

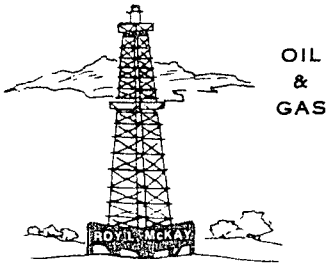
McKay Oil Corporation

Copy

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505 / 623 - 4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505 / 624 - 2202



August 5, 1991

Yates Petroleum Corporation
207 South Fourth Street
Artesia, New Mexico 88210

Attention: Mecca Mauritsen

Re: Farmout Request
SE/4 of Section 25
T-20-S, R-24-E
Eddy County, New Mexico

Dear Mecca:

Pursuant to our numerous telephone conversations we have had regarding my lease NM-34647 covering other acreage as well as the referenced acreage, I will try to settle our dispute as follows:

McKay Oil Corporation will farmout the captioned acreage to you for the formation of a S/2 unit of Section 25 for Yates to serve as operator. The farmout will be limited in depth from the surface to 100 feet below deepest depth drilled, but in no event below 8100 feet. Yates will earn 100% of McKay's interest in the subject acreage with McKay retaining an overriding royalty equal to the difference between 25% and existing burdens with option to convert this ORRI to a 25% working interest after payout subject, of course, to proportional reductions.

If these terms are acceptable to you or if you have any questions concerning our counter proposal, please advise.

Very truly yours,

MCKAY OIL CORPORATION

Roy L. McKay, President

BEFORE EXAMINER CATA

OIL CONSERVATION DIVISION

McKay EXHIBIT NO. 27

CASE NO. 10386

RLM:ml

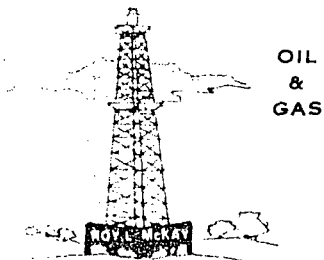
27:RLM7

McKay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505/623-4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505/624-2202



August 5, 1991

Yates Petroleum Corporation
Abo Petroleum Corporation
MYCO Industries, Inc.
Yates Drilling Company
207 South Fourth Street
Artesia, New Mexico 88210

Attention: Mecca Mauritsen

Re: Charolette McKay Federal #2 & #3
E/2; N/2 NW/4 and SE/4 NW/4
of Section 25, T-20-S, R-24-E
Eddy County, New Mexico

Dear Mecca:

Pursuant to our numerous telephone conversations regarding the captioned property, perhaps my proposal will benefit and satisfy all parties involved.

McKay Oil Corporation is proposing to drill an 8100' Canyon well located 660 FNL and 660 FWL, and reenter and test the Canyon in the former RS Federal #1 Well, located 660 FNL and 1980 FWL, both located in the N/2 of Section 25, Township 20 South, Range 24 East. Enclosed for your review are two (2) copies of an Authority for Expenditure for each well. Also enclosed is one (1) copy of the Operating Agreement for these wells along with two (2) Ratification Agreements. If you would like to participate in the drilling of these wells, please execute one of the Authority for Expenditures for each well and one Ratification Agreement to the Operating Agreement and return to our office.

If you do not wish to participate in the drilling of these wells, McKay Oil Corporation would be willing to obtain a farmout of your acreage. McKay Oil Corporation would earn 100% of your interest in the subject acreage from the surface to the base of the Canyon formation. You would retain an overriding royalty equal to the difference between 20% and existing burdens, with the option to convert this overriding royalty to a 25% working interest after payout, subject to proportionate reduction.

Yates Petroleum Corporation
August 5, 1991
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If one of these two options are acceptable to you, or you have any questions concerning the above, please feel free to call me at the above number.

Very truly yours,

McKAY OIL CORPORATION

James L. Schultz
V.P. Land & Legal

JLS:ml
27:RLM6

CONSENT AND RATIFICATION
OF JOINT OPERATING AGREEMENT
DATED NOVEMBER 15, 1979
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Operating Agreement dated November 15, 1979 for the development and operation of the lands described therein and acknowledges that they have read the same and are familiar with the terms and conditions thereof. The undersigned acknowledges that they are the Lessee(s) of the SW/4 NW/4 of Section 25, Township 20 South, Range 24 East, NMPM and do hereby commit said tract of land to said Operating Agreement. Further, by execution hereof, the undersigned do hereby join, consent to and ratify said Operating Agreement as a Non-Operator.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Yates Petroleum Corporation

By: _____

Abo Petroleum Corporation

By: _____

MYCO Industries, Inc.

By: _____

Yates Drilling Company

By: _____

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ who is _____ of _____, a _____ corporation, for and on behalf of said corporation.

My Commission Expires:

_____ Notary Public

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ who is _____ of _____, a _____ corporation, for and on behalf of said corporation.

My Commission Expires:

_____ Notary Public

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ who is _____ of _____, a _____ corporation, for and on behalf of said corporation.

My Commission Expires:

_____ Notary Public

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ who is _____ of _____, a _____ corporation, for and on behalf of said corporation.

My Commission Expires:

_____ Notary Public

DETAILED WELL COST ESTIMATE AND AUTHORITY FOR EXPENDITURES

Well Name Charolette Kelly Fed 2 Loc. Sec 25-20S-24E Co. Eddy State NM

Estimated T. D. _____ Field or Prospect _____ Formation _____

| | Estimated | |
|---|----------------|----------------|
| | Dry Hole | Producer |
| Intangible Costs: | | |
| Supervision _____ | 7,500 | 10,000 |
| Location: Damages & R.O.W. _____ | 7,000 | 7,000 |
| Roads & Location _____ | 5,000 | 5,000 |
| Drilling: | | |
| Footage Drilling <u>8100'</u> ft. @ <u>15.50</u> /ft. _____ | 125,550 | 125,550 |
| Daywork: | | |
| Drilling <u>3</u> days @ <u>4500</u> WDP _____ | 13,500 | 13,500 |
| Completing <u>3</u> days @ _____ | ----- | 7,500 |
| Mud Materials & Special Equipment _____ | 10,000 | 10,000 |
| Fuel _____ | ----- | ----- |
| Water _____ | 18,000 | 20,000 |
| Transportation _____ | ----- | ----- |
| Cement, Cementing & Accessories _____ | 12,500 | 22,000 |
| Logging _____ | 11,000 | 11,000 |
| Coring & Core Analysis _____ | ----- | ----- |
| Testing _____ | ----- | ----- |
| Perforating _____ | | 7,000 |
| Stimulation _____ | | 12,000 |
| Special Services _____ | | 2,500 |
| Tool Rental _____ | | 1,500 |
| Miscellaneous _____ | | 2,500 |
| TOTAL INTANGIBLE COSTS _____ | 212,550 | 257,050 |
| Tangible Well Costs: | | |
| Wellhead _____ | 2,200 | 12,000 |
| Casing: <u>9 5/8" 36# K-55 @ 1200'</u> _____ | 16,800 | 16,800 |
| <u>7" K-55 / N-80 @ 8100'</u> _____ | | 80,190 |
| Tubing: <u>2 7/8" 6.4# J-55 at 7700'</u> _____ | | 15,400 |
| Artificial Lift Equipment _____ | | 75,000 |
| Miscellaneous Well Equipment _____ | | 5,000 |
| TOTAL TANGIBLE WELL COSTS _____ | 19,000 | 204,390 |
| Tangible Lease Costs: | | |
| Tankage _____ | | 10,000 |
| Separating & Treating _____ | | 6,000 |
| Flowlines _____ | | 1,000 |
| Structures & Bldgs. _____ | | |
| Measuring Equipment _____ | | |
| Special Equipment _____ | | |
| Miscellaneous Valves & Fittings _____ | | 1,000 |
| Transportation, Installation & Labor _____ | | 1,000 |
| TOTAL TANGIBLE LEASE COSTS _____ | 19,000 | 241,590 |
| TOTAL WELL COSTS _____ | 231,550 | 480,440 |
| Ownership Division: _____ % | | |
| Others _____ % | | |

Prepared for: _____
By: _____

Joint Interest Approval

Company _____

By: _____

Date: _____ 19 _____

DETAILED WELL COST ESTIMATE
AND
AUTHORITY FOR EXPENDITURES

Well Name Charolette McKay Fed 3 Loc. Sec 25-20S-24E Co. Eddy State NM

Estimated TD 8100' Field or Prospect S. Dagger Draw Formation Canyon

| | Estimated | |
|--|-----------|----------|
| | Dry Hole | Producer |
| <u>Intangible Costs:</u> | | |
| Supervision: | 5,000 | 5,000 |
| Location: Damages R.O.W. | | |
| Roads, Location & Working Pits | 7,000 | 7,000 |
| Completion Unit: <u>7 days</u> XXXX @ <u>2640/day</u> | 18,500 | 18,500 |
| Drilling Equipment: <u>5 days</u> Hrs @ | 16,500 | 16,500 |
| Bits: <u>7 7/8" tri-cone bit</u> | 1,200 | 1,200 |
| Drill Pipe: <u>300 feet</u> @ <u>7.00/FT</u> <u>4 3/4 DC</u> | 1,200 | 1,200 |
| Mud Materials: <u>Salt water gel</u> | 9,000 | 9,000 |
| Fuel: | 500 | 500 |
| Water: | 1,000 | 1,000 |
| Transportation: | 300 | 300 |
| Trucking: | 800 | 800 |
| Cement & Cement Accessories: <u>Production</u> | 20,000 | 20,000 |
| Logging: | | |
| Testing: | | |
| Perforating: | | 12,000 |
| Stimulation: | | 20,000 |
| Special Services: | | |
| Tool Rental: <u>BOP, racks, cat walk, etc.</u> | 1,500 | 1,500 |
| Miscellaneous, Subs & Contingencies | 2,500 | 2,500 |
| TOTAL INTANGIBLE COSTS | 85,000 | 117,000 |
| <u>Tangible Well Costs:</u> | | |
| Well Head <u>10"-900 X 6"-900 series</u> | 2,200 | 12,000 |
| Casing: <u>5 1/2" Inch 8100' FT</u> | | 56,700 |
| <u> Inch FT</u> | | |
| <u> Inch FT</u> | | |
| Tubing: <u>2 7/8" Inch 8000' FT</u> | | 14,800 |
| <u> Inch FT</u> | | |
| Artificial Lift Equipment: | | 75,000 |
| Miscellaneous Well Equipment: | | 1,000 |
| TOTAL TANGIBLE COSTS: | 2,200 | 159,500 |
| <u>Tangible Lease Costs</u> | | |
| Tankage: | | 10,000 |
| Separating & Treating: | | 7,000 |
| Flowlines: | | 500 |
| Measuring Equipment: | | 3,500 |
| Special Equipment: | | |
| Miscellaneous Valves & Fittings: | | 1,000 |
| Transportation, Installation & Labor: | | 2,000 |
| TOTAL TANGIBLE LEASE COSTS: | -0- | 24,000 |
| TOTAL WELL COSTS: | 87,200 | 300,500 |

Ownership : _____ %
Others: _____ %

Prepared for: McKay Oil Corporation
By: Dale Kelton

Joint Interest Approval
Company _____
By: _____
Date: _____, 19____