

Nearburg Producing Company

Exploration and Production
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November 9, 1994

NOV 14 1994

C. C. D.
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Mr. Randy Patterson, Land Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Dear Randy:

Nearburg Exploration Company ("NEC") is in receipt of Yates Petroleum Corporation's letter dated October 7, 1994, proposing the drilling of the Tackitt "AOT" Well No. 1, SE/4 Section 28, T-19-S, R-25-E, Eddy County, New Mexico. As you know, Yates Petroleum Corporation ("Yates") is currently the operator of the Nearburg State "K" #2 well, which Yates has chosen to rename the Tackitt "AOT" #2 well. NEC has 100% working interest in the Tackitt "AOT" #2 well by virtue of its taking the sole risk and expense of drilling this well, and has received a 300% non-consent penalty from the non-consenting owners. Yates is the successor to one of these non-consent interests. Yates has no cost in this well, is receiving operating overhead, and will receive its 50% working interest when the 300% non-consent penalty is paid out.

It is our opinion that any other well to be drilled in the SE/4 of Section 28 is not validly proposed unless it receives the unanimous consent of all parties. If such a well is drilled, it is our position that its production should under no circumstances exceed the difference between the 160-acre allowable production and the production rate which the Tackitt "AOT" #2 is capable of producing after modifications to GPM's pipeline system. At the current time, the Tackitt "AOT" #2 is producing approximately 90 barrels of oil and 6200 MCFPD of gas, and with the completion of GPM's compressor facility upgrade, the well will be able to produce the full 7,000 MCFPD allowable for this 160-acre unit.

Any attempt to reduce the production from the Tackitt "AOT" #2 well to increase production from any other well drilled in this quarter section without NEC's consent would be considered a violation of our correlative rights and a definite attempt to reduce the reserves we are legally allowed to recover from the well. We would appreciate a response from Yates detailing how Yates intends to produce both the wells if a second well is ultimately drilled and completed.

Our taking the risk of drilling the Tackitt "AOT" #2 well has benefitted Yates, as it has provided excellent geological information to support the drilling of the offset wells. Yates has already drilled two direct offsets to the Tackitt "AOT" #2 as a result of our having taken the initial risk. We feel that Yates has more than adequately benefitted by our taking this risk and does not need to try to take further advantage of the situation by contravening the Operating Agreement and thereby inhibiting our ability to recover reserves we have rightfully earned under the Operating Agreement.