

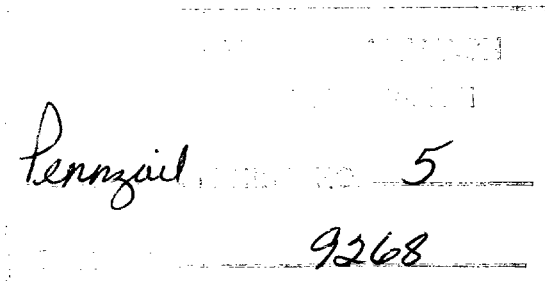


PENNZOIL PLACE • P. O. BOX 2967 • HOUSTON, TEXAS 77252-2967 • (713) 546-4000

October 20, 1987

Yates Energy Corporation  
Suite 1010, SunWest Center  
Roswell, New Mexico 88201

Attention: Mr. Ken Hammond



Re: #1 Simmons  
E/2 SW/4 of Section 3,  
T17S - R37E  
Lea County, New Mexico

Gentlemen:

Pennzoil Company hereby proposes to drill an 11,900' Strawn-Atoka test at an unorthodox location 1310' FSL and 1980' FWL of Section 3, T17S-R37E, by December 1, 1987. A copy of our AFE is enclosed for your review. Also enclosed is a copy of the New Mexico Oil Conservation Division Order R-8199 which approves our unorthodox location.

We request that Yates Energy either participate in our proposed well or farmout its interest in the SW/4 of Section 3-17S-37E to Pennzoil, on the following terms:

1. Upon completion of the Initial Test Well as a producer, Pennzoil will earn an assignment of 100% of Yates' interest in the proration unit assigned to the well limited to 100' below TD drilled. Yates will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Yates having the option to convert said overriding royalty interest at payout to a 25% W.I. proportionately reduced.
2. Pennzoil will have the option of commencing a one hundred eighty (180) day continuous drilling program to earn the balance of the farmout acreage under the same terms as the ITW.

Should Yates elect to participate, please return an executed copy of the enclosed AFE, and an A.A.P.L. Form 610-1982 Model Form Operating Agreement will be forwarded to you for your review and execution.

Yates Energy Corporation  
October 20, 1987  
Page 2

Please be advised that due to Pennzoil's lease expirations in early 1988 and due to our availability of money which needs to be spent by year end, we plan to make application to compulsory pool the E/2 SW/4 Section 3-17S-37E on the next available Commission docket.

Your prompt consideration of our proposal will be appreciated. Should you have any questions, please feel free to contact me at 713/546-6195.

Yours very truly,

PENNZOIL COMPANY

*Greg Davis*  
Greg Davis  
Land Specialist

GD:jt

Enclosure

<p>● <b>SENDER:</b> Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4.</p> <p>Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. <u>The return receipt fee will provide you the name of the person delivered to and the date of delivery.</u> For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.</p> <p>1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. <u>†(Extra charge)†</u></p> <p>2. <input type="checkbox"/> Restricted Delivery <u>†(Extra charge)†</u></p>	
<p>3. Article Addressed to:</p> <p>MR. KEN HAMMOND YATES ENERGY CORP SUITE 1010 SUNWEST CENTER ROSWELL, NM 88201</p>	<p>4. Article Number B 91500264</p> <p>Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail</p> <p>Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b></p>
<p>5. Signature - Addressee X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent X <i>Theresa Crawford</i></p>	
<p>7. Date of Delivery 10-21-87</p>	

PS Form 3811, Mar. 1987 U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

AUTHORIZATION FOR EXPENDITURE  
WELLS

Co.	Dept.	Play No.	AFE No.	AFE Title or Location Name (25)				
251	6140	7438938	S I M M O N S N O . 1 D C & E					
COMPANY Pennzoil Company			DIVISION Western		DISTRICT 36			
WELL NAME AND NO. Simmons No. 1			FIELD OR AREA Shipp		UNDEVELOPED LEASE NO.			
OPERATOR Pennzoil Company			COUNTY OR PARISH Lea		STATE New Mexico			
PROJECT DESCRIPTION Drill, complete and equip a 11,900' Strawn oil well 1310' FSL and 1980' FWL of sect. 3, T17S, R37E			LEASE NAME AND NO. Simmons					
			PROPOSED FORMATION Strawn					
<input checked="" type="checkbox"/> Single <input type="checkbox"/> Triple		<input checked="" type="checkbox"/> Oil <input type="checkbox"/> Gas		<input type="checkbox"/> Expl. <input checked="" type="checkbox"/> Dev.		<input checked="" type="checkbox"/> New <input type="checkbox"/> Workover		
<input type="checkbox"/> Dual		<input type="checkbox"/> Bay		<input type="checkbox"/> Marsh		Deepen <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
<input type="checkbox"/> Land		DATE TO START		DATE TO COMPLETE		DAYS TO DRILL 34		
<input type="checkbox"/> Marsh		<input type="checkbox"/> Gulf				PROPOSED DEPTH 11,900'		
Gross		Net		Budget Code 4107	Ls./Assoc. Prop. No.		Assoc. AFE No.	
						Joint Venture <input type="checkbox"/> No <input type="checkbox"/> Yes		
						Operator <input type="checkbox"/> 2-Co. <input type="checkbox"/> 3-Outsd.		
County/Ph. Code		Civil Dist.		Conveyed <input type="checkbox"/> Yes <input type="checkbox"/> No		Report to Code		
						Costing Location Mktg		
						Environmental Cost % Air % Water % Land - Other		
						% Safety and Health		
JUSTIFICATION								
INTANGIBLES								
CONTRACT DRILLING		11,900 ft. @ \$		13.00 /ft.		SUB 489		
						DRY HOLE 154,700		
						COMPLETION		
						TOTAL 154,700		
CONTRACT DAY WORK	DRILLING		days @ \$		/day		490	
	CORING AND DRILL STEM TEST		4 days @ \$		4,000 /day		490	
	LOGGING, SFT. AND PERFORATING		2 days @ \$		4,000 /day		490	
	OTHER		10 days @ \$		1,300 /day		490	
	TOTAL CONTRACT DAY WORK						490	
COMPANY PAYROLL		\$195/day				501		
						6,630		
EMPLOYEE BENEFITS		\$105/day				505		
						3,570		
TRANSPORTATION AND HAULING						545		
						10,000		
ACCESS CANAL CONSTRUCTION						476		
						5,000		
LOCATION, ROADS, PITS OR KEYWAY						472		
						3,000		
BITS, COREHEADS, ETC.						492		
						10,500		
MUD MATERIALS						475		
						15,000		
CEMENT AND CEMENTING SERVICES						473		
						1,500		
CENTRALIZERS, SHOES, SCRATCHERS AND NON-SALVABLE PACKERS						473		
						8,000		
MUD LOGGING		20 days @ \$350/day				491		
						1,000		
FORMATION TESTING		1 DST				491		
						7,000		
LOGGING AND SIDE WALL CORING						474		
						4,500		
PERFORATING						482		
						26,000		
TOOL RENTAL INCLUDING SMALL DIAMETER DRILL PIPE						478		
						3,000		
TESTING TUBULAR GOODS						479		
						7,500		
INTERNAL COATING						488		
						6,000		
STIMULATION TREATMENT						484		
						10,000		
OTHER SPECIAL WELL SERVICES includes 60' core						485		
						7,500		
MISCELLANEOUS COSTS AND CONTINGENCIES 10%						480		
						7,500		
TOTAL INTANGIBLES						494		
						16,000		
						31,000		
						6,550		
						411,950		
TANGIBLES								
CASING	ft.	in.	lb.	Gr.	@ \$	440		
	400	13-3/8	48	H-40	21.39	440	8,550	
	4,200	8-5/8	28	S-80	13.06	440	54,850	
	11,900	5-1/2	17	N-80	9.48	440	112,800	
TUBING						443		
	11,500	2-7/8	6.5	N-80	4.49	443	51,600	
						443		
						443		
CASING HEADS						444		
						4,000		
CHRISTMAS TREE						445		
						9,500		
RETRIEVABLE PACKERS						448		
						8,000		
OTHER WELL EQUIPMENT						448		
						6,000		
TOTAL TANGIBLES						469		
						67,400		
						187,900		
						255,300		
TOTAL WELL COST						100.00000 %		
PRODUCTION EQUIPMENT (Detail Attached)						100.00000 %		
OTHER COSTS - NET (Detail Attached)						100.00000 %		
TOTAL COST						100.00000 %		
						407,300		
						364,750		
						772,050		
CO. OWNERSHIP		6.7.7.6.6.9.0%		COMPANY COST		6.7.7.6.6.9.0%		
						276,014		
APPROVAL		DATE		APPROVAL		DATE		
10-19-87						AUTHORIZATION		
						DATE		
JOINT INTEREST APPROVAL								
COMPANY NAME:								
APPROVAL								

### JUSTIFICATION

104,800

ATR CD		SUMMARY OF ESTIMATED COST			
1	PROPERTY ADDITIONS				
6	REMOVAL COST				
5	SALVAGE				
		TOTAL COST	100.00000	%	104,800
CO. OWNERSHIP		COMPANY COST		%	
APPROVAL	DATE	APPROVAL	DATE	AUTHORIZATION	DATE
JOINT INTEREST APPROVAL					
COMPANY NAME:				%	
APPROVAL		DATE			