

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

December 2, 1997

UMC Petroleum Corporation
410 17th Street, Suite 1400
Denver, Colorado 80202
Attention: Laura B. Smith

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com. #3
Township 16 South, Range 35 East, NMPM
Section 2: 3300' FSL and 760' FWL
Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

*Case 11934, 11958, 11959
Exhibit #2
Yates Petr. Corp.
May 14, 1998*

RB/ljf
enclosure(s)

2 351 693 330

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
UMC Petroleum Corporation	
410 17th Street, Suite 1400	
Denver, Colorado 80202	
Post Office, State, & ZIP Code	
Attention: Laura B. Smith	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
Field APK State Com #3 2B/86	

PS Form 3800 April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to: UMC Petroleum Corporation 410 17th Street, Suite 1400 Denver, Colorado 80202 Attention: Laura B. Smith	4a. Article Number 2 351 693 330
5. Received By: (Print Name)	4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD
6. Signature: (Addressee or Agent) X <i>[Signature]</i>	7. Date of Delivery DEC 05 1997
	8. Addressee's Address (Only if requested and fee is paid) Field APK State Com #3 2B/86

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.



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

AUTHORITY FOR EXPENDITURE
 NEW DRILLING & RECOMPLETION

AFE NO. 97-343-0
 AFE DATE 11/26/97

AFE Type:		Well Objective:		Well Type:	
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Gas	<input type="checkbox"/> Development	<input checked="" type="checkbox"/> Exploratory
		<input type="checkbox"/> Injector			

AFE STATUS:

<input checked="" type="checkbox"/> Original	
<input type="checkbox"/> Revised	
<input type="checkbox"/> Final	

LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'
COUNTY	Lea	STATE	New Mexico
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E
FIELD		HORIZON	Morrow
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: _____

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc. - Completion		35,000
920-460	Tools & Equip. Rental, Etc. - Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		591,100	807,700

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
TOTAL TANGIBLE EQUIPMENT COSTS		66,100	405,500
TOTAL COSTS		657,200	1,213,200

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	AL SPRINGER	Operations Approval	
-------------	-------------	---------------------	--

OWNER

SHARE

BY	DATE	
BY	DATE	
BY	DATE	