy County, New Mexico

Dear Mr. Shelton:

Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc., and Abo Petroleum Corporation have previously indicated that we wish to participate pursuant to New Mexico Oil Conservation Division Compulsory Pooling Order R-9964. At the De Novo Hearing on January 13, 1994 our participation was recognized and it was stipulated by attorneys for both companies that the Authority for Expenditure Joinder was timely received.

Therefore, pursuant to the forthcoming order of the New Mexico Oil Conservation Commission, Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc., and Abo Petroleum Corporation elect to participate in the drilling of the captioned well.

By copy of this letter along with a copy of invoice #5350360-YATE dated January 14, 1994 which was faxed to our office, we are requesting Western Bank of Artesia to disperse funds escrowed for the purpose of drilling of this well pursuant to Escrow Agreement, dated November 18, 1993. Our Geological Requirements have been transmitted to you in November and in October of 1993, however if those are not in your files, please do not hesitate to call me and I will send another copy. Should you require anything further, please call.

Very truly yours,

YATES PETROLEUM CORPORATION

Randy G. Patterson
Land Manager

CC:

Mr. William LeMay, New Mexico Oil Conservation Commission
Mr. Floyd Prando, New Mexico State Land Office
Mr. Ernest Carroll

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February 8, 1994

HAND DELIVERED

William J. LeMay
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

FEB - 8 1994

Re: **Case No. 10823 (de novo)**

Dear Mr. LeMay:

Please dismiss the above appeal. Thank you.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

JB:jr

cc: Ernest Carroll VIA FACSIMILE TRANSMISSION



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

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February 22, 1994

HINKLE, COX, EATON,
COFFIELD & HENSLEY
Attorneys at Law
P. O. Box 2068
Santa Fe, New Mexico 87501

RE: CASE NO. 10823
ORDER NO. R-9992-A

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,


Sally E. Martinez
Administrative Secretary

cc: BLM - Carlsbad
Ernest Carroll