



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

December 31, 1986

Louisiana Land & Exploration Company
Suite 1200
2950 North Loop West
Houston, TX 77092

ATTENTION: Mr. Ken Steer

RE: AFE for Seismic Line
#EP16E01
Township 17 South, Range 37 East
Humble City Area
Lea County, New Mexico

Gentlemen:

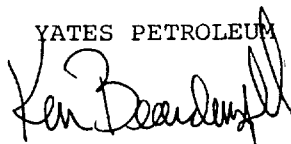
Yates and its partners will agree to the seismic line AFE in the captioned area on the specific condition that the other parties on the AFE #EP16E01 will agree to one of two following proposals:

1. Join on our Humble City ACL #1 well proposal, located 760' FNL & 1880' FEL in Section 14, Township 17 South, Range 37 East, NMPM, our AFE #86-099-0 mailed by letter dated November 13, 1986.
2. Farmout your interest in the same, on terms of each party delivering a 75% net revenue interest, retaining the differences between existing burdens and 75% as an overriding royalty. At payout each party would have the option to convert their reserved overriding royalty to a 25% working interest. Both working interest and overriding royalty to be proportionately reduced as to the interest actually owned. A copy of this letter will be sent to each party.

If you concur with this letter, please sign and return one copy of this letter to this office. Please call if you have any questions.

Very truly yours,

YATES PETROLEUM CORPORATION


Ken Beardemphl
Landman

KB:rj

YATES PETROLEUM CORPORATION
Case No. 9058
2/4/87 Examiner Hearing
Exhibit No. 7

Louisiana Land & Exploration Company

Page 2:

December 31, 1986

AGEED TO AND ACCEPTED this _____ day of _____, 19____.

By: _____ Date _____

cc: Amerada Hess
LDM Association
Exxon Company, USA

DATE OPEN 12-8-86

TREND/BASIN Strawn
AREA/FIELD Humble City
OPERATOR LL&E
WELL NUMBER _____

COMPANY Yates Partners for Humble
City W. I. U.

[illegible]