

June 4, 1990

Via Fax 915/687-7666

Chevron U.S.A., Inc.
P. O. Box 1150
Midland, TX 79702

Attn: Mickey F. Cohlma

Re: Thornbush Federal Com #1
SE/4SW/4 Section 1-18S-31E
Eddy County, NM

Gentlemen:

As you are aware, Yates Energy Corporation drilled the captioned well under Compulsory Pooling Order No. R-9093 to test the Bone Spring Formation. Chevron elected to be a non-consenting interest owner in the drilling of said well.

The well was drilled to a total depth of 9060 feet, and after extensive testing in the Bone Spring Formation, a CIBP has been set at 7,600 feet with the well completed in the San Andres Formation.

Yates Energy Corporation respectfully requests that Chevron agree to contractually amend the Compulsory Pooling Order No. 9093 to include all rights from the surface to the base of the Bone Spring Formation in said SE/4SW/4 of Section 1-18S-31E.

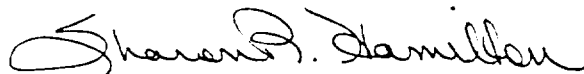
SEAL OF EXAMINER STOCKER	
OIL CONSERVATION DIVISION	
Yates Energy	EXHIBIT NO. 1
FILE NO.	9998

Chevron U.S.A., Inc.
June 4, 1990
Page 2

Your cooperation and prompt attention in this matter is greatly appreciated. Please indicate your agreement to this amendment by executing in the space provided, faxing a copy of this letter to 505/623-4947 at your earliest convenience. The original form of this letter will be sent by mail.

Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, reading "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

Agreed to this _____ day of June, 1990.

Chevron U.S.A., Inc.

By: _____

Title: _____

SRH/jj



RECEIVED JUN 13 1990
Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

Mickey F. Cohlma
Senior Land Representative

June 11, 1990

Thronbush Federal Com #1
SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 1, T-18-S,
R-31-E, Eddy County, New Mexico

Yates Energy Corporation
P. O. Box 2323
Roswell, New Mexico 88202

Attention: Sharon R. Hamilton

Gentlemen:

Pursuant to your letter of June 4, 1990 wherein you requested that Chevron amend contractually, OCD order R-9093 to allow the depths to include the San Andres formation, Chevron is not agreeable to granting your request in total.

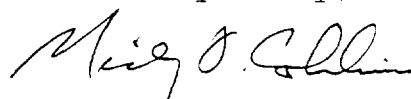
However, inasmuch as you did not have the San Andres covered under order 9093, but you elected to complete the well in the San Andres formation, the result being an apparant commercial oil well, Chevron would agree to have its rights remain pooled, but not subject to a 300% provision, 200% penalty.

Chevron feels that by the act of completion in the San Andres zone without authorization from the working interest owners, that you have removed any risk, and therefore, the need for a risk penalty. Therefore, Chevron would agree to remain pooled until the well has reached payout based on costs associated with drilling and completing the well from the surface to the San Andres formation, and only as to 100% of such costs.

If this is not acceptable, then Chevron suggests that you ballot the parties for a new election as if a new well proposal inasmuch as you were not authorized to complete a well in the San Andres.

Should you have any questions or wish to further discuss the matter, please call me at 915-687-7158.

Yours very truly,


Mickey F. Cohlma

MFC:lt



Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

RECEIVED JUL 23 1990

Mickey F. Cohlma
Senior Land Representative

July 18, 1990

Re: Thornbush Federal #1
SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 1,
T-18-S, R-31-E,
Eddy County, New Mexico

Yates Energy Corporation
P. O. Box 2323
Roswell, New Mexico 88202

Attention: Sharon R. Hamilton

Dear Ms. Hamilton:

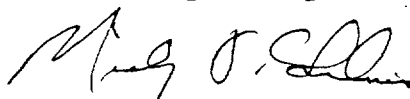
Chevron U.S.A. Inc. herein elects to join you in the recent completion of the captioned well in the San Andres zone. Chevron's cost will be computed on the basis of related costs from the surface to the San Andres including completion in the zone but minus costs of drilling from the San Andres to the Bone Spring.

As you are aware, pooling order R-9093 pooled Chevron's interest only in the Bone Spring formation. Your election to complete the well in the San Andres constitutes a new proposal and entitles Chevron to share in the production from the San Andres.

Of course, Chevron's willingness to join and pay its proportionate share of actual costs for the San Andres completion is subject to our review and acceptance of the actual costs for drilling to the San Andres and related completion excluding costs of drilling from the San Andres to the Bone Spring, and the related plugback costs. Further, our offer to join is subject to negotiating an acceptable Joint Operating Agreement, and your termination of the application to amend OCD order R-9093.

If you have any questions, please call me at 915-687-7158.

Yours very truly,



Mickey F. Cohlma

MFC:sdt



Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

RECEIVED JUN 26 1990

Mickey F. Cohlma
Senior Land Representative

June 22, 1990

Re: Thornbush Federal #1
SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 1,
T-18-S, R-31-E, Eddy
County, New Mexico

Yates Energy Corporation
P. O. Box 2323
Roswell, New Mexico 88202

Attention: Ms. Sharon R. Hamilton

Gentlemen:

Chevron U.S.A. Inc., subject to receipt of final management approval, herein offer an alternative proposal to our letter of June 11, 1990 concerning the captioned:

Farmout Acreage: Chevron's oil and gas operating rights in the SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 1, T-18-S, R-31-E, Eddy County, New Mexico, limited in depth from the surface to the lesser of the following: (1) 50' below the deepest producing perforations (2) the base of the deepest formation found to be productive in the Thornbush Federal #1, (3) the base of the San Andres formation, or (4) 5500'.

Interest Earned: For having completed the Thornbush Federal #1 as a commercial oil producer, rights earned would include Chevron's oil and gas operating rights in the 40 acre proration unit designated for the said well and subject to the depth limitations above written.

Interest Retained by Chevron: A 7.50% of 8/8ths overriding royalty or the difference between 25% and existing lease burdens, whichever is greater, with the option upon payout of the Thornbush Federal #1, to convert the override to a 50% working interest. Both the override and working interest is proportionately reduced as to Chevron's 25% leasehold interest.

Subject to your acceptance of this offer by so indicating in


June 22, 1990

the space below provided and returning a signed copy of this letter to the letterhead address, and subject to receipt of Chevron's final management approval, our formal Farmout Agreement, including an Assignment of earned rights, will be forwarded for your execution.

This offer may be withdrawn without notice if not accepted within fifteen days from the date hereon.

If you have any questions, please call me at 915-687-7158.

Yours very truly,


Mickey F. Cohlmi

MFC:sdt

AGREED TO AND ACCEPTED THIS
_____ DAY OF _____, 1990

YATES ENERGY CORPORATION

BY: _____