

Dagger Draw Communication Time Line

- May 8, 2003** **Meeting with Bureau of Land Management**
Preliminary introduction to proposed North Dagger Draw
Upper Penn Unit
- May 22, 2003** **Meeting with State Land Office**
Preliminary introduction to proposed North Dagger Draw
Upper Penn Unit
- May 28, 2003** **Meeting with Nearburg in Midland**
Informal meeting to propose North Dagger Draw Upper Penn
Unit
- August 5, 2003** **Mailed letter to formally introduce all interest owners to
the proposed North Dagger Draw Upper Penn Unit and
invite all interest owners to an informational meeting to
be held at Yates Petroleum Corporation on August 28,
2003**
- August 28, 2003** **Informational meeting held for all interested owners at
Yates Petroleum Corporation**
- October 30, 2003** **Original Proposed North Dagger Draw Upper Penn Unit
Packages**
Mailed via Certified Mail to all interest owners
- February 10, 2004** **Corrections to Exhibits and Unit Agreement Page 5
update mailed**
Mailed via Certified Mail to all interest owners

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

October 30, 2003

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Subject: Proposed North Dagger Draw Upper Penn Unit

Dear Royalty Owner:

Yates Petroleum Corporation proposes the formation of the North Dagger Draw Upper Penn Unit in order to waterflood the Canyon Dolomite reservoir in Sections 16-21 and 28-30 of Township 19S-25E in Eddy County, New Mexico. We request that you consider committing your ownership to this Unit by signing and notarizing the enclosed ratifications and returning them to Yates.

About 24 million barrels of oil have been produced from the proposed unit area during primary production. However, producing rates within the proposed unit have fallen to about 4 barrels of oil per day per well and primary production is rapidly nearing its end. Yates believes that a waterflood can recover at least 2.5 million barrels of additional oil. The attached map shows the proposed unit area, the areas to be flooded under Phase I and Phase II and the unusual injection pattern suggested by our study of the Canyon reservoir.

Yates has presented this proposal to the New Mexico State Land Office in Santa Fe and to the Bureau of Land Management (BLM) in Roswell. The State Land Office and the BLM have indicated preliminary approval of the proposed unit. Yates held a Working Interest Owners Meeting in Artesia on August 28, 2003, where those who attended expressed general support for the proposed unit. Yates will be seeking approval for the proposed unit from the New Mexico Oil Conservation Division on December 2 in Santa Fe. You should receive official notice of the NMOCD hearing via registered mail.

The participation formula for the proposed North Dagger Draw Upper Penn Unit involves only two factors: (1) surface acres, which treat each portion of the proposed unit as equal to any other portion, weighted seventy percent; and (2) remaining primary reserves as of 1/1/2003, which favor those wells still producing economic amounts of primary oil, weighted thirty percent. Tables of working-interest ownership and royalty ownership are included with this letter.

Please find enclosed **one** copy of the Unit Agreement along with nine (9) Ratifications. Royalty Owners need to ratify the Unit Agreement as provided on the Ratification form.

Yates invites you to join **the** North Dagger Draw Upper Penn Unit and asks that you sign, notarize and return the **nine** (9) ratification forms in the enclosed stamped envelope. Should you have any **questions** please call George Freeman at 505-748-1471. We believe this to be a worthwhile **project** and appreciate your consideration.

Very truly yours,

A handwritten signature in black ink, appearing to read "George H. Freeman", with a long horizontal flourish extending to the right.

George Freeman
Reservoir Engineering Supervisor

Attachments

Martin Yates, III
1912-1985
Frank W. Yates
1936-1986



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105 South Fourth Street
Artesia, New Mexico 88210
Telephone (505) 748-1471

October 30, 2003

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Subject: Proposed North Dagger Draw Upper Penn Unit

Dear Working Interest Owner:

Yates Petroleum Corporation proposes the formation of the North Dagger Draw Upper Penn Unit in order to waterflood the Canyon Dolomite reservoir in Sections 16-21 and 28-30 of Township 19S-25E in Eddy County, New Mexico. We request that you consider committing your ownership to this Unit by signing and notarizing the enclosed ratifications and returning them to Yates.

About 24 million barrels of oil have been produced from the proposed unit area during primary production. However, producing rates within the proposed unit have fallen to about 4 barrels of oil per day per well and primary production is rapidly nearing its end. Yates believes that a waterflood can recover at least 2.5 million barrels of additional oil. The attached map shows the proposed unit area, the areas to be flooded under Phase I and Phase II and the unusual injection pattern suggested by our study of the Canyon reservoir.

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Please find enclosed one copy of the Unit Agreement and one copy of the Unit Operating Agreement along with nine (9) Ratifications. Working Interest Owners need to ratify both the Unit Agreement and the Unit Operating Agreement as provided on the Ratification form. We would like to point out that Paragraph 17 of the Unit Operating Agreement is unusual in that it provides a one-time buyout opportunity whereby any Working Interest Owner can drop out of the unit and receive a specified payment for his interest. Such an owner is thereby relieved of the obligation to pay any further capital costs of the waterflood.

Yates invites you to join the North Dagger Draw Upper Penn Unit and asks that you sign, notarize and return the nine (9) ratification forms in the enclosed stamped envelope. Should you have any questions please call George Freeman at 505-748-1471. We believe this to be a worthwhile project and appreciate your consideration.

Very truly yours,

A handwritten signature in black ink, appearing to read "George Freeman", followed by a long horizontal line extending to the right.

George Freeman
Reservoir Engineering Supervisor

Attachments

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210-2118
TELEPHONE (505) 748-1471

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CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

February 10, 2004

Subject: Proposed North Dagger Draw Upper Penn Unit

Dear Interest Owner:

Enclosed please find a corrected page 5 to be replaced within the Unit Agreement. Please note the correction under Section 13. Tract Participation. Paragraph B. Reserves Ratio. This new language more correctly describes the calculations of interest under the Unit Agreement. The interest calculations previously given to you are not changed by this amendment. The purpose of this update is to better clarify the calculations already presented to you.

Also enclosed you will find updated versions of Exhibits A, B, C, D, E, and the schedule showing unit participation of each Royalty and Overriding Royalty Owner. The Royalty and Overrides, in Exhibit B, were inadvertently picked up according to the previously established spacing units rather than on a lease/tract basis. The intent of this North Dagger Draw Upper Penn Unit, as defined in Section 2. Definitions. Paragraphs j, k, and l, is formulated and designed on a lease/tract basis.

This new version of Exhibit B has corrected those burden allocations and placed them in the corresponding tracts. The resulting corrections also reflected some changes to Exhibits A, C, D, E, and the schedule showing unit participation of each Royalty and Overriding Royalty owner. These corrections were made in accordance with Section 3. (Exhibits) of the Unit Agreement.

Should you have any technical or operational questions please call George Freeman at 505-748-1471 and for any questions concerning the exhibits or your interest please call Susan Vierra at 505-748-4400.

Sincerely,

A handwritten signature in black ink that reads 'Susan Vierra'.

Susan Vierra
Associate Landman

Attachments