

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

February 26, 1998

Ameristate Oil & Gas, Inc.  
Ameristate Exploration L.L.C.  
1211 W. Texas  
Midland, Texas 79701

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

RE: Fields 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 you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

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

Very truly yours,

**YATES PETROLEUM CORPORATION**

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 443 810 436

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Ameristate Oil & Gas, Inc.	
Street & Number	
Ameristate Exploration L.L.C.	
City, State & ZIP Code	
1211 W. Texas Midland, Texas 79701	
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 APR 5 1995 Com # 3 RB/4	

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:

Ameristate Oil & Gas, Inc.  
 Ameristate Exploration L.L.C.  
 1211 W. Texas  
 Midland, Texas 79701

4a. Article Number

Z 443 810 436

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

7. Date of Delivery

3/3

5. Received By: (Print Name)

Mark Nearburg

6. Signature: (Addressee or Agent)

*[Signature]*

8. Addressee's Address (Only if requested and fee is paid)

Field APR 5 1995  
Com # 3 RB/4

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 checked="" type="checkbox"/> Oil	<input type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input checked="" type="checkbox"/> Exploratory
	<input type="checkbox"/> Injector	

AFE STATUS:

Original  
 Revised  
 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>66,100</b>	<b>405,500</b>

**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	
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OWNER

SHARE

BY \_\_\_\_\_ DATE \_\_\_\_\_

BY \_\_\_\_\_ DATE \_\_\_\_\_

BY \_\_\_\_\_ DATE \_\_\_\_\_

BY \_\_\_\_\_ DATE \_\_\_\_\_