

OIL CONSERVATION DIVISION
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Nearburg Exploration Company

Exploration and Production
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Midland, Texas 79705
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March 29, 1995

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. Douglas W. Hurlbut
S. P. Yates
Estate of Martin Yates III
105 South Fourth Street
Artesia, New Mexico 88201

Case 11232
Case 11233

FAX: 505/746-2268

Re: Fairchild 24 #2 Well, NE/4 Section 24;
Fairchild 13 #2 Well, SW/4 Section 13;
Township 19 South, Range 25 East,
Eddy County, New Mexico
Fairchild 24 Prospect

Dear Doug:

Thank you for taking the opportunity to discuss with me a possible settlement and solution to the two poolings which are currently pending before the NMOCD. As we discussed, on the April 6, 1995 docket are competing poolings for the SW/4 of Section 13, T-19-S, R-25-E, Eddy County, New Mexico. Yates has proposed a location of 660' FS&WL, and Nearburg has proposed a location of 1980' FWL and 660' FSL. Both wells will be drilled to test the Cisco-Canyon formation. As we discussed, Nearburg has 2/3 interest while Yates et al has 1/3 interest in the SW/4 of Section 13.

With regard to the Fairchild 24 #2 well, both parties have proposed the same location being 1980' FEL and 660' FNL of Section 24. S. P. Yates and the Estate of Martin Yates III own approximately 27% interest while Nearburg owns 11.25% interest.

We believe that it is advantageous to both companies to operate properties in which they have the largest interest. In the spirit of cooperation as we have done in the past, we would like to eliminate unnecessary hearings before the NMOCD. We therefore propose the following.

S. P. Yates and the Estate of Martin Yates III would designate a Yates entity as Operator of the NE/4 of Section 24, and Nearburg would agree not to oppose the compulsory pooling which would designate Yates as Operator of the 160-acre spacing unit for the Cisco-Canyon test. Yates agrees to diligently prosecute a pooling hearing and commence a Cisco-Canyon test at a location of 1980' FEL and 660' FNL of Section 24. Such well would be commenced as soon as possible under the order issued by the NMOCD or, in the event of voluntary agreement between the remaining working interest owners, would be commenced pursuant to the terms of a mutually acceptable joint Operating Agreement.

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Nearburg Producing Company would be designated Operator of the SW/4 of Section 13 with the Yates companies and Nearburg entering into a mutually acceptable Operating Agreement providing for the commencement of an 8300' Cisco-Canyon test at a location of 1980' FWL and 660' FSL of Section 13. Yates would advise the district NMOCD office in Artesia that it withdraws its existing permit to drill in the SW/4 SW/4 of said Section, thereby allowing Nearburg to obtain a permit for the aforesaid location.

Nearburg has ordered disposal lines laid to our recently drilled and completed Fairchild 24 #1 well located in the NW/4 of Section 24, and is agreeable to extending these lines to wells drilled by Yates in the NE/4 of Section 24 for the purpose of disposal of produced fluid.

In the alternative of the above settlement of the two compulsory pooling cases, we request that, at a minimum, the pooling hearing set for April 6 covering the SW/4 of Section 13 be postponed by both companies to the April 20 docket so one trip can be made, and the hearing examiner will only have to see the entire geologic picture one time. We believe this would help the NMOCD and save both companies a considerable amount of time and money.

Because we are both actively preparing for the April 6 hearing, I would appreciate your immediate response to this offer.

Again, thank you for your cooperation, and we look forward to your response.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Bob Shelton".

Bob Shelton
Consulting Landman

BS:kg

bxc: Mr. William J. LeMay
NMOCD