

RIO PECOS CORPORATION

110 WEST LOUISIANA, SUITE 460

MIDLAND, TEXAS 79701

(915) 687-0127

LAND

SCOTT E. WILSON

ROBERT ELLIOTT

GEOLOGY

MARK D. WILSON

TODD M. WILSON

HEATHER WILSON ECHOLS

June 30, 1987

TO: WORKING INTEREST OWNERS IN THE PROPOSED CASEY-EAST STRAWN WORKING INTEREST UNIT
(Addressee List Attached)

RE: Proposed Casey-East Strawn Working Interest Unit
Township 16 South, Range 37 East, N.M.P.M.
Section 26: S/2
containing 320.00 acres, more or less,
Lea County, New Mexico
(See Attached Plat)

Gentlemen:

On behalf of Yates Petroleum Corporation, we propose the formation of the Casey-East Strawn Working Interest Unit for the drilling of an Initial Test Well at a location 2400' FSL & 1850' FEL of Section 26, T16S, R37E, to a depth sufficient to adequately test the Strawn formation (the Objective Depth), which depth is estimated to be 11,800 feet. The W/2 SE/4 Section 26 will be the proration unit for Strawn oil production. Enclosed in duplicate is an AFE for the drilling of the well.

We invite each Working Interest Owner to participate in the drilling of the Initial Test Well, deliver a 75% net revenue interest leasehold for \$300.00 per net mineral acre, or farm out subject to the following terms and conditions:

1. On or before 90 days after the execution of an operating agreement, the Operator shall commence the drilling of the Initial Test Well.
2. If mechanical or other difficulties render further drilling of the Initial Test Well impractical, any Drilling Party (a party who agrees to join in and pay its share of the cost of an operation) may propose within 30 days after the Initial Test Well is abandoned the drilling of a Substitute Test Well to the Objective Depth at a location mutually acceptable to the participating parties.

If the Initial Test Well or Substitute Test Well is completed to the Objective Depth as a dry hole, any Drilling Party may propose within 90 days after the last of these wells is completed the drilling of an Optional Test Well at a lawful location mutually acceptable to the participating parties.

YATES PETROLEUM CORPORATION
Case No. 9181
7/29/87 Examiner Hearing
Exhibit No. 4

Any Drilling Party electing not to participate in the cost of drilling the Substitute or Optional Test Well shall be deemed to have farmed out proportionately to the parties participating in the cost of drilling the well its interest in the working interest unit upon the same basis as the Contributing Parties (those farming out for the Initial Test Well). Should a party paying for all or part of the Contributing Parties' share of the Initial Test Well not wish to participate in the cost of drilling the Substitute or Optional Test Well, it shall be deemed to have relinquished proportionally to the parties participating in the cost of drilling the well the interest it would have been entitled to earn in the working interest unit.

3. With regard to acreage farmed out, if the Initial, Substitute or Optional Test Well is completed as a producer, we shall earn all of a Contributing Party's present interest in the proration unit initially assigned to the well by the New Mexico Oil Conservation Division, and an undivided 75% of the Contributing Party's present interest in the balance of the working interest unit. A Contributing Party, in proportion to its interest in the working interest unit, will reserve from the proration unit an overriding royalty equal to the difference between 25% and the average burdens on the proration unit. After payout of a well completed as a producer, a Contributing Party shall have the option to convert its reserved overriding royalty into a working interest equal to 25% of its present interest as to the proration unit. The rights earned would be from the surface to the stratigraphic equivalent of the total depth drilled in the earning well.
4. The above items and conditions will be incorporated into a 1977 A.A.P.L. Form 610 Operating Agreement. Together with any other changes that may be agreed to, the operating agreement will provide for (a) a 300% non-consent penalty, (b) no maintenance of uniform ownership, (c) no preferential right to purchase, and (d) a gas balancing agreement.

Each Owner's net acreage and percentage ownership of the Casey-East Strawn Working Interest Unit is listed in Exhibit "A" attached. For verification, please refer to Exhibit "A-1", Present Ownership of Unitized Rights and Basic Lease Data, which is also attached. Please inform us of any discrepancies you may find.

We request that you support unitizing the S/2 of Section 26 because the mineral and leasehold ownership is basically the same and the drilling of subsequent wells in the S/2 Section 26 will be facilitated. Since time is of the essence, we are scheduling a hearing before the NMOCD for approval of the well location which is unorthodox and approval of compulsory pooling of the proration unit for the well which is the W/2 SE/4 Section 26, T16S, R37E.

Please let us hear from you soon. Thank you.

Very truly yours,

RIO PECOS CORPORATION

By: Scott E. Wilson
Scott E. Wilson, Vice President

ADDRESSEE LIST

Proposed Casey-East Strawn Working Interest Unit
S/2 Section 26, T-16-S, R-37-E, NMPM
Lea County, New Mexico

Yates Group
207 South 4th Street
Artesia, New Mexico 88210
Attn: Mr. Ken Beardemphl

Inexco Oil Company
c/o The Louisiana Land and Exploration
2950 N. Loop West, Suite 1200
Houston, Texas 77092-8862
Attn: Mr. Ken Steer

EP Operating Company
ClayDesta National Bank, Suite 5250
6 Desta Drive
Midland, Texas 79705
Attn: Mr. Jarlon Magee

Nitram Enterprises, Inc.
P. O. Box 3341
Midland, Texas 79702

Mr. Robert L. Haynie
1580 Lincoln, Suite 400
Denver, Colorado 80203

Mesa Operating Limited Partnership
P. O. Box 2009
Amarillo, Texas 79189-2009
Attn: Mr. Mark Seale

H. L. Brown, Jr.
P. O. Box 2237
Midland, Texas 79702
Attn: Mr. James P. Shaw

Standard Oil Production Company
5400 LBJ Freeway
Dallas, Texas 75240
Attn: Ms. Dianne Tripp

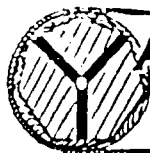
Exhibit "A"

CASEY-EAST STRAWN WORKING INTEREST UNIT

S/2 Section 26, T-16-S, R-37-E,
Lea County, New Mexico

<u>Working Interest Owners</u>	<u>Net Acres</u>	<u>% of Unit</u>
Yates Group*	238.99270	74.68522%
Inexco Oil Company	68.46355	21.39486%
EP Operating Company	3.35000	1.04687%
Nitram Enterprises, Inc.	3.00000	.93750%
Robert L. Haynie	2.50000	.78125%
Mesa Operating Limited Partnership	2.15625	.67383%
H. L. Brown, Jr.	1.43750	.44922%
Standard Oil Production Company	<u>.10000</u>	<u>.03125%</u>
Totals:	320.00000	100.00000%

*The Yates Group consists of Yates Petroleum Corporation (1/4), Yates Drilling Company (1/4), MYCO Industries, Inc. (1/4), and Abo Petroleum Corporation (1/4).



**YATES
PETROLEUM
CORPORATION**

207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

AUTHORITY FOR EXPENDITURE

APE # 87-064-0
REVISION #
DATE 6-26-87

LEASE NAME Burton AER Com #1
COUNTY Lea STATE New Mexico
HORIZON Strawn EST. T. D. 11800'
EST. COMPLETION DATE _____

LOCATION 2400' / S & 1850' / E, Sec. 26-16-37
FIELD _____
EST. SPUD DATE _____
DRILLING CONTRACTOR _____

PRIMARY OBJECTIVE: ☒ OIL ☐ GAS ☐ OIL AND/OR GAS
PURPOSE : ☒ DRILLING-NEW ☐ RECOMPLETION ☐ OTHER (SUPPLEMENTAL APE, ETC.)
TYPE WELL : ☒ DEVELOPMENT ☐ EXPLORATION

INTANGIBLE COSTS:

		DRY HOLE	COMPLETION
9210	STAKING PERMIT & LEGAL FEES	\$ 900	\$ 900
9211	LOCATION, RIGHT-OF-WAY	16000	16000
9212	DRILLING, FOOTAGE <u>11800'</u> @ <u>\$10.45/ft</u>	123310	123310
9213	DRILLING, DAYWORK <u>6 days</u> @ <u>\$3850/day</u>	23100	23100
9214	DRILLING WATER	12000	12000
9215	DRILLING MUD & ADDITIVES	24000	24000
9216	MUD LOGGING UNIT	7200	7200
9217	SURFACE & INT. CEMENT, CSG., TOOLS & SERVICES	25000	25000
9218	DRILL STEM TESTING	7800	7800
9219	ELECTRIC LOGS - OPEN HOLE	15000	15000
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING	7200	7200
9221	SUPERVISION & OVERHEAD	15000	15000
9223	CORING, TOOLS & SERVICES	--	--
9224	BITS, TOOLS & SUPPLIES	300	300
9235	PRODUCTION CEMENT, CASING, TOOLS & SERVICES	--	15500
9222	CONTINGENCY	27000	29000
9241	COMPLETION UNIT	--	9000
9242	WATER FOR COMPLETION	--	1000
9243	MUD ADDITIVES FOR COMPLETION	--	500
9244	CEMENT, TOOLS, SERVICES & TEMP. SURV. FOR COMP.	--	3500
9245	ELECTRIC LOGS, PERFORATION TEST FOR COMPLETION	--	3000
9246	TOOLS, TRUCK, WELD. & EQUIP. RENTAL FOR COMP.	--	3000
9247	STIMULATION - COMPLETION	--	10000
9248	SUPERVISION & OVERHEAD - COMPLETION	--	4000
9249	ADDT'L LOCATION, ROAD WORK & SURFACE DAMAGES	--	2000
9251	BITS, TOOLS, ETC. PURCHASED FOR COMPLETION	--	1000
9250	CONTINGENCY - COMPLETION	--	4000
	TOTAL INTANGIBLES	304310	367310

EQUIPMENT COSTS:

9301	CHRISTMAS TREE AND WELL HEAD	1500	7500
9302	CASING <u>13-3/8" H-40 @450'</u>	6200	6200
9302	<u>8-5/8" J-55 32# @4300'</u>	31400	31400
9302	<u>5-1/2" N-80 17# & 20# @11800'</u>	--	77400
9303	TUBING <u>2-7/8" 6.5# J-55 @11700'</u>	--	32000
9304	PACKER & SPECIAL EQUIPMENT	--	--
9350	CONTINGENCY	1900	7500
	WELL EQUIPMENT	41000	162000

LEASE & BATTERY EQUIPMENT COSTS:

9401	PUMPING EQUIPMENT	--	75000
9402	STORAGE <u>2-210b. welded tank w/walkway+stair</u>	--	12000
9403	SEPARATION EQUIP., FLOWLINES, VALVES, FITTINGS	--	15000
9404	TRUCKING & CONSTRUCTION COSTS	--	22000
	TOTAL LEASE & BATTERY EQUIP.	--	124000

TOTALS

345310 653310

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

YATES PETROLEUM CORPORATION

DATE

SHARE

BY

BY

BY

BY

BY

EXHIBIT "A-1"

PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres In Lease	Percent Interest In Lease	Net Acres In Lease	Expiration Date	Percent Basic Royalty	Percent ORR Burden	Revenue Interest on 100% Ownership Basis
1. Jean D. Beckwith Section 26: S/2	320.00	14.58333	46.66667	4-29-91	18.75	-0-	81.25
2. Coates Energy Trust and Elizabeth H. Maddux Section 26: S/2	320.00	9.37500	30.00000	6-17-88	20.00	-0-	80.00
3. Ariel Bryce Appleton Trust and Sylvia Bryce Trust Section 26: SW/4	160.00	18.75000	30.00000	5-07-89	18.75	-0-	81.25
4. Christine C. Wiggins and Christine C. Wiggins Trust Section 26: S/2	320.00	4.16667	13.33333	4-29-91	18.75	-0-	81.25
5. Cecil Hightower Section 26: SE/4	160.00	8.20312	13.12500	4-29-91	18.75	-0-	81.25
6. Margaret L. Alford Section 26: S/2	320.00	2.08333	6.66667	4-29-91	18.75	-0-	81.25
7. John H. Wiggins Section 26: S/2	320.00	2.08333	6.66667	4-29-91	18.75	-0-	81.25
8. Petco Limited Section 26: S/2	320.00	1.66667	5.33333	6-30-88	25.00	-0-	75.00

LEASES OWNED BY YATES PETROLEUM CORPORATION (1/4), YATES DRILLING COMPANY (1/4), MYCO INDUSTRIES, INC. (1/4) AND ABO PETROLEUM CORPORATION (1/4):

EXHIBIT "A-1" (Cont'd.)
PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres	Percent Interest	Net Acres	Expiration Date	Percent Basic Royalty	Percent ORR Burden	Revenue Interest on 100% Ownership Basis
	In Lease	In Lease	In Lease				
9. Heritage Resources Section 26: S/2	320.00	1.25000	4.00000	7-28-88	25.00	-0-	75.00
10. James Rolland Woods Section 26: S/2	320.00	.93750	3.00000	5-28-88	18.75	-0-	81.25
11. Mildred A. Wright Trust Section 26: SE/4	160.00	1.00840	1.61344	5-05-91	18.75	-0-	81.25
12. Lucky Wright Royalty Syndicate, Re-established Section 26: SE/4	160.00	.14335	.22936	5-05-91	18.75	-0-	81.25
13. Laura A. Kaempf Section 26: SE/4	160.00	.94200	1.50720	5-05-91	18.75	-0-	81.25
14. Norma Olson & Mento Tjarks Section 26: S/2	320.00	.46875	1.50000	5-01-91	18.75	-0-	81.25
15. Verla Ennen Section 26: S/2	320.00	.39063	1.25000	4-30-91	18.75	-0-	81.25
16. Marvel Lou French Section 26: S/2	320.00	.39063	1.25000	4-30-91	18.75	-0-	81.25
17. Esther L. Ruble Section 26: S/2	320.00	.39063	1.25000	4-30-91	18.75	-0-	81.25
18. Dale Sarsgard Section 26: S/2	320.00	.39063	1.25000	4-30-91	18.75	-0-	81.25

EXHIBIT "A-1" (Cont'd.)
PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres	Percent Interest	Net Acres	Expiration Date	Percent Basic Royalty	Percent ORR Burden	Revenue Interest on 100% Ownership Basis
	In Lease	In Lease	In Lease				
19. Mildred M. Sneefus Section 26: S/2	320.00	.31250	1.00000	5-05-91	18.75	-0-	81.25
20. Emma Walllukait Section 26: S/2	320.00	.15625	.50000	5-01-91	18.75	-0-	81.25
21. Dorothy Bartlett Section 26: S/2	320.00	.02232	.07143	5-12-91	18.75	-0-	81.25
22. Ruth Knieriem Section 26: S/2	320.00	.02232	.07143	5-12-91	18.75	-0-	81.25
23. Alberta Schill Section 26: S/2	320.00	.02232	.07143	5-12-91	18.75	-0-	81.25
24. Yates Group Minerals Section 26: S/2	320.00	.24554	.78571	----	-0-	-0-	100.00
25. Audrey K. Tiss Section 26: S/2	320.00	.15625	.50000	7-28-89	18.75	-0-	81.25
26. Maxine Ellestad Wendle, et vir Section 26: S/2	320.00	.15625	.50000	4-30-91	18.75	-0-	81.25
27. Charles B. Read, et ux Section 26: S/2	320.00	4.16667	13.33333	12-08-88	25.00	-0-	75.00
28. Fisco, Inc. Section 26: S/2	320.00	2.08333	6.66666	12-08-88	25.00	-0-	75.00

EXHIBIT "A-1" (Cont'd.)
PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres	Percent Interest	Net Acres	Expiration Date	Percent Basic Royalty	Percent ORR Burden	Revenue Interest on 100% Ownership Basis
	In Lease	In Lease	In Lease				
29. Pat Alston Ward Section 26: SW/4	160.00	2.24609	3.59375	12-29-88	25.00	-0-	75.00
30. J. E. Simmons and Beulah H. Simmons Trusts Section 26: SE/4	160.00	3.36914	5.39062	1-01-88	20.00	-0-	80.00
31. Sun Operating Limited Partnership Section 26: S/2	320.00	3.33333	10.66667	1-01-88	25.00	-0-	75.00
32. Felmont Oil Corporation Section 26: S/2	320.00	7.50000	24.00000	1-01-88	25.00	-0-	75.00
33. Approximately Sixty Owners Leased to Yates Group or To be Force Pooled By Yates Group Section 26: S/2	320.00	1.00000	3.20000	-----	-----	----	-----
<u>LEASES OWNED BY INEXCO OIL COMPANY:</u>							
1. Cecil Hightower Section 26: SW/4	160.00	8.20312	13.12500	4-02-90	18.75	-0-	81.25
2. Hanesco, Inc. Section 26: S/2	320.00	3.36914	10.78125	5-08-88	25.00	-0-	75.00
3. J. E. Simmons and Beulah H. Simmons Trusts Section 26: SW/4	160.00	3.36914	5.39063	5-15-88	20.00	-0-	80.00
4. Elbert D. Shipp Section 26: S/2	320.00	.78125	2.50000	5-03-88	20.00	-0-	80.00

EXHIBIT "A-1" (Cont'd.)
PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres In Lease	Percent Interest In Lease	Net Acres In Lease	Expiration Date	Percent		Revenue Interest on 100% Ownership Basis
					Basic Royalty	Percent ORR Burden	
5. Frances J. Freeman Section 26: S/2	320.00	.78125	2.50000	5-03-88	20.00	-0-	80.00
6. Carl A. Engwall Section 26: S/2	320.00	.78125	2.50000	5-08-88	25.00	-0-	75.00
7. John L. Harlan, et ux Section 26: S/2	320.00	.52083	1.66667	5-03-88	25.00	-0-	75.00
8. Ariel Bryce Appleton Trust and Sylvia Bryce Trust Section 26: SE/4	160.00	18.75000	30.00000	5-03-88	18.75	-0-	81.25
<u>LEASE OWNED BY EP OPERATING COMPANY:</u>							
1. Lucky Wright Royalty Syndicate Section 26: SW/4	160.00	2.09375	3.35000	HBP	18.75	-0-	81.25
<u>LEASE OWNED BY NITRAM ENTERPRISES, INC.:</u>							
1. Lydian Hall Woods Section 26: S/2	320.00	.93750	3.00000	10-21-88	25.00	-0-	75.00
<u>MINERALS OWNED BY ROBERT L. HAYNIE:</u>							
1. Section 26: S/2	320.00	.78125	2.50000	----	-0-	-0-	100.00
<u>LEASE OWNED BY MESA OPERATING LIMITED PARTNERSHIP (60%) AND H. L. BROWN, JR. (40%):</u>							
1. Lester Alston, et ux Section 26: SE/4	160.00	2.24609	3.59375	HBP	18.75	-0-	81.25

EXHIBIT "A-1" (Cont'd.)
PRESENT OWNERSHIP OF UNITIZED RIGHTS AND BASIC LEASE DATA
CASEY-EAST STRAWN WORKING INTEREST UNIT
TOWNSHIP 16 SOUTH, RANGE 37 EAST, NMPM
LEA COUNTY, NEW MEXICO

Lessor and Description	Gross Acres In Lease	Percent Interest In Lease	Net Acres In Lease	Expiration Date	Percent Basic Royalty	Percent ORR Burden	Revenue Interest on 100% Ownership Basis
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LEASES OWNED BY STANDARD OIL PRODUCTION COMPANY:

1. Eleanor Ferguson Kupel, et al Section 26: S/2	320.00	.01563	.05000				
2. Werthenbach Heirs Section 26: S/2	320.00	.01562	.05000				