

ELK OIL COMPANY

BOX 310

ROSWELL, NEW MEXICO 88202

(505) 623-3190

JOSEPH J. KELLY
PRESIDENT

October 7, 1998

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Re: Jan State #3
Sec. 36, T-8SS, R-26E
Chaves County, New Mexico

Gentlemen:

Elk Oil Company has staked its Jan State #3, located 660 FNL, 1650 FEL in Section 36 to the Penn formation.

In reviewing the field rules for the North Foor Ranch, it was discovered that all formations from the base of the Wolfcamp to Granite are covered, thus the Jan State #3 will be located in the same proration unit as the Jan State #2, which was drilled to the Pre-Mississippian dolomite.

In order to drill our Jan State #3, which is now unorthodox, Elk needs to dedicate the W1/2 of Section 36 to the Jan State #2 and the E1/2 of Section 36 to the Jan State #3.

We respectfully request that you sign the enclosed waivers and return to our office for further handling. Enclosed is a stamped, self-addressed envelope for your convenience in returning this waiver to us.

Yours very truly,

ELK OIL COMPANY

Joseph J. Kelly
President

JJK/rm
Encl.

