

Letter Summary to all owners

8-29-90 Proposed well, submitted AFE's and geology. Submitted JOA's to all owners, except HEYCO.

9-12-90 Letter sent to all owners requesting Farmout.

10-30-90 Letter to HEYCO giving additional time to elect to participate. (proposal made 8-29-90, 60 day response due 10-28-90)

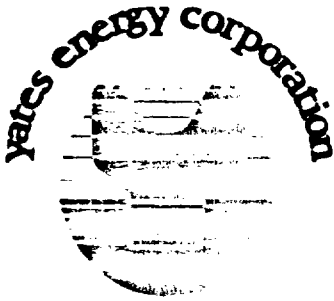
1-3-91 Padilla & Snyder filed Compulsory Pooling application on behalf of YEC, notice sent to all working interest owners.

1-3-91 Telephone call from Chevron to discuss possible Farmout terms, Letter sent proposing terms to Chevron. No response.

1-4-91 Letter to HEYCO notifying them that they failed to timely respond to exploratory well proposal, therefore subject to automatic farmout provisions.

1

WILLIAM MORROW	
FARMOUT DIVISION	
YEC	6
10217	



August 29, 1990

Chevron USA, Inc.
P. O. Box 1150
Midland, Texas 79702

Re: Prickly Pear Federal #2
SW/4NW/4 Section 12-18S-31E
Eddy County, NM

Gentlemen:

Yates Energy Corporation proposes to drill the captioned well at a legal location to a depth of 5,500 feet to test the Delaware/Grayburg Formations. Enclosed please find two forms of our AFE, and a copy of the geological summary prepared by Bill Baker, Jr., Chief Geologist.

As you aware, the Prickly Pear Federal #1 is located in the NE/4NW/4 of said Section 12 and is currently being drilled under Compulsory Pooling Order No. R-9214 with your interest in a non-consent position. Yates Energy Corporation originally submitted the Prickly Pear Prospect Operating Agreement dated March 9, 1990 for your execution. We again submit said operating agreement for your acceptance, Exhibit "A" will be amended to reflect separate contract areas upon your execution.

Should you elect to participate in the drilling of the captioned well, please sign, date and return one copy of the enclosed AFE to the undersigned within 30 days from receipt. In the event you do not wish to participate in the drilling of said well, we would appreciate the opportunity to discuss this matter with you or negotiate a possible farmout. Therefore, your prompt attention in this matter is appreciated.

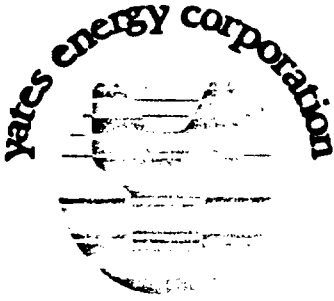
Yours very truly,

YATES ENERGY CORPORATION

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

Sharon R. Hamilton
Landman

SRH/jj
Enclosures



August 29, 1990

W. T. Wynn
1603 W. Dengar
Midland, Texas 79705

Re: Prickly Pear Federal #2
SW/4NW/4 Section 12-18S-31E
Eddy County, NM

Dear Mr. Wynn:

Yates Energy Corporation proposes to drill the captioned well at a legal location to a depth of 5,500 feet to test the Delaware/Grayburg Formations. Enclosed please find two forms of our AFE, and a copy of the geological summary prepared by Bill Baker, Jr., Chief Geologist.

As you aware, the Prickly Pear Federal #1 is located in the NE/4NW/4 of said Section 12 and is currently being drilled under Compulsory Pooling Order No. R-9214 with your interest in a non-consent position. Yates Energy Corporation originally submitted the Prickly Pear Prospect Operating Agreement dated March 9, 1990 for your execution. We again submit said operating agreement for your acceptance, Exhibit "A" will be amended to reflect separate contract areas upon your execution.

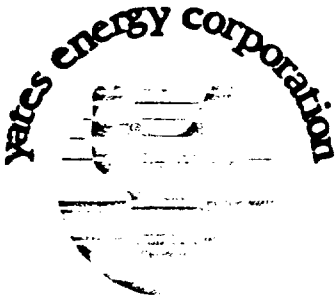
Should you elect to participate in the drilling of the captioned well, please sign, date and return one copy of the enclosed AFE to the undersigned within 30 days from receipt. In the event you do not wish to participate in the drilling of said well, we would appreciate the opportunity to discuss this matter with you or negotiate a possible farmout. Therefore, your prompt attention in this matter is appreciated.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj
Enclosures



August 29, 1990

HAND DELIVERED

Explorers Petroleum Corporation
Spiral, Inc.
HEYCO Employees, Ltd.
P. O. Box 1933
Roswell, NM 88202-1933

Re: Prickly Pear Federal #2
SW/4NW/4 Section 12-18S-31E
Eddy County, NM

Gentlemen:

Yates Energy Corporation proposes to drill the captioned well at a legal location to a depth of 5,500 feet to test the Delaware/Grayburg Formations. Enclosed please find two forms of our AFE, and a copy of the geological summary prepared by Bill Baker, Jr., Chief Geologist.

As you aware, the Prickly Pear Federal #1 is located in the NE/4NW/4 of said Section 12 and is currently being drilled under Compulsory Pooling Order No. R-9214 with your interest in a non-consent position. Yates Energy Corporation originally submitted the Prickly Pear Prospect Operating Agreement dated March 9, 1990 for your execution. We again submit said operating agreement for your acceptance, Exhibit "A" will be amended to reflect separate contract areas upon your execution.

Should you elect to participate in the drilling of the captioned well, please sign, date and return one copy of the enclosed AFE to the undersigned within 30 days from receipt. In the event you do not wish to participate in the drilling of said well, we would appreciate the opportunity to discuss this matter with you or negotiate a possible farmout. Therefore, your prompt attention in this matter is appreciated.

Yours very truly,

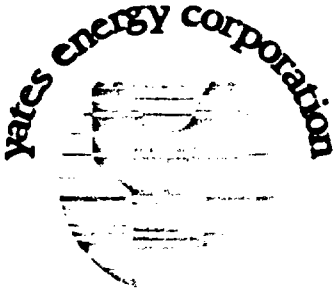
YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj

Enclosures

P.O. Box 2323, Sunwest Centre, Suite 1010, Roswell, New Mexico 88202 [505] 623-4935 - Fax [505] 623-4947



August 29, 1990

HAND DELIVERED

HEYCO Development Corporation
P. O. Box 1933
Roswell, New Mexico 88202-1933

Attention: Shari A. Darr

Re: Prickly Pear Federal #2
SW/4NW/4 Section 12-18S-31E
Eddy County, NM

Gentlemen:

Yates Energy Corporation herein proposes to drill the captioned well as an exploratory well pursuant to the terms of the Operating Agreement which was attached as Exhibit "3" to the Option Agreement For Corporate Separation. Said well to be drilled at a legal location to a depth of approximately 5,500' to test the Delaware/Grayburg Formations. This well is located within our existing Prickly Pear Prospect contract area which covers the N/2 of said Section 12. Enclosed for your review please find two forms of our AFE, and a copy of the geological summary prepared by Bill Baker, Jr., Chief Geologist.

Should you elect to participate in the drilling of the captioned well, please sign, date and return one copy of the enclosed AFE to the undersigned within 60 days from receipt, or be subject to the automatic farmout provision of the aforementioned Operating Agreement. Should you wish to discuss this matter, please feel free to contact our office.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj
Enclosures



September 12, 1990

Mr. W. T. Wynn
1603 W. Dengar
Midland, Texas 79702

Re: Prickly Pear Federal Prospect
Section 12: SW/4NW/4, NW/4NW/4,
NE/4NW/4, NW/4NE/4,
NE/4NE/4, SE/4NE/4
Rights from surface to Base of
Delaware formation,
Section 12: SE/4NW/4, SW/4NE/4
Rights from surface to 3595'
Township 18 South, Range 31 East
Eddy County, NM

Dear Mr. Wynn:

In response to your letter of September 1, 1990, we respectfully request your consideration of a farmout covering all of your interest in the N/2 of Section 12, excepting the NE/4NW/4. Our proposed terms would include delivery of a 78% NRI with no reversionary interest, drill to earn with 180 day continuous development, earning 100 feet below total depth. The initial earning well would be the Prickly Pear Federal #2 in the SW/4NW/4 to be drilled by February 24, 1991.

Yates Energy Corporation wishes to pursue a continuous drilling program in this prospect area. As we have been unable to obtain consent from all owners concerning their participation in said drilling, we feel a farmout would allow us the opportunity to plan a development drilling program without the delays of compulsory pooling proceedings.

Your favorable consideration of this proposal is appreciated. We would welcome the opportunity to discuss this proposal with you at your convenience.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj



September 12, 1990

VIA FAX (915) 687-7666

Chevron USA, Inc.
P. O. Box 1150
Midland, Texas 79702

Attention: Mickey F. Cohlma

Re: Prickly Pear Federal Prospect
Section 12: SW/4NW/4, NW/4NW/4,
NE/4NW/4, NW/4NE/4,
NE/4NE/4, SE/4NE/4
Rights from surface to Base of
Delaware formation,
Section 12: SE/4NW/4, SW/4NE/4
Rights from surface to 3595'
Township 18 South, Range 31 East
Eddy County, NM

Gentlemen:

As you are aware, Yates Energy Corporation has drilled and is currently attempting completion of the Prickly Pear Federal #1 well in the NE/4NW/4 of said Section 12. We have also proposed the drilling of the Prickly Pear Federal #2 well in the SW/4NW/4 of Section 12. To date we have had no response from you concerning this well proposal.

We respectfully request your consideration of a farmout covering all of your interest in the N/2 of Section 12, excepting the NE/4NW/4. Our proposed terms would include delivery of a 78% NRI with no reversionary interest, drill to earn with 180 day continuous development, earning 100 feet below total depth. The initial earning well would be the Prickly Pear Federal #2 in the SW/4NW/4 to be drilled by February 24, 1991.

Chevron USA, Inc.
Mickey F. Cohlma
September 12, 1990
Page 2

Yates Energy Corporation wishes to pursue a continuous drilling program in this prospect area. As we have been unable to obtain consent from all owners concerning their participation in said drilling, we feel a farmout would allow us the opportunity to plan a development drilling program without the delays of compulsory pooling proceedings.

Your favorable consideration of this proposal is appreciated. We would welcome the opportunity to discuss this proposal with you at your convenience.

Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, appearing to read "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

SRH/jj



September 12, 1990

HAND DELIVERED

HEYCO Development Corporation
Spiral, Inc.
Explorers Petroleum Corporation
HEYCO Employees, Ltd.
P. O. Box 1933
Roswell, New Mexico 88202-1933

Attention: Shari A. Darr

Re: Prickly Pear Federal Prospect
Section 12: SW/4NW/4, NW/4NW/4,
NE/4NW/4, NW/4NE/4,
NE/4NE/4, SE/4NE/4
Rights from surface to Base of
Delaware formation,
Section 12: SE/4NW/4, SW/4NE/4
Rights from surface to 3595'
Township 18 South, Range 31 East
Eddy County, NM

Gentlemen:

As you are aware, Yates Energy Corporation has drilled and is currently attempting completion of the Prickly Pear Federal #1 well in the NE/4NW/4 of said Section 12. We have also proposed the drilling of the Prickly Pear Federal #2 well in the SW/4NW/4 of Section 12. To date we have had no response from you concerning this well proposal.

We respectfully request your consideration of a farmout covering all of the interest of the addressees in the N/2 of Section 12, excepting the NE/4NW/4. Our proposed terms would include delivery of a 78% NRI with no reversionary interest, drill to earn with 180 day continuous development, earning 100 feet below total depth. The initial earning well would be the Prickly Pear Federal #2 in the SW/4NW/4 to be drilled by February 24, 1991.

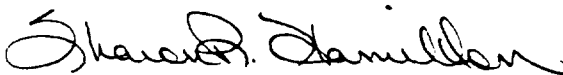
HEYCO Development Corporation, et al,
September 12, 1990
Page 2

Yates Energy Corporation wishes to pursue a continuous drilling program in this prospect area. As we have been unable to obtain consent from all owners concerning their participation in said drilling, we feel a farmout would allow us the opportunity to plan a development drilling program without the delays of compulsory pooling proceedings.

Your favorable consideration of this proposal is appreciated. We would welcome the opportunity to discuss this proposal with you at your convenience.

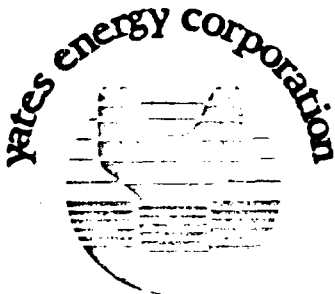
Yours very truly,

YATES ENERGY CORPORATION

A handwritten signature in cursive script, appearing to read "Sharon R. Hamilton".

Sharon R. Hamilton
Landman

SRH/jj



October 30, 1990

HAND DELIVERED

Harvey E. Yates Company
HEYCO Development Corporation
P. O. Box 1933
Roswell, New Mexico 88202

Attention: Shari A. Darr

Re: Prickly Pear Federal #2
SW/4NW/4 Section 12-18S-31E
Eddy County, New Mexico

Gentlemen:

As you are aware, under letter dated March 9, 1990, YECO proposed the drilling of the Prickly Pear Federal #1 well in the NE/4NW/4 of said Section 12. The contract area established by our Joint Operating Agreement dated March 9, 1990 covered the N/2 of said Section 12, with specified depth limitations. HEYCO did not sign said Operating Agreement, but did participate in the drilling and subsequent completion of the Prickly Pear Federal #1 well.

HEYCO has continued to refuse to acknowledge the N/2 of Section 12 as the established contract area for YECO's Prickly Pear Prospect, and has made no election concerning our proposal, under letter dated August 29, 1990, to drill the Prickly Pear Federal #2 as an exploratory well pursuant to the terms of the master spin-off agreement. The sixty day election period under said spin-off agreement has now expired.

Please be advised that YECO will give HEYCO an additional forty-eight (48) hour response period after receipt of this notice to elect one of the following:

1. To participate in the drilling of the Prickly Pear Federal #2 well by execution of the AFE previously submitted; or
2. Agree to be subject to the automatic farmout provisions of the master spin-off agreement pursuant to the exploratory well provisions under Article VI.B.2(b), and agree to execute such documents as may be required thereunder; or
3. Agree to arbitration.

Harvey E. Yates Company
HEYCO Development Corporation
October 30, 1990
Page 2

We would propose that if you elect arbitration, that said process to be commenced by November 15, 1990 and end December 1, 1990. We further propose that the ground rules for said arbitration be agreed upon by supplemental agreement not later than one week from the date hereof. Said arbitration to determine the actual contract area to be in effect for said Prickly Pear Prospect.

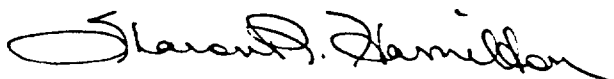
If arbitration is entered into, YECO would require that the time requirements involved for the commencement of drilling operations for the Prickly Pear Federal #2 well be delayed accordingly while we are involved in said arbitration process.

In the event HEYCO does not respond within the forty-eight hour election period, or agree to arbitration, then YECO will be forced to have a third party resolve this issue. In the space provided below, please indicate your election as presented herein, returning one form of this letter to our office within forty-eight hours of its receipt.

Your immediate attention in this matter is appreciated.

Yours very truly,

YATES ENERGY CORPORATION



Sharon R. Hamilton
Landman

SRH/jj

- _____ Elect to participate in the drilling of the Prickly Pear Federal #2 well, executed AFE attached hereto.
- _____ Agree to be subject to the automatic farmout provisions of the master spin-off agreement pursuant to the exploratory well provisions under Article VI.B.2(b), and agree to execute such documents as may be required thereunder.
- _____ Agree to enter into arbitration on or before November 15, 1990.

HARVEY E. YATES COMPANY, a/k/a
HEYCO DEVELOPMENT CORPORATION

By: _____

Date: _____

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND
NATURAL RESOURCES

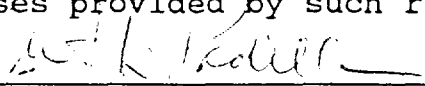
IN THE MATTER OF THE APPLICATION
OF YATES ENERGY CORPORATION FOR
COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO

CASE NO. 10217

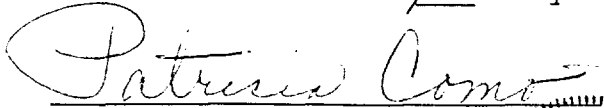
AFFIDAVIT

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

ERNEST L. PADILLA, attorney in fact and authorized representative of Yates Energy Corporation, the Applicant herein, being first duly sworn, upon oath, states that the notice provisions of Rule 1207 of the New Mexico Oil Conservation Division have been complied with, that Applicant has caused to be conducted in good faith diligent effort to find the correct addresses of all interested persons entitled to receive notice as shown by Exhibit "A" attached hereto, and that pursuant to Rule 1207, notice has been given at the correct addresses provided by such rule.

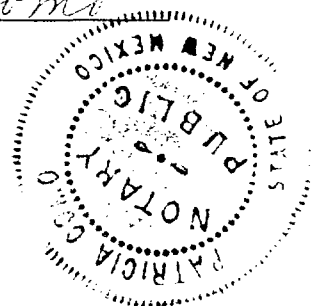

Ernest L. Padilla

SUBSCRIBED AND SWORN to before me this 18th day of January, 1991.


Notary Public

My commission expires:

March 18, 1991



PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 216

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

December 31, 1990

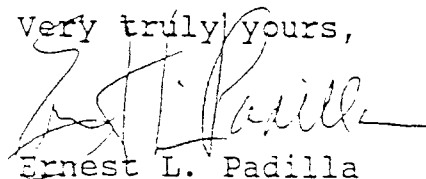
CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO: ALL OFFSETTING OPERATORS AND NON-CONSENTING
WORKING INTEREST OWNERS (See attached list)

RE: Notice of Application For Compulsory Pooling of
Prickly Pear Federal #2 Well

Pursuant to the Rules and Regulations of the General Rules of the Oil Conservation Division of New Mexico, notice is hereby given of the above-referenced application. You may protest the enclosed application by appearing at the hearing of this application which will be heard on January 24, 1991, beginning at the hour of 8:15 a.m., at the offices of the Oil Conservation Division, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico.

Very truly yours,



Ernest L. Padilla

ELP:pmc

Enclosures: Copy of Application
List of Non-Consenting Working Interest Owners

WORKING INTEREST OWNERS

Heyco Development Corporation
P. O. Box 1933
Roswell, New Mexico 88202

Heyco Employees, Ltd.
P. O. Box 1933
Roswell, New Mexico 88202

Explorers Petroleum Corporation
P. O. Box 1933
Roswell, New Mexico 88202

Spiral, Inc.
P. O. Box 1933
Roswell, New Mexico 88202

W. T. Wynn
1603 West Dengar
Midland, Texas 79705

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

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: <i>Spiral, Inc</i> <i>P.O. Box 1933</i> <i>Roswell, NM</i> <i>88202</i>	4. Article Number <i>1572-125-650</i>
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .	
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>Sharon Hume</i>	
7. Date of Delivery <i>1-2-91</i>	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: <i>Explorers Petroleum</i> <i>P.O. Box 1933</i> <i>Roswell, NM 88202</i>	4. Article Number <i>1561-866-204</i>
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .	
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>Sharon Hume</i>	
7. Date of Delivery <i>1-2-91</i>	

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1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: <i>Hayco Employee</i> <i>P.O. Box 1933</i> <i>Roswell, NM 88202</i>	4. Article Number <i>1561-866-305</i>
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .	
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>Sharon Hume</i>	
7. Date of Delivery <i>1-2-91</i>	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

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1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:
*20400 Development Corp.
P.O. Box 1933
Houston, TX 77202*

4. Article Number
1155-277-944

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Address
X

6. Signature — Agent
X *Alain M...*

7. Date of Delivery
1-2-91

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

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:
*W.T. Wynn
1603 West Denzel
Midland, TX 79705*

4. Article Number
1155-277-651

Type of Service:
☐ Registered ☐ Insured
☐ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Address
X *Mrs. W.T. Wynn*

6. Signature — Agent
X

7. Date of Delivery
1-2-91

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

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:
*Cummins, TERA, Inc.
P.O. Box 1120
Midland, Texas 79705*

4. Article Number
1155-277-943

Type of Service:
☒ Registered ☐ Insured
☐ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Address
X

6. Signature — Agent
X *W. Miller*

7. Date of Delivery
1/2/91

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

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT



January 3, 1991

VIA FAX (915) 687-7666

Chevron USA, Inc.
P. O. Box 1150
Midland, Texas 79702

Attention: Sam H. Martin

Re: Thornbush Prospect
All of Section 1-18S-31E
Prickly Pear Prospect
N/2 Section 12-18S-31E
Eddy County, New Mexico

Gentlemen:

Pursuant to our telephone conversation this date, please be advised that Yates Energy would accept the farmout terms proposed by Chevron, with Chevron retaining a 12.5% ORI before payout delivering a 75% NRI lease and converting to a 17.5% ORI after payout delivering a 70% NRI lease. Yates Energy would request the following lands to be covered by said farmout:

Township 18 South, Range 31 East, N.M.P.M.

Section 1: S/2 (covering all depths)
Section 12: SW/4NW/4, NW/4NW/4, NE/4NW/4,
NW/4NE/4, NE/4NE/4, SE/4NE/4
(covering rights from surface to the
Base of the Delaware Formation)
Section 12: SE/4NW/4, SW/4NE/4
(covering rights from surface to 3595')

Additional terms would include:

1. Drill to earn provision
2. Rights earned to 100 feet below total depth drilled


Chevron USA, Inc.
January 1, 1991
Page 2

3. 180 days between wells, with time to be cumulative.

In the event Chevron agrees to said farmout terms, a formal agreement will be prepared for execution. Your prompt attention and assistance in this request is appreciated.

Yours very truly,

YATES ENERGY CORPORATION


Sharon R. Hamilton
Landman

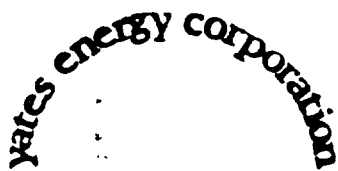
SRH/jj

AGREED TO AND ACCEPTED THIS ____ day of January, 1991

CHEVRON USA, INC.

By: _____

Title: _____



January 4, 1991

HAND DELIVERED

Harvey E. Yates Company, Operator
West Taylor Shallow Working Interest Area
Joint Operating Agreement
P. O. Box 1933
Roswell, New Mexico 88202-1933

Attention: Ms. Shari Darr

Gentlemen:

Harvey E. Yates Company (HEYCO) and Yates Energy Corporation (YEC) are parties to that certain Option Agreement for Corporate Separation dated June 3, 1982 ("Spin-Off Agreement"). Pursuant to Operation and Development Agreement attached as Exhibit "II" to the Spin-Off Agreement, on March 9, 1990 YEC proposed its Prickly Pear Federal No. 1 Well in NE/4NW/4 Section 12, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico and its Prickly Pear Prospect covering N/2 of said Section 12, down to the base of the Delaware formation ("Prickly Pear Contract Area"). YEC therefore became operator of the well and prospect under the terms of the Operation and Development Agreement and, upon HEYCO's refusal to sign the tendered Joint Operating Agreement, the joint operations of the parties on the prospect became subject to the terms of the Operating Agreement ("Spin-Off Operating Agreement") attached as Exhibit "3" to the Operation and Development Agreement.

The Spin-Off Operating Agreement is the valid and subsisting operating agreement as to joint operations of YEC and HEYCO on the Prickly Pear Contract Area. HEYCO has proposed formation of the West Taylor Shallow Working Interest Area under Operating Agreement dated July 19, 1990 ("West Taylor Shallow Operating Agreement") covering, among other lands, S/2NW/4 Section 12 of the Prickly Pear Contract Area. The West Taylor Shallow Operating Agreement is void insofar as it purports to cover operations on S/2NW/4 of said Section 12 ("Overlap Tract").

On August 29, 1990 YEC proposed to HEYCO its Prickly Pear Federal #2 Well in SW/4NW/4 Section 12 under the Spin-Off Operating Agreement. This well is an Exploratory Well under the terms of the Spin-Off Operating Agreement. HEYCO failed to timely respond to the well proposal for this well and therefore under

Harvey E. Yates Company
Attention: Shari A. Darr
January 4, 1991
Page 2

the Spin-Off Operating Agreement, HEYCO is deemed to have farmed out to YEC its leasehold interest in the Overlap Tract. Upon commencement of operations for the drilling of the Prickly Pear Federal #2 Well, HEYCO shall be deemed to have relinquished to YEC its entire interest in the well and proration unit upon which it is located and 3/4 of its interest in the remainder of the Prickly Pear Contract Area, reserving from the well and proration unit upon which it is situated a 1/16 proportionately reduced total overriding royalty convertible at 7:00 A.M. on the day following Payout to 1/4 of the original leasehold interest of HEYCO in the well and proration unit.

Therefore, please take notice that (i) HEYCO cannot contribute its leasehold interest in the Overlap Tract to the West Taylor Shallow Operating Agreement and (ii) HEYCO's leasehold interest in the Overlap Tract is currently subject to farmout and partial relinquishment to YEC in the manner set forth in the Spin-Off Operating Agreement.

Yours very truly,

YATES ENERGY CORPORATION

Fred G. Yates
President

FGY/jj