

## Grace Charboneau

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**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Tuesday, October 28, 2014 5:19 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Tule Field gas and the oil marketing infrastructure  
**Attachments:** image001.png

I am pretty sure that most of these questions will have the same answers but had to separate out in case I was wrong in my assumption. It really should not be that big of a task as I think it will be repetitive answers to the questions since the wells are in the same field and adjacent to each other. We have been netted and the Yates want to know the detail of where and why their money went elsewhere and who benefited from the extreme high deduct charges.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Tuesday, October 28, 2014 4:43 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Tule Field gas and the oil marketing infrastructure

Mr. Jim,

As you are aware, this is a pretty big task to pull and gather this information. This is a pretty big list of questions that will take quite a bit of effort to gather. Before I run with this and get the answers for your questions, can you please tell me what prompted all this?

Thank you.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202

NMOCD CASE NO. 15224  
December 4, 2014  
Sovereign Eagle, LLC  
Exhibit No. 3-A

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**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Tuesday, October 28, 2014 4:23 PM  
**To:** grace@stratanm.com  
**Subject:** Tule Field gas and the oil marketing infrastructure

Grace can you or Mitch (or someone) give me a summary and/or answers on how the gas and the oil marketing infrastructure is set up in the Tule field?

Such as but not limited to:

Each product....Is it piped or trucked?

How many hydrocarbon products are being processed? Who are the purchasers of the various individual products?

If applicable, who is the processor...or "Processing Company"? How much are they charging?

Who transports the products to the contracting purchasing company for each product and who is that? How much are they charging?

If applicable, is fuel from the lease being used in its operations? If so, is the fuel staying on the lease or is it being used off lease as well...or both? How much are they charging/crediting for it to be used off lease?

If applicable, who is the compression deduction being paid to? How much are they charging?

If applicable, who is the dehydration deduction being paid to? How much are they charging?

If applicable, is there a gathering charge and if so who is that being paid to? How much are they charging?

If applicable, is there a processing deduction and if so who is that being paid to? How much are they charging?

If applicable, is there a treating deduction and if so who is that being paid to? How much are they charging?

Is there any other cost associated with the production and extraction of minerals that are being deducted from the royalty owners and if so what are they and who is being paid? How much are they charging?

Also, what taxes are being withheld and if state tax is being withheld why are they?

Will additional wells in the Tule field be subject to EXACTLY the same existing charges and EXACTLY the same Revised Division Order and Marketing Agreement that was executed earlier this year on the Cook #1, Wendell Best #1, JT McGee Com #1 and the Perry #1? If not, how will it be different?

Thanks.

Jim Ball  
Landman



**Yates Holdings LLP**  
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## Grace Charboneau

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**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Monday, October 27, 2014 5:20 PM  
**To:** grace@stratanm.com  
**Cc:** 'Mitch Krakauskas'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.  
**Attachments:** image001.png

Grace and Mitch,

Returned mid-morning and went through a lot of emails on this and other topics. I have had meetings most of the day since arriving. Might be best if Mitch wants to talk and try me tomorrow. Will be gone to Okla. City for several Dr. appointments starting on Wed. afternoon through Thursday and Friday. Returning on Monday 1:00 PM.

I see the best chance of this being resolved if we go back to the initial suggestions I sent to your company. We are too far apart on what is a reasonable offer using your form and terms. Respectfully I/we do not agree with your claims for offering terms that in your opinion are reasonable and fair. We will remain hopeful that we can work things out and I have given indications to you both of how I think it could be best accomplished.

Jim Ball  
Landman



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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Friday, October 24, 2014 2:28 PM  
**To:** 'Jim Ball'  
**Cc:** 'Mitch Krakauskas'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,  
Attached is the revised lease with your changes and our changes. Please review the changes and let me know if you have any questions.

Also, Mitch would like to speak to you tomorrow sometime about the lease. If you can please give me your cell number or will call Mitch on his at (575) 420-1181, I would greatly appreciate it.

Thank you for your help. Have a good day and great weekend.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Thursday, October 23, 2014 3:31 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Running late out the door. As to the terms I have gone over the lease with Mr. Yates and these are those are the things within your lease form we want changed if we use your lease form. Your marketing charges effect the net royalty we receive and thus Mr. Yates wants me to come back to him to see what you agree to change or not and he will be the one that decides what he will accept or not after seeing the changes....not me. As I said in an earlier email I will do my best to get him to agree but the lease form is VIP too. Using your lease form messed up the normal way we do things in presenting ...one of the reasons I did not want to use it. Honestly going out the door now.

Jim Ball  
Landman



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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Thursday, October 23, 2014 3:25 PM

**To:** 'Jim Ball'

**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,

I'm sorry to hear about the loss of your friend. Our condolences to you.

As far as the length, this is something that you have revised on our lease form to three years. Sovereign is fine with the three year term. I would assume since you revised it to that, it was an acceptable term when you sent it back to me with the revisions.

With the bonus and royalty, we have leased the majority of the other mineral owners with the same terms that we are offering Yates Brothers. We do not feel it is fair or ethical to offer you a higher rate of bonus or royalty. I honestly would not feel right to offer a higher royalty rate or higher bonus. We are trying to keep everyone equal. We feel that every royalty owner is just as important as the other one. If you can please tell me why Yates Brothers minerals are worth more than the other mineral owners, I would love to listen and entertain the reasoning and offer. Sovereign wants every mineral owner to be treated equally and fairly. It is only right for everyone to be offered the same royalty rate and bonus payment terms to lease their mineral interest.

I will get the revisions to you first thing in the morning.

Thank you for your quick response. Be careful in your travels. Have a fantastic evening.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968

Roswell, NM 88202

(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Thursday, October 23, 2014 2:52 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** RE: Counter on Tule Field OGL of Sovereign.

That will be fine. I still do not know if the terms will be accepted in terms of bonus, length and royalty but for sure we need to have a good lease form. I am leaving for the funeral in 10 minutes but will be here on Monday mid morn.

Thanks. Have a good day.

Jim Ball  
Landman



Yates Holdings LLP

P. O. Box 1394

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Thursday, October 23, 2014 2:51 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,

I am currently working on the revisions that you requested and also placing Mitch's revision and what will be accepted and not. I should have this done by Friday and it will be waiting on you to see if it is acceptable or not.  
Have a great day.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

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**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Tuesday, October 21, 2014 2:43 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Grace, I have gone over the Sovereign lease form with Mr. Yates. Please see the requested changes that are attached and note the exhibit A that is also attached. Let use this rough amend version to settle our differences if that is possible. You may be able to read the hand writing better if blown up. If not let me know and I can read it to you in certain instances. Note that the last sentence of paragraph 14 which I crossed out I do have flexibility in what we can accept. I think the wording could be left in if it had a sentence added afterwards that said the interest would not be unreasonably held in suspense.

If we do not settle the differences then we know it will be force pooled. I however would have to ask for a continuance because of several follow-up medical appointments that I cannot miss in Oklahoma City on October 30th. If it had to be continued then I will also not be able to attend a hearing on November 17<sup>th</sup> and 18 due to appearing as a witness in Federal Court in Albuquerque.

I will be leaving for Santa Barbara, California on this Thursday afternoon to attend a funeral of a friend of mine and Mark Murphy's (Jim Dawson). I will return on Monday mid-day so if we can get this resolved before I leave that would be great.

Jim Ball  
Landman



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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Monday, October 20, 2014 4:28 PM  
**To:** 'Jim Ball'  
**Subject:** RE: counter Tule Field

Mr. Jim,  
Well I hope your travels were good and safe last week. It is always nice to get out of town to get a change of scenery.

Thank you for your response to my previous email and phone calls. I would love to still try to reach an agreement on the lease if at all possible.

Currently, we have several hundreds of different mineral owners that are currently on the lease form that we presented to you. We would like to continue to use our lease form at this time. If you would like to change the lease form that I sent to you around, then I would be more than happy to present it to Mitch at that time. Without knowing for sure what you do not like about our lease form, it is hard to know if we can work with it or not. I know that it is a tremendous amount of work for you and I apologize for that, but please take a moment to try to do the changes to the form that I sent to you please.

The title opinion is something that is provided to working interest owners because it is paid for by the working interests owners typically. As far as royalty owners and the title opinions, we will provide the section of the title opinion that pertains to the royalty owners only and not a full copy of it at this time.

We are offering for Yates Brothers or any another party mineral owner to become a working interest owner if they wish. If you choose to do a farmout agreement to YPC, that might be a good opinion for Yates Brothers. However, the farmout agreement is your choice. We are not going to tell you one way or the other on what you should do. This would be completely your choice on what you would like to do.



I truly wish I could offer more than the 1/6 royalty and the \$25.00 per net mineral acre, but as we are all aware of the issues we have in that area, it is difficult for production alone. If I could offer more like we could in the Permian Basin, I would love to. The Tule field/Wildcat Area will not allow for it to work for everyone.

Please look at our lease and start doing changes so that I have a place to start. Please let me know if it is just really not an opinion. We are still planning on going forward with the force pooling that is set at the end of this month.

Thank you for your time.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Friday, October 17, 2014 2:23 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** counter Tule Field

Grace,

The Sovereign lease has too many changes. Don't have time to change ...that would take too long..... I do not like it ... It is the worst I have ever seen in my career and I cannot in good conscience put it in front of the Yates and say sign it. It would take up to many hours or days of negotiating back and forth and I do not believe some issues would be solvable if Sovereign cannot even agree to let us have a copy of title opinions for our files. The lease form I am presenting to Sovereign as a counter is a lease form that probably works for everyone in the Permian...and beyond. No one yet has had a problem with it that I have found. Mitch needs to get me the wording that he is concerned with on the gas processing and I will run it by the Yates for approval. (Fingers crossed.) We can argue all day about the fact that title opinions are given to WI owners but I agree with that statement because they pay for it. EQUALLY AS COMMON AS THAT IS THE FACT THAT industry royalty owners require the same thing in their standard lease forms and that is what the Yates family is requiring just like all the other industry royalty owners.

Try getting a lease without giving a TO and well info from the Cowdens, Scarboroughs, DK Boyd, Everett Haley, Andy Grooms, Featherstones, Tom and Tim Jennings to name a few. Yes we will be a royalty owner but this will be a condition of the lease.....and such a condition or request is normal for an industry royalty owner such as Murphy to ask for it. Final point, Murphy Oil Corp. has required it of me in the past I am 99% sure of it. Look at it this way too. I can flip it to YPC or another party and they then give Sovereign a farmout agreement ..... such a title opinion and well data would also be normal in the requirement of the farmout agreement ..... So does Sovereign want to deal with another party in negotiating a FO Agreement? Probably not. I hope we can agree to get the T.O. topic resolved in about one second and move on to the more important issues of the wording of the processing the gas etc.

It will cost Sovereign 2 minutes of time and about \$3.00 of ink to satisfy this issue. I further would see it as a courtesy when Sovereign is offering only \$25.00 per net acre and 1/6 royalty on a field that has been producing for 30 years.

I am late leaving town and am going out the door. Thasnk.

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Friday, October 17, 2014 1:00 PM

**To:** 'Jim Ball'

**Subject:** RE: Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Mr. Jim,

I spoke to Mitch again about the title opinions and the drilling opinions. He basically said that we would provide you with a copy of your section of the title opinion as a royalty owner. The full title opinion will not be provided to a royalty owner because the royalty owner was not helping pay for the title opinion cost. Also, in the past, you might have been working for a participant in the well and that is why you may not have had a problem getting the copy of the title opinion in the past.

I have attached a copy of the original lease that was sent to you. If you don't mind, please go through and do the changes in our lease that you do not like and add the things that are important to you in. Mitch might come off on some of the things in the lease, but I cannot promise anything. The document is set up to where it will track changes as you type or delete. If you can do this, maybe we might be a step closer to putting this to bed.

Thank you for your help. Have a great day.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Thursday, October 16, 2014 4:54 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Jim Ball  
Landman



**Yates Holdings LLP**

P. O. Box 1394

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## Grace Charboneau

---

**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Monday, June 23, 2014 1:04 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Additional Mineral Interest to Lease  
**Attachments:** image001.png

Good afternoon Grace... I am just now back in the office so call me when its convenient for you.... I'm cleaning out emails that came in while I was gone presently , so call anytime. Direct line is below.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
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Fax: (575) 736-8577  
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---

**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Monday, June 23, 2014 9:22 AM  
**To:** 'Jim Ball'  
**Subject:** Additional Mineral Interest to Lease

Mr. Jim,  
It have been a while since I talked to you. I hope everything is going well for you. When you get a chance, can you please give me a call to talk about leasing some other interest that Yates Brothers has? My number is 575-622-1127 ext. 20. I would love to talk to you when you get a chance please.  
Have a fabulous day.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

# Sovereign Exploration, LLC

P.O. Box 968

Roswell, NM 88202-0968

Phone: (575) 622-1127

Fax: (575) 623-3533

August 21, 2014

Yates Brothers, a Partnership  
ATTN: Jim Ball, Landman  
PO Box 1394  
Artesia, NM 88211

Re: Township 2 South, Range 29 East  
Section 26: N/2, SE/4  
Containing 480 gross acres, more or less  
Roosevelt County, New Mexico

Dear Mr. Ball:

Pursuant to our previous telephone conversation, Sovereign Exploration, LLC would like to lease your mineral interest in the above described land for oil and all gas. Enclosed please find the following:

- A W9 for our records and tax purposes
- An Oil and Gas Lease, and one (1) copy thereof for your file, providing for a five (5) year primary term and 1/6th royalty

We are offering \$592.73 representing the consideration for a five (5) year paid up lease calculated as follows: 23.7092 net acres [(your 0.0493942308 mineral interest 480.00 gross acres] x \$25.00.

If this offer is acceptable to you, please do the following:

- Sign a copy of the Oil and Gas Lease in the presence of a notary public at your earliest convenience and send back to the following address:  
Sovereign Exploration Company, LLC  
ATTN: Grace Charboneau  
P.O. Box 968  
Roswell, NM 88202
- Fill out the provided W9 and include it with the signed and notarized lease.

This offer is made subject to approval of title. Upon receipt of the signed agreement a check will be mailed to you. If you have any questions or concerns, please feel free to call me at (575) 622-1127 Extension 20.

Sincerely,

Grace Charboneau  
Division Order Analyst

Enclosures: Two (2) Oil and Gas Lease

## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014, between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

Township 2 South, Range 29 East, NMPM  
Section 26: N/2, SE/4

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, re-survey, or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this Agreement.

3. **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and /or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure.

4. **Term of Lease.** This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. Lessee is hereby given the option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless so extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.

5. **Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that in Lessee's sole opinion are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

6. **Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 90 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

7. **Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arms-length transaction that is utilized.

8. **Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon

which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**9. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**10. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**11. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**12. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**13. Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14. Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.



IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:

Yates Brothers, a Partnership

By: Yates Private Equity II LLP, Partner

By: \_\_\_\_\_  
John A. Yates, Jr.

Title: Manager

**ACKNOWLEDGMENTS**

**NOTE:**

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

**Individual Acknowledgment**

STATE OF \_\_\_\_\_ )  
 ) § ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me, this \_\_\_\_ day of \_\_\_\_\_, 2014, by John A. Yates, Jr., as Manager of Yates Brothers, a Partnership, a New Mexico Partnership.

\_\_\_\_\_

**Notary Public**

My Commission Expires:

\_\_\_\_\_

## Grace Charboneau

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**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Thursday, August 21, 2014 4:16 PM  
**To:** 'Jim Ball'  
**Subject:** Lease  
**Attachments:** Yates Brothers Lease.pdf; Yates Brothers Letter.pdf

Mr. Jim,  
Can please review this for me?

Thank you.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

# Sovereign Exploration, LLC

P.O. Box 968

Roswell, NM 88202-0968

Phone: (575) 622-1127

Fax: (575) 623-3533

August 21, 2014

Yates Brothers, a Partnership  
ATTN: Jim Ball, Landman  
PO Box 1394  
Artesia, NM 88211

Re: Township 2 South, Range 29 East  
Section 26: N/2, SE/4  
Containing 480 gross acres, more or less  
Roosevelt County, New Mexico

Dear Mr. Ball:

Pursuant to our previous telephone conversation, Sovereign Exploration, LLC would like to lease your mineral interest in the above described land for oil and all gas. Enclosed please find the following:

- A W9 for our records and tax purposes
- An Oil and Gas Lease, and one (1) copy thereof for your file, providing for a five (5) year primary term and 1/6th royalty

We are offering \$592.73 representing the consideration for a five (5) year paid up lease calculated as follows: 23.7092 net acres [(your 0.0493942308 mineral interest 480.00 gross acres) x \$25.00.

If this offer is acceptable to you, please do the following:

- Sign a copy of the Oil and Gas Lease in the presence of a notary public at your earliest convenience and send back to the following address:  
Sovereign Exploration Company, LLC  
ATTN: Grace Charboneau  
P.O. Box 968  
Roswell, NM 88202
- Fill out the provided W9 and include it with the signed and notarized lease.

This offer is made subject to approval of title. Upon receipt of the signed agreement a check will be mailed to you. If you have any questions or concerns, please feel free to call me at (575) 622-1127 Extention 20.

Sincerely,

Grace Charboneau  
Division Order Analyst

Enclosures: Two (2) Oil and Gas Lease

## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014, between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

Township 2 South, Range 29 East, NMPM  
Section 26: N/2, SE/4

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, re-survey, or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this Agreement.

3 **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and /or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure.

4 **Term of Lease.** This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. Lessee is hereby given the option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless so extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.

**5. Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that in Lessee's sole opinion are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

**6. Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 90 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

**7. Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arm's-length transaction that is utilized.

**8. Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon

which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**9. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**10. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**11. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**12. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**13. Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14. Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:  
Yates Brothers, a Partnership  
By: Yates Private Equity II LLP, Partner

By: \_\_\_\_\_  
John A. Yates, Jr.

Title: Manager

ACKNOWLEDGMENTS

NOTE:  
The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

Individual Acknowledgment

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) § ss.

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2014, by John A. Yates, Jr., as Manager of Yates Brothers, a Partnership, a New Mexico Partnership.

\_\_\_\_\_  
Notary Public

My Commission Expires:  
\_\_\_\_\_

## Grace Charboneau

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**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Wednesday, September 03, 2014 1:11 PM  
**To:** 'Jim Ball'  
**Subject:** RE: update  
**Attachments:** image001.png

Mr. Jim,

I understand. However, this is a gas field in the Wildcat area. Due to the price of natural gas currently, 1/6 royalty is the best that we can offer. We have the original lease that we believe is still in effect that is held by production, but I'm unable to locate the ratification that was sent out at the time. I guess this is the problem when we have lots of hands touching the same paperwork over a period of time. I just get to try to pick up the pieces. Honestly, I like to make sure we do not have any loose ends anywhere. I will keep looking for the ratification in our office and let you know if I find it. Things have a way of showing up in weird places at times. Trust me...since I have been here, it is amazing what I find from time to time.

Just a heads up though, we are sending documentation to the attorney today to try to get the force pooling started. I know that this is pushing you, but I wanted to let you know where we are at. Please let me know if there is something that I can do to help.

Thank you for the update. Have a fabulous day.

Grace Charboneau  
Division Order Analyst

## Overseign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

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**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Wednesday, September 03, 2014 11:24 AM  
**To:** grace@stratanm.com  
**Subject:** update

Got your message.... Was out of office for a few days and am covered up. It will be hard if not impossible to lease this without a better royalty. I will get back with you. What would the offer be if it was a 1/4 royalty?

Jim Ball  
Landman



Yates Holdings LLP

P.O. Box 1394  
Mesita, NM 88211-1394  
Direct Phone: (575) 736-8572



Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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## Grace Charboneau

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**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Tuesday, September 23, 2014 3:31 PM  
**To:** grace@stratanm.com  
**Subject:** Notary of Yates Brothers  
**Attachments:** image001.png; 20140923153220498.pdf

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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STATE OF NEW MEXICO     )  
                                      :     ss.  
COUNTY OF EDDY         )

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2013, by **John A. Yates, Jr.**, Manager of Yates Private Equity II LLP, a New Mexico limited liability partnership, in its capacity as general partner *of Yates Brothers*, a New Mexico general partnership, on behalf of said partnership.

My commission expires:

\_\_\_\_\_  
Notary Public

## Grace Charboneau

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**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Tuesday, September 23, 2014 3:40 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Revised Lease  
**Attachments:** image001.png

If I remember correctly.....you indicated that the lease had been ratified but you never could find that it was recorded.... The ratification that is. Also do I have a copy (submitted by you previously) of the OGL that was supposedly/apparently ratified? If not can you sent it to me. If previously sent by email just tell me and I will find it. Not need to send twice. Thanks.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Tuesday, September 23, 2014 3:37 PM  
**To:** 'Jim Ball'  
**Subject:** Revised Lease

Mr. Jim,  
Attached is the revised lease with the correct notary block information. Please let me know if there is anything that I can do to help.

As I mentioned before, the amount that we are currently paying is 1/6 royalty with a \$25.00 per net mineral acre for the Stoltenberg leases.

I believe the force pooling hearing date is set for October 30th.

Please let me know if you have any questions.  
Have a super day.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014, between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

**Township 2 South, Range 29 East, NMPM**  
Section 26: N/2, SE/4

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, re-survey, or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this Agreement.

3 **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross- well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and /or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure.

4 **Term of Lease.** This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. Lessee is hereby given the option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless so extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.

5. **Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that in Lessee's sole opinion are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

6. **Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 90 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

7. **Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arms-length transaction that is utilized.

8. **Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon

which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**9. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**10. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**11. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**12. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**13. Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14. Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.



IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:  
Yates Brothers  
By: Yates Private Equity II LLP, Partner

By: \_\_\_\_\_  
John A. Yates, Jr.

Title: Manager

ACKNOWLEDGMENTS

NOTE:  
The following short form certificate of notarial acts are sufficient for the purpose indicated, if completed with the information required by subsection A of Section 7 (14-14-17 NMSA) of the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

Acknowledgment in a Representative Capacity

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) § ss.

This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 2014, by John A. Yates, Jr., Manager of Yates Private Equity II LLP, a New Mexico limited liability partnership, in its capacity as general partner of Yates Brothers, a New Mexico general partnership, on behalf of said partnership.

\_\_\_\_\_  
Notary Public in and for the State of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ (Seal, if any)

## Grace Charboneau

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**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Wednesday, September 24, 2014 9:26 AM  
**To:** 'Jim Ball'  
**Attachments:** Chevron Texaco Lease.pdf

Mr. Jim,

This is the information that I previously sent to you. I think that both of these documents might be helpful to you. Please let me know if there is something else that you need.  
Thank you so much for taking the time to work on it.

Grace Charboneau  
Division Order Analyst

### **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Friday, August 22, 2014 11:25 AM  
**To:** 'Jim Ball'  
**Subject:** Chevron Texaco Lease, Mineral Deed

Mr. Jim,

Sorry it has taken me so long to get this to you this morning. Attached is the original Chevron Texaco Lease that was never ratified. Also is a copy of the mineral deed where it went from Chevron Texaco to Yates Petroleum. This was recorded in Book 115 page 578. However, in our title history print out that we received from Graham Title, there is another mineral deed that was recorded in book 116 page 263 that is going from Yates Petroleum to Yates Brothers. Unfortunately, I do not have a copy of this one, but you might be able to call the clerk's office and get a copy of it. Sorry I didn't have all of the pieces but, it is a place to start. Please let me know if you have any further questions.

Thank you for your help. Have a great day.

Grace Charboneau  
Division Order Analyst

### **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

## Grace Charboneau

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**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Tuesday, September 23, 2014 4:07 PM  
**To:** 'Jim Ball'  
**Subject:** FW: Chevron Texaco Lease, Mineral Deed  
**Attachments:** Chevron Texaco Lease.pdf; Mineral Deed from Chevron to Yates Pet - Book 115 Page 578.pdf

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Thank you for your help. Have a great day.

Grace Charboneau  
Division Order Analyst

## Sovereign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

Texaco Exploration and Production INC.

122-139

OIL AND GAS LEASE

STATE OF NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS THAT:

COUNTY OF ROOSEVELT

This agreement, made and entered into this 27th day of May, 1986, by and between TEXACO PRODUCING INC., whose mailing address is P.O. Box 2100, Denver, Colorado 80201, hereinafter called "Lessor," and MARSHALL PIPE & SUPPLY COMPANY, whose mailing address is 13423 Forest Way Drive, Dallas, Texas 75240, hereinafter called "Lessee,"

WITNESSETH:

I.

Lessor, in consideration of Ten Dollars (\$10.00), or more, in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby GRANTS, LEASES, and LETS unto Lessee for the purpose of investigating, prospecting, drilling for, and producing oil and gas, laying pipe lines and building structures thereon to produce, save, take care of, treat, transport, and store said products, the following described land in Roosevelt County, New Mexico, hereinafter referred to as the "leased premises," to wit:

The Southwest One-quarter (SW/4) of Section 23; the East One-half (E/2) and the Northwest One-quarter (NW/4) of Section 26; and all of Section 27, T-2-S, R-29-E.

II.

Subject to the other provisions hereof, this lease shall be for a term of three (3) years from the date hereof, hereinafter referred to as "primary term," and as long thereafter as oil or gas is produced in paying quantities or any operation herein provided is conducted or any condition exists which as herein provided continues this lease. Notwithstanding anything herein to the contrary, this lease is a fully paid up lease for the primary term stated above and may not be terminated by limitations upon, or abandonment of, the property interest herein granted during said primary term.

III.

A. The royalties to be paid Lessor are:

1. On oil, including condensate, distillate, and all hydrocarbons produced in a liquid form at the mouth of the well or recovered from oil or gas run through a separator or other equipment, one fifth (1/5) of the gross production or the market value thereof, at the option of Lessor.
2. On gas, including casinghead gas, flared gas or gas used in lease operations, and any other gaseous substances, one fifth (1/5) of the gross production or the market value thereof, at the option of Lessor, except as provided hereinbelow.
3. On gas processed in a plant for the recovery of gasoline or other liquid hydrocarbons, one fifth (1/5) of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of Lessor. All royalties due on processed gas and gas liquids shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%) or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arms' length (or if there is no such third

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party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is greater.

4. Proceeds from any sale between Lessee and any non-affiliated company or person negotiated in good faith and at arms' length shall be deemed to be market value for the purposes of this Article III.

B. Lessor may, at any time or from time to time, require that the payment of any or all of the above reserved royalties be made in kind upon sixty (60) days written notice. Any gas contract executed by Lessee shall provide that upon sixty (60) days written notice of Lessor's intention to take its royalty gas in kind, such royalty gas shall be released from the contract.

C. Lessor's royalty, including that paid in kind, is to be free and clear of all exploring, producing, developing, processing, marketing and transporting costs (except as allowed under Paragraph III.A.3 above) as well as all claims, charges, expenses, taxes, overriding royalties, and other royalties, provided, however, that Lessor's royalty shall bear (1) its proportionate part of all ad valorem, severance, gross production, gathering, windfall profits and other similar taxes levied on or measured by production from the leased premises and (2) any existing non-participating royalty interest heretofore reserved by Texas Pacific Land Trust applicable to the leased premises.

#### IV.

A. Lessee will select a legal location for any well as a reasonable, prudent operator and in a manner which will allow the maximum number of wells on the leased premises under applicable governmental spacing and proration rules so that the leased premises can be fully developed whether by Lessee or by any other party who may obtain rights to develop the leased premises including Texaco Producing Inc.

B. If at the end of the primary term production of oil or gas has been obtained on the leased premises, Lessee shall thereafter continuously develop the leased premises with no cessation of over one hundred twenty (120) consecutive days from the completion of one well, either as a well capable of producing oil or gas in paying quantities or as a dry hole, and the commencement of actual drilling operations on the next well and with no cessation of actual drilling on any well for over thirty (30) consecutive days. Where no drilling operations are being conducted on the leased premises at the end of the primary term (production previously having been obtained) the first such continuous development well shall be actually commenced within one hundred twenty (120) days of the end of the primary term. If, however, at the end of the primary term no oil or gas is being produced on the leased premises, but Lessee is then engaged in drilling operations thereon, this lease shall not terminate so long as drilling operations are continuously prosecuted with no cessation of over thirty (30) consecutive days, and thereafter, so long as oil and gas is produced in paying quantities or said leased premises are continuously developed as provided above.

C. At the end of the primary term or upon the cessation of the continuous development of the leased premises required above, whichever is later, this lease shall terminate as to all lands and depths covered herein, except as to those lands and depths located within a governmental proration unit assigned to a well producing oil or gas in paying quantities. Within said producing governmental proration units, this lease shall also terminate at such time to those depths located either (1) one hundred (100) feet below the total depth drilled, or (2) below base of the deepest producing formation in such governmental proration unit, whichever is the lesser.

D. The term "governmental proration unit" as used herein is defined to mean the amount of acreage assigned each well for spacing and proration purposes by the New Mexico Oil Conservation Commission pursuant to special field rules for the field in which that well is located. In the event special field rules applicable to a well drilled hereunder have not been adopted, a "governmental proration unit" shall be deemed to consist of forty (40) acres. No change in the amount of acreage assigned to a well for spacing and proration purposes by the New Mexico Oil Conservation Commission which is adopted more than two (2) years after the completion of such well shall enlarge or reduce the amount of

Oil and Gas Lease  
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acreage held by such well in a "governmental proration unit" under the terms of this lease. For each well producing oil or gas in paying quantities, Lessee shall provide Lessor with a copy of the certified plat (Form C-102) or legal description attached to its Application for Permit to Drill, Plug Back or Re-complete (Form C-101), filed with the New Mexico Oil Conservation Commission, and such certified plat or legal description shall determine the location of the acreage contained in each "governmental proration unit" for the purposes of this lease.

E. If at the end of the primary term or any time thereafter Lessee has obtained production of oil or gas in paying quantities from the leased premises, and in the event such production should cease on a governmental proration unit from any cause, this lease shall terminate as to that governmental proration unit unless Lessee, within sixty (60) days after such cessation, restores production or commences additional drilling or reworking operations on said governmental proration unit (whether in the same or a different well) and this lease shall remain in full force and effect as to that governmental proration unit for so long as any such operations are continuously prosecuted, with no cessation of over thirty (30) consecutive days, or oil or gas is produced in paying quantities. This paragraph will not be effective during any period in which continuous development operations are being conducted hereunder.

## V.

Notwithstanding the automatic reverting and revesting of title into Lessor, upon the happening of the events as herein provided, Lessee shall promptly make, execute and deliver to Lessor any instrument or instruments reassigning and reconveying the record title to Lessor, as and when requested. Lessee hereby agrees and all persons are hereby given notice that, upon the termination of this lease (with or without an instrument of release, reassignment or reconveyance) Lessor's interest in the leased premises shall be free and clear of any overriding royalty, payment out of production, net profit obligation or carried interest, or any obligation to which it may have been subjected by Lessee. Any such obligations shall cease and terminate and be of no further force and effect as to such part of the leased premises reassigned or reconveyed, notwithstanding that Lessor may have expressly or impliedly consented to the assignment or the instrument in which such obligation was reserved or created.

## VI.

A. Lessee shall have the right at any time until six (6) months after the expiration of this lease to remove all property and fixtures placed by Lessee on the leased premises, including the right to draw and remove all casing; provided, however, this paragraph shall not apply to a lease termination pursuant to paragraph XII below.

B. Lessee agrees to fully defend, protect and indemnify, and hold harmless Lessor, its employees and agents, from and against each and every claim, demand, action, cause of action, or lawsuit, and any liability, cost, expense, damage, or loss including court costs and attorney's fees, that may be asserted against Lessor or Lessee by any third party, including Lessee's employees and agents, arising from or on account of any operations conducted by Lessee or for the benefit of Lessee on the leased premises.

C. Lessee shall plug any well either not capable or no longer capable of producing oil or gas in paying quantities and shall restore the leased premises around any such well to the satisfaction of Lessor. In the event Lessee fails to plug any such well or fails to restore such surface around any such well to the satisfaction of Lessor, then Lessor, at its option, may plug any such well and restore such surface around any such well to its satisfaction, and Lessee shall reimburse it for any and all sums of money expended in connection therewith. Lessee shall comply with all statutory requirements and governmental rules and regulations in effect at the time of plugging any well not taken over, and Lessee agrees to fully defend, protect and indemnify, and hold Lessor harmless from and against each and every claim, demand or cause of action, expense or liability arising from Lessee's failure to plug or properly plug any such well.

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D. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on the leased premises without Lessor's consent.

E. Lessee shall have the right to free use of all water on the leased premises to which Lessor may have the right to use or take for all operations hereunder.

F. Lessee agrees to operate the leased premises as a reasonably prudent operator would under the same or similar circumstances and to protect the leased premises from drainage by reason of any well completed on adjacent or nearby lands.

G. Lessee shall in the drilling of all wells hereunder test all formations leased hereunder having an adequate show of oil or gas, or which for any other reason would indicate to a prudent operator that such formation (or formations) should be tested.

H. Lessee shall allow Lessor and its representatives full access to all wells drilled hereunder, including access to the records thereof and to the derrick floor, at Lessor's sole risk and expense, and Lessor shall be furnished with samples or copies of all cores, cuttings, logs, drilling data, testing and completing data, and all other information obtained by Lessee, pertaining to any well drilled hereunder. Commencing with the month following the completion of the first producing well drilled hereunder, Lessee shall furnish Lessor a statement on or before the 20th of each month thereafter showing all wells drilled or being drilled pursuant to the terms hereof, the status of all such wells and current production information for all producing wells including but not limited to volumes, values and purchases.

I. Until further notice Lessee shall furnish all information under paragraph VI.H. above, as follows:

a. Designee:

Mr. P. B. Highsmith	Telephone
Texaco Producing Inc.	Office: (303) 793-4613
P.O. Box 2100	Home: (303) 791-0746
Denver, Colorado 80201	

Alternate:

Mr. D. E. Ryan	Telephone
Texaco Producing Inc.	Office: (303) 793-4610
P.O. Box 2100	Home: (303) 699-2548
Denver, Colorado 80201	

1. Notice by telephone of all proposed coring, drillstem testing, and logging in sufficient time for Texaco Producing Inc. to have a representative present.
2. Daily report by telephone of well status and significant developments from spudding date until well is completed and potentialled.
3. A daily copy of any mud log if a mud logging unit is used.
4. One field print or preliminary print and one final print of all logs run.
5. Samples of any and all cores, if requested.
6. At the time the well is to be spudded, your geologist in charge of the well will contact the above Designee or Alternate. The purpose of this contact will be to discuss any potential modification of the requirements under this paragraph and the necessary time requirements for notification of coring, logging, testing, etc. This contact will also serve as a mutual exchange

CERTIFICATION:

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*AMS*  
CAMERA OPERATOR

7-3-86  
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of names and phone numbers of the people who will handle the well for both you and Texaco Producing Inc.

b. Designee:

Mr. Joe King  
Texaco Producing Inc.  
P. O. Box 728  
Hobbs, New Mexico 88240

Telephone  
Office: (505) 393-7191  
Home: (505) 392-2585

1. Notice of location.
2. Weekly report by mail of well status and significant developments from spudding date until well is completed and potentialized.
3. One field print or preliminary print and one final prints of all logs, core analyses, electrical and other surveys run, including field edit digital tapes.
4. Complete details of all drillstem tests taken, together with copy of charts in bottom hole bomb.
5. Copy of the Well Record.
6. Copy of the potential test.
7. Completion and/or plugging report.
8. One copy of all other forms filed with the State Regulatory Bodies.

c. Field edit digital tapes of all electrical logs run are to be furnished to the Texaco Log Library, P.O. Box 430, Bellaire, Texas 77401, Attention: J. C. Reich, and the above names parties under "A" and "B" advised of the furnishing thereof.

d. If taken, one set of drilling samples or cuttings is to be sent to Texaco Sample Warehouse, 3305 Bankhead Highway, Midland, Texas 79701.

VII.

If any operation permitted or required hereunder, or the performance by Lessee of any covenant, agreement, or requirement hereof is delayed or interrupted directly or indirectly by any past or future acts, orders, regulations or requirements of the Government of the United States or any State or other governmental body, or any agency, officer, representative or authority of any of them, or because of delay or inability to get materials, labor, equipment or supplies, or on account of any other similar or dissimilar cause beyond the control of Lessee, the period of such delay or interruption shall not be counted against the Lessee, and the term of this lease shall automatically be extended so long as the cause or causes for such delays or interruptions continue and for an additional sixty (60) days thereafter and thereafter so long as oil or gas is produced in paying quantities or drilling or reworking operations are conducted as provided in Section IV above, provided that production or drilling or reworking operations are restored or commenced within said additional sixty (60) days following the cessation of such delay or interruption. The Lessee shall not be liable to Lessor in damages for failure to perform any operation permitted or required hereunder or to comply with any covenant, agreement or requirement hereof during the time Lessee is relieved from the obligations to comply with such covenants, agreements, or requirements.

VIII.

It is expressly understood that this lease is executed by Lessor without warranty, either express or implied. Lessor makes no representations or warranties regarding Lessee's right of ingress and egress to the leased premises from or across adjacent or adjoining lands.

Oil and Gas Lease  
Page 5 of 7 Pages

CERTIFICATION  
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*L.M.*  
CAMERA OPERATOR

7-3-86  
DATE OF FILMING



## IX.

Lessor reserves and is hereby given the right at any time and from time to time to purchase or designate a purchaser for all of Lessee's oil and other liquid hydrocarbons produced and saved from the leased premises. Lessor's election to purchase said oil or other liquid hydrocarbons shall be given to Lessee in writing at least thirty (30) days prior to the time purchases shall begin, and notice of discontinuance of purchase shall be given in a like manner. The option given hereby shall apply separately as to oil and as to other liquid hydrocarbons, and Lessor may purchase the oil or any liquid hydrocarbon, or any one or more of them, without purchasing the remaining products. The price paid Lessee by Lessor shall be the current market price at the wells for such production of like kind and quality.

## X.

Subject to the other terms hereof, in the event Lessee completes a well capable of producing gas in paying quantities (whether during or after the expiration of the primary term), but gas is not being used or sold because of the lack of an available market, then this lease shall not terminate as to the government proration unit around such shut-in well capable of production for one (1) period of two (2) years, either from the date said gas well is shut-in or the expiration of the primary term, whichever is the later date, and as long thereafter as oil or gas is produced in paying quantities and marketed from such governmental proration unit.

## XI.

In the event any action in law or equity, including any action for declaratory relief, is brought by Lessor or Lessee to enforce or interpret any provision of this lease, the prevailing party shall be entitled to recover its reasonable attorney's fees, court costs and other costs incurred therein, which fees may be set by the court in the trial of such action or may be enforced in a separate action for that purpose, and which fees shall be in addition to any other relief which may be awarded.

## XII.

If Lessor owns less than the entire fee or mineral estate in the leased premises, then all interests reserved to Lessor under the terms of this lease, including Lessor's royalty and call on production, shall be reduced proportionately.

## XIII.

It is understood and agreed that time is of the essence in the performance of this agreement.

IN WITNESS WHEREOF, this instrument is executed to be effective as of the date first above written.

LESSOR:

TEXACO PRODUCING INC.

By [Signature]  
Attorney-in-FactApproved as to:  
Desc. & Data KEL  
Terms MC  
Jarm

LESSEE:

MARSHALL PIPE &amp; SUPPLY COMPANY

By [Signature]  
Title partnerOil and Gas Lease  
Page 6 of 7 Pages

## CERTIFICATION

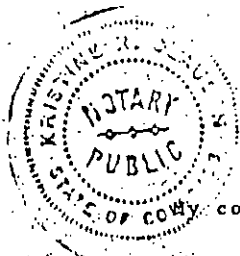
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AMS  
DATA OPERATOR

7-3-86  
DATE OF FILMING

STATE OF COLORADO )  
CITY AND COUNTY OF DENVER )

This instrument was acknowledged before me on 6<sup>th</sup> day of June, 1986, by D. P. Loughrey, Attorney-in-Fact of TEXACO PRODUCING INC., a Delaware corporation, on behalf of said corporation.



Kristine R. Jensen  
Notary Public in and for the State  
of Colorado  
Address: P.O. Box 2200  
Denver, Colorado 80202

My commission expires: 4-2-87

STATE OF TEXAS )  
COUNTY OF Dallas )

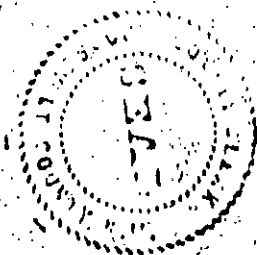
This instrument was acknowledged before me on the 19 day of June, 1986, by J. W. Marshall, Partner of Marshall Pipe & Supply Company, a corporation, on behalf of said corporation, Texas

Julie A. Byrd  
Notary Public in and for the State  
of Texas

My commission expires: 6-3-89



JULIE A. BYRD  
Notary Public, State of Texas  
My Commission Expires 6-3-89



STATE OF NEW MEXICO  
COUNTY OF ROOSEVELT  
Recorded this

JUL - 2 1986

At 9:55 O'clock AM  
Book 182 Page 139  
Clerk JOYCE LEE FRAZE  
Deputy [Signature]

Marshall Pipe & Supply Company  
13423 Forestway Drive  
Dallas, Texas 75240

Oil and Gas Lease  
Page 7 of 7 Pages

CERTIFICATION

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L.M.  
CAMERA OPERATOR

7-3-86  
DATE OF FILMING

2011

**MINERAL DEED**

STATE OF NEW MEXICO }

COUNTY OF ROOSEVELT }

THIS AGREEMENT, entered into this 21st day of November, 2003, by and between CHEVRON U.S.A. INC., a Pennsylvania corporation, whose mailing address is 1111 Bagby, Houston, Texas 77002 (hereinafter referred to as "Grantor") and Yates Petroleum Corporation, whose mailing address is 105 South Fourth Street, Artesia, NM 88210 (hereinafter referred to as "Grantee"),

**DOES WITNESS THAT:**

In consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the performance by Grantee of the covenants, agreements, obligations and conditions hereinafter contained, to be kept and performed by Grantee, it is agreed between the parties as follows, to-wit:

1. **Conveyance.** Grantor does hereby grant, bargain, sell, convey and quitclaim to Grantee, without warranty express or implied, all of Grantor's right, title and interest in the oil, gas and other minerals (including but not limited to royalties, overriding royalties, working interests, reversionary interests, or any contractual obligations or interests created pursuant to any Joint Operating Agreement/s) in, under or that may be produced and saved from the property(ies) listed on Exhibit "A" attached hereto and made a part hereof, insofar and only insofar as limited herein (hereinafter referred to as the "Property"), and subject to all of the covenants and conditions hereof and the additional provisions, if any, contained in said Exhibit "A".
2. **No Warranty or Representation by Grantor.** This conveyance is made on an "AS IS, WHERE IS" basis and "WITH ALL FAULTS", and WITHOUT WARRANTIES WHATSOEVER WITH RESPECT TO ANY INTEREST HEREIN TRANSFERRED, EITHER EXPRESS OR IMPLIED, it being expressly agreed by

Grantor and Grantee that GRANTOR MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO ORIGIN, QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, SAFETY OF EQUIPMENT, COMPLIANCE WITH GOVERNMENTAL REGULATIONS, TITLE TO PERSONAL PROPERTY, TITLE TO REAL PROPERTY, THE QUANTITY, VALUE OR EXISTENCE OF RESERVES OF OIL, GAS OR OTHER MINERALS PRODUCIBLE OR RECOVERABLE FROM THE PROPERTY, OR OF TITLE TO OR CONDITION OF THE PROPERTY. All descriptions set forth herein and all information heretofore or hereafter furnished Grantee by Grantor concerning the Property have been and shall be furnished solely for Grantee's convenience and have not constituted and shall not constitute a representation or warranty of any kind by Grantor, and any reliance thereupon by Grantee shall be at Grantee's sole risk and liability. Grantee understands and acknowledges that (i) the Property is or may have been used for the production, storage and transportation of oil and/or gas, including, without limitation, the handling and the storage of naturally occurring radioactive material (NORM); (ii) the Property may contain an abandoned oil well and other oilfield equipment, including abandoned well casing, storage facilities, pipelines, and buried pipe; (iii) the condition and whereabouts of such equipment is unknown and all of which equipment has not been excepted and excluded from this conveyance; and (iv) Grantee must comply with all laws and regulations affecting its planned activities on the Property.

3. **Grantee's Indemnity of Grantor.** Grantee agrees to protect, defend, indemnify and hold Grantor harmless from and against any and all liability (including, but not limited to, liability for environmental contamination or damage under CERCLA, RCRA, CWA, CAA and all other federal, state and local environmental laws and regulations, as well as all acts, laws and regulations amendatory or supplementary thereto), loss, damage, injury, claims, demands and causes of action therefor asserted or filed after the effective date hereof in any way relating to the Property and the contracts and agreements appertaining thereto, **REGARDLESS OF THE SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, REGULATORY LIABILITY, STATUTORY LIABILITY, OR OTHER FAULT OR RESPONSIBILITY OF GRANTOR OR ANY OTHER PERSON OR PARTY.** Grantee shall observe and comply with all covenants, terms, and provisions, express or implied, contained in the agreements, leases, easements and all other contracts appertaining to Grantor's interest in the Property and this Deed is made expressly subject to all such agreements, leases, easements, contracts and other matters.
4. **Taxes.** Any taxes, including but not limited to ad valorem, property, and severance taxes, that may be payable on the Property shall be prorated between Grantor and Grantee as of the effective date hereof, with Grantor responsible for all such taxes accruing prior thereto, and Grantee responsible for all such taxes accruing thereafter. Grantor shall reimburse Grantee for Grantor's share of ad valorem taxes which are due on oil or gas produced prior to the effective date hereof, but not payable until after the effective date hereof. Grantee shall be responsible for all sales, use and similar taxes arising out of the transfer of the Property.

This conveyance shall be binding on the parties and their successors and assigns. Grantee's indemnity obligation under Paragraph 3 is a covenant running with the Property conveyed hereunder, and shall be binding upon Grantee and all subsequent grantees of the Property or any interest therein.

TO HAVE AND TO HOLD unto Grantee, its successors and assigns forever.

EXECUTED the day and year first above written, but effective as of the 1st day of January, 2004.

GRANTOR:

CHEVRON U.S.A. INC.

By: Larry C. LaFleur  
Name / Title: Larry C. LaFleur, Assistant Secretary

GRANTEE:

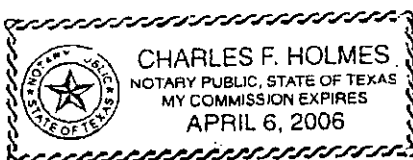
Yates Petroleum Corporation

By: Peyton Yates  
Name / Title: PEYTON YATES, ATTORNEY-IN-FACT

THE STATE OF TEXAS §

COUNTY OF HARRIS §

This instrument was acknowledged before me this 21st day of November, 2003, by Larry C. LaFleur, Assistant Secretary for CHEVRON U.S.A. INC., a Pennsylvania corporation, on behalf of said corporation.



Charles F. Holmes  
Notary Public in and for the State of Texas

THE STATE OF NEW MEXICO §

COUNTY OF EDDY §

This instrument was acknowledged before me this 5<sup>th</sup> day of JANUARY, 200~~2~~<sup>4</sup>, by  
PEYTON YATES, ATTORNEY-IN-FACT FOR YATES PETROLEUM CORPORATION, a New Mexico  
corporation, on behalf of said corporation.



OFFICIAL SEAL  
Tammy L. Hobbs

NOTARY PUBLIC-STATE OF NEW MEXICO Notary Public in and for the State of NEW MEXICO.

My commission expires: 12.8.2007

Exhibit "A"

Attached to and made a part of that certain Mineral Deed dated effective Jan. 1, 2004, by and between Chevron U.S.A. Inc., as Grantor, and Yates Petroleum Corp., Grantee

LIS No or TEPI #	Grantor	Grantee	Date	Recording	Legal Description
085411	Bruce K. Matlock et ux	Tide Water Associated Oil Company	6/20/1950	Book 77, Page 13	2080 acres of land, more or less, being the SW/4 of Section 23, and the W/2 of the W/2 of Section 25, and the N/2 and the SE/4 of Section 26, and all of Sections 27 and 34, T2S-R29E, N.M.P.M., Roosevelt County, New Mexico.

ROOSEVELT CO. NM

BK 115 PG 578

2004 JAN 12 AM 11:11

JOHN F. H. FRANKS, CLERK

*Nadine McElroy*

Exhibit Prepared by  
James L. Gunderson  
ChevronTexaco  
11111 S. Wilcrest, #S2402  
Houston, TX 77099

Return to:  
EnergyNet.com, Inc.  
7201 I-40 West Suite 319  
Amarillo, Texas 79106



## Grace Charboneau

---

**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Friday, October 10, 2014 5:04 PM  
**To:** grace@stratanm.com  
**Subject:** Update on Tule OGL  
**Attachments:** image001.png

Went through everything you have sent over the past months. Monday morning I will go through our files and will call you after that review is done. That would be great if I could find a ratification or word of intent for one to be signed. We also received notice today on the pooling. Have great weekend.

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Friday, October 10, 2014 8:29 AM  
**To:** grace@stratanm.com  
**Subject:** Did not get to it last night but will try to get to it in the next hour.

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575



Fax: (575) 736-8577

Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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## Grace Charboneau

---

**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Tuesday, October 14, 2014 12:41 PM  
**To:** 'Jim Ball'  
**Subject:** RE: was ill yesterday.. will get on this agian this morning.  
**Attachments:** Yates.pdf; image001.png

Mr. Jim,

Attached is a copy of the ratification that was send out in 2010. I don't know if this helps or makes it worse.

Grace Charboneau  
Division Order Analyst

## Sovereign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Tuesday, October 14, 2014 9:19 AM  
**To:** grace@stratanm.com  
**Subject:** was ill yesterday.. will get on this agian this morning.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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## RATIFICATION AND RENTAL STIPULATION

KNOW ALL MEN BY THESE PRESENTS, That:

WHEREAS, the undersigned owns an interest in the following described lands (herein called "Said Lands") in the County of Roosevelt, State of New Mexico subject to the following described oil and gas lease (herein called "Said Lease"), to-wit:

Lessor: Texaco Producing Inc.

Lessee: DEKLB Energy Company

Date: 5-27-1986

Recorded: Book 122 - Page 139

Lands: Township 2 South - Range 29 East, N.M.P.M.

Section 23: SW $\frac{1}{4}$

Section 26: E $\frac{1}{2}$ NW $\frac{1}{4}$

Section 27: All

WHEREAS, the undersigned desire to ratify Said Lease and to stipulate as to the amount of delay rentals, if any, which may become payable under the terms of Said Lease with respect to the interest of the undersigned in Said Lands:

NOW, THEREFORE, in consideration of the sum of Five Dollars (\$5.00) and other valuable consideration, the receipt, adequacy and sufficiency of which are hereby expressly acknowledged by the undersigned, the undersigned hereby agree as follows:

1. If any delay rentals hereafter become payable under the terms of Said Lease with respect to the interest in Said Lands now held by the undersigned, the amount of such delay rentals payable to the undersigned shall be as follows:

NAME: Yates Petroleum Corporation

AMOUNT: N/A

and payment or tender of such amount in the manner specified in Said Lease will constitute full and proper compliance with the delay rental provisions of Said Lease so as to maintain Said Lease in full force and effect with respect to the entire interest now being held by the undersigned in Said Lands, whatever such interest may be, during the entire period covered by such delay rental payment.

2. If any shut-in royalty hereafter becomes payable under the terms of said Lease with respect to the interests in Said Lands now held by the undersigned, the amount of such shut-in royalty payable to the undersigned shall be as follows:

NAME: Yates Petroleum Corporation

AMOUNT: \$31.62

and payment or tender of such amount in the manner specified in Said Lease will constitute full and proper compliance with the shut-in royalty provisions of Said Lease so as to maintain Said Lease in full force and effect with respect to the entire interest now being held by the undersigned in Said Lands, whatever such interest may be, during the entire period covered by such shut-in royalty.

3. The undersigned hereby ratifies revives and confirms the validity of Said Lease as being in full force and effect in accordance with its terms and hereby acknowledge the timely payment and receipt in full of all payments of delay rentals and shut-in royalties, if any, heretofore payable under the provisions of Said Lease on account of the interest of the undersigned in Said Lands.

4. The undersigned further presently grants, leases and lets Said Lands to the lessee named in Said Lease or his successors and assigns in accordance with the terms and provisions of Said Lease to the full extent of the undersigned's right, title and interest in Said Lands.

5. With respect to and for the purposes of this instrument and Said Lease, the undersigned hereby release all rights of dower and/or homestead in Said Lands.

6. This instrument shall be binding upon the undersigned and his heirs, personal representatives, successors and assigns.

EXECUTED THIS \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_.

\_\_\_\_\_

\_\_\_\_\_  
Yates Petroleum Corporation

State of New Mexico

County of Roosevelt

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2010, Yates Petroleum Corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires:

\_\_\_\_\_



## Grace Charboneau

---

**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Wednesday, October 15, 2014 1:38 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Questions.OGL Tule area  
**Attachments:** image001.png

Mr. Jim,

I plead the fifth on that one. I didn't work those up, but let me ask some questions when Mitch gets back tomorrow and I'll let you know. I really don't have a clue. Let me ask questions and I'll let you know.

Sorry about that.

Grace Charboneau  
Division Order Analyst

## Sovereign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Wednesday, October 15, 2014 1:26 PM  
**To:** grace@stratanm.com  
**Subject:** Questions.OGL Tule area

Questions....

Under the lease that was supposedly ratified it covers 880 acres..... with the shut in being \$31.62. What is the basis for that amount?

When I take the 23.7092 net acres indicated in the lease you drafted up for me under the 480 acre description the ratios do not match up with the above.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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## Grace Charboneau

---

**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Thursday, October 16, 2014 3:21 PM  
**To:** grace@stratanm.com  
**Subject:** FW: revised Counter OGL Form  
**Attachments:** image001.png; 20141016101658896.pdf; EXHIBIT A OGL YB to Sovereign Exploration .docx

See one small revision in red....three words. Changed for better clarity.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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---

**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Thursday, October 16, 2014 3:15 PM  
**To:** grace@stratanm.com  
**Subject:** Counter OGL Form

Grace I spent a great deal of time going over the lease form that was presented in the Sovereign Exploration offer to Yates Brothers. To be quite frank it was horrible. There is no way we could have an agreement on that form of lease and it would take too many changes to be a legible flowing document. Overnight I pondered what I should do as a counter and the following is what I came up with as a great option in my opinion.

I will have the best chance of getting the Yates to sign a lease with Sovereign (and the W-9) on the basis shown below. I am not saying I will be successful but I will do my best to make it work.

- Use the attached Yates Holdings Hall-Poorbaugh Producers 88 form **but with paragraph #9 all crossed out and the Exhibit "A" attached to it** (Also attached to this email). Note paragraph #9 in the lease form will be replaced by the wording in the first paragraph on the Exhibit "A" as #11. I have already customized the exhibit for your convenience.
- I will do my best to present to the Yates a 3 year term, 1/6<sup>th</sup> royalty and \$25.00 per net acre bonus. The lands in the lease will be limited to only the N/2 of the section. In the event there is a force pooling hearing that Yates Brothers is subject to and/or if the royalty and bonus on any lands leased or force pooled in the N/2 and/or

adjoined lands within 1 mile around the N/2 that is determined by Yates Brothers to be greater than what you are offering now, Yates will insist it receiving the equivalent of the maximum increase in a more favorable term, bonus and royalty.

Let me know if this will work. This is the lease form I have repeatedly given to oil and gas friends of the Yates, Murphy and Krakauskas families. I feel it is a fair lease with credibility and approval to oil and gas industry-type mineral owners and will go a long way in attempting to persuade the Yates to sign the lease and deal. Thanks.

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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(FIVE YEAR PAID UP LEASE)  
OIL AND GAS LEASE

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_ between \_\_\_\_\_

Lessor (whether one or more), whose address is: \_\_\_\_\_

and \_\_\_\_\_ Lessee, WITNESSETH:

1. Lessor in consideration of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in \_\_\_\_\_ County, \_\_\_\_\_, to-wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, \_\_\_\_\_ of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of \_\_\_\_\_ of the gas so sold or used, provided that on gas sold at the wells the royalty shall be \_\_\_\_\_ of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgement it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

\_\_\_\_\_  
Lessor\_\_\_\_\_  
Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

This instrument was acknowledged before me this \_\_\_\_\_  
by \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

CORPORATION ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

This instrument was acknowledged before me this \_\_\_\_\_  
by \_\_\_\_\_ as \_\_\_\_\_  
of \_\_\_\_\_ corporation  
on behalf of said corporation.

My commission expires \_\_\_\_\_  
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

This instrument was acknowledged before me this \_\_\_\_\_  
by \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. (5 Year Lease) 5-96

No. _____	
<b>Oil and Gas Lease</b>	
FROM	
TO	
Dated _____, 19____	
No. Acres _____	County, N.M. _____
Term _____	
This instrument was filed for record on the _____ day of _____, 19____,	
at _____ o'clock _____ M., and duly	
recorded in Book _____, Page _____	
of the _____ records of this office.	
By _____	County Clerk _____
	Deputy _____
When recorded return to _____	

**EXHIBIT A**

**ATTACHED AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2014 BETWEEN YATES BROTHERS, A PARTNERSHIP, AS LESSOR AND SOVERIEGN EXPLORATION COMPANY LLC, AS LESSEE.**

11. Lessee may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. If this lease covers a less interest in the oil and gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein.

12. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred eighty (180) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed and as to lands so fully developed shall terminate as to all depths lying more than 100' below the total depth drilled.

13. Lessor shall receive all well information and/or data including daily drilling reports at the same time and manner as the working interest owners obtain their information. Lessor shall receive one copy of all such information and/or data. Lessor shall also timely receive all title opinions such as but not limited to Drilling Title Opinions, Division Order Title Opinions and any amendments, supplements and/or corrections related thereto such documents and covering any portion of the leased lands or lands pooled therewith.

14. Lessee shall within 60 days after its receipt submit to Lessor one county recorded copy of this oil and gas lease document. Lessee shall record in the county clerk's records within 60 days a release of oil and gas lease as to those portions of lands and depths which will have terminated under the terms of the lease. Lessor shall receive from Lessee one recorded copy of the release document within 60 days after such document has been received by Lessee from the county clerk.

15. Notwithstanding any other provisions hereof, in the event Lessee has not delivered the documents, information and/or materials timely under the lease terms herein, Lessor shall give Lessee a written request for such documents, information and/or materials and the Lessor of record shall have 10 days from receipt of written notice in which to provide the materials so requested.

16. Lessor conveys no warranties of any kind, express or implied.

**END OF EXHIBIT A**

## Grace Charboneau

---

**From:** Jim Ball [jimball@yatesholdings.com]  
**Sent:** Tuesday, October 21, 2014 2:43 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.  
**Attachments:** image001.png; 20141021144540721.pdf

Grace, I have gone over the Sovereign lease form with Mr. Yates. Please see the requested changes that are attached and note the exhibit A that is also attached. Let use this rough amend version to settle our differences if that is possible. You may be able to read the hand writing better if blown up. If not let me know and I can read it to you in certain instances. Note that the last sentence of paragraph 14 which I crossed out I do have flexibility in what we can accept. I think the wording could be left in if it had a sentence added afterwards that said the interest would not be unreasonably held in suspense.

If we do not settle the differences then we know it will be force pooled. I however would have to ask for a continuance because of several follow-up medical appointments that I cannot miss in Oklahoma City on October 30th. If it had to be continued then I will also not be able to attend a hearing on November 17<sup>th</sup> and 18 due to appearing as a witness in Federal Court in Albuquerque.

I will be leaving for Santa Barbara, California on this Thursday afternoon to attend a funeral of a friend of mine and Mark Murphy's (Jim Dawson). I will return on Monday mid-day so if we can get this resolved before I leave that would be great.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimball@yatesholdings.com](mailto:jimball@yatesholdings.com)

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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Monday, October 20, 2014 4:28 PM  
**To:** 'Jim Ball'  
**Subject:** RE: counter Tule Field

Mr. Jim,

Well I hope your travels were good and safe last week. It is always nice to get out of town to get a change of scenery.

Thank you for your response to my previous email and phone calls. I would love to still try to reach an agreement on the lease if at all possible.

Currently, we have several hundreds of different mineral owners that are currently on the lease form that we presented to you. We would like to continue to use our lease form at this time. If you would like to change the lease form that I sent to you around, then I would be more than happy to present it to Mitch at that time. Without knowing for sure what you do not like about our lease form, it is hard to know if we can work with it or not. I know that it is a tremendous amount of work for you and I apologize for that, but please take a moment to try to do the changes to the form that I sent to you please.

The title opinion is something that is provided to working interest owners because it is paid for by the working interests owners typically. As far as royalty owners and the title opinions, we will provide the section of the title opinion that *pertains to the royalty owners only and not a full copy of it at this time.*

We are offering for Yates Brothers or any another party mineral owner to become a working interest owner if they wish. If you choose to do a farmout agreement to YPC, that might be a good option for Yates Brothers. However, the farmout agreement is your choice. We are not going to tell you one way or the other on what you should do. This would be completely your choice on what you would like to do.

I truly wish I could offer more than the 1/6 royalty and the \$25.00 per net mineral acre, but as we are all aware of the issues we have in that area, it is difficult for production alone. If I could offer more like we could in the Permian Basin, I would love to. The Tule field/Wildcat Area will not allow for it to work for everyone.

Please look at our lease and start doing changes so that I have a place to start. Please let me know if it is just really not in opinion. We are still planning on going forward with the force pooling that is set at the end of this month.

Thank you for your time.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Friday, October 17, 2014 2:23 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** counter Tule Field

Grace,

The Sovereign lease has too many changes. Don't have time to change ...that would take too long..... I do not like it ... It is the worst I have ever seen in my career and I cannot in good conscience put it in front of the Yates and say sign it. It would take up to many hours or days of negotiating back and forth and I do not believe some issues would be solvable if Sovereign cannot even agree to let us have a copy of title opinions for our files. The lease form I am presenting to

Sovereign as a counter is a lease form that probably works for everyone in the Permian...and beyond. No one yet has had a problem with it that I have found. Mitch needs to get me the wording that he is concerned with on the gas processing and I will run it by the Yates for approval. (Fingers crossed.) We can argue all day about the fact that title opinions are given to WI owners but I agree with that statement because they pay for it. EQUALLY AS COMMON AS THAT IS THE FACT THAT industry royalty owners require the same thing in their standard lease forms and that is what the Yates family is requiring just like all the other industry royalty owners.

Try getting a lease without giving a TO and well info from the Cowdens, Scarburroughs, DK Boyd, Everett Haley, Andy Grooms, Featherstones, Tom and Tim Jennings to name a few. Yes we will be a royalty owner but this will be a condition of the lease.....and such a condition or request is normal for an industry royalty owner such as Murphy to ask for it. Final point, Murphy Oil Corp. has required it of me in the past I am 99% sure of it. Look at it this way too. I can flip it to YPC or another party and they then give Sovereign a farmout agreement ..... such a title opinion and well data would also be normal in the requirement of the farmout agreement ..... So does Sovereign want to deal with another party in negotiating a FO Agreement? Probably not. I hope we can agree to get the T.O. topic resolved in about one second and move on to the more important issues of the wording of the processing the gas etc.

It will cost Sovereign 2 minutes of time and about \$3.00 of ink to satisfy this issue. I further would see it as a courtesy when Sovereign is offering only \$25.00 per net acre and 1/6 royalty on a field that is has been producing for 30 years.

I am late leaving town and am going out the door. Thasnk.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Friday, October 17, 2014 1:00 PM

**To:** 'Jim Ball'

**Subject:** RE: Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Mr. Jim,

I spoke to Mitch again about the title opinions and the drilling opinions. He basically said that we would provide you with a copy of your section of the title opinion as a royalty owner. The full title opinion will not be provided to a royalty owner because the royalty owner was not helping pay for the title opinion cost. Also, in the past, you might have been



working for a participant in the well and that is why you may not have had a problem getting the copy of the title opinion in the past.

I have attached a copy of the original lease that was sent to you. If you don't mind, please go through and do the changes in our lease that you do not like and add the things that are important to you in. Mitch might come off on some of the things in the lease, but I cannot promise anything. The document is set up to where it will track changes as you type or delete. If you can do this, maybe we might be a step closer to putting this to bed.

Thank you for your help. Have a great day.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Thursday, October 16, 2014 4:54 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Jim Ball  
Landman



**Yates Holdings LLP**

P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014 between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

Township 2 South, Range 29 East, NMPM  
Section 26: N/2, SE/4

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, re-survey, or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this agreement.

3 **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and /or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure.

4 **Term of Lease.** This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. Lessee is hereby given the option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless so extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.

**Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that in Lessee's sole opinion are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

**6. Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 90 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

**7. Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arm's-length transaction that is utilized.

**8. Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon

which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**9. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**10. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**11. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**12. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**13. Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14. Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:

Yates Brothers

By: Yates Private Equity II LLP, Partner

By: \_\_\_\_\_  
John A. Yates, Jr.

Title: Manager

ACKNOWLEDGMENTS

NOTE:

The following short form certificate of notarial acts are sufficient for the purpose indicated, if completed with the information required by subsection A of Section 7 (14-14-17 NMSA) of the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

Acknowledgment in a Representative Capacity

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) § ss.

This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 2014, by John A. Yates, Jr., Manager of Yates Private Equity II LLP, a New Mexico limited liability partnership, in its capacity as general partner of Yates Brothers, a New Mexico general partnership, on behalf of said partnership.

\_\_\_\_\_  
Notary Public in and for the State of \_\_\_\_\_

My Commission Expires:

(Seal, if any)

## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014 between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

Township 2 South, Range 29 East, NMPM  
Section 26: N/2, SE 1/4, NE 1/4

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, re-survey, ~~otherwise~~, for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). ~~This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above.~~ The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions ~~and strips or parcels of land now or hereafter owned by Lessor~~ which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this Agreement.

3. **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and/or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure

4. **Term of Lease.** This lease shall be in force for a primary term of five (5) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. ~~Lessee is hereby given the option to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.~~

5. **Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that ~~in Lessee's~~ ~~sole opinion~~ are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including ~~without limitation~~, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

6. **Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties ~~shall~~ <sup>may</sup> be made by check ~~or draft~~. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 10 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by Lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

7. **Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, ~~less the same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes.~~ <sup>As used in this provision, Post Production Costs shall mean: all costs actually incurred by Lessee or its affiliate and all taxes on produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include, without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.</sup>

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs ~~as a~~ per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arm's-length transaction that is utilized.

8. **Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon

and after application of any allowed deductions for a royalty owner under state & federal statutes just as if this leased land was state or federal lands.

the error to correct the lease was timely corrected.

which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee ~~shall~~ terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

9. **Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

10. **Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

11. **Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

12. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

13. **Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of ~~thirty~~ 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a ~~reasonable time~~ <sup>a period of 90 days</sup> after said judicial determination to remedy the breach or default and Lessee fails to do so.

14. **Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. ~~In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.~~

→ CAN BE  
flexible with  
wording.



**LESSORS:**  
Yates Brothers, a Partnership  
By: Yates Private Equity II L.P., Partner

## ACKNOWLEDGMENTS

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) § ss.

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_, 2014, by John A. Yates, Jr. as Manager of Yates Brothers, a Partnership, a New Mexico Partnership.

My Commission Expires: \_\_\_\_\_

EXHIBIT A

ATTACHED AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2014 BETWEEN YATES BROTHERS, A PARTNERSHIP, AS LESSOR AND SOVEREIGN EXPLORATION COMPANY LLC, AS LESSEE.

15. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred eighty (180) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed and as to lands so fully developed shall terminate as to all depths lying more than 100' below the total depth drilled.

16. Lessor shall receive all well information and/or data including daily drilling reports at the same time and manner as the working interest owners obtain their information. Lessor shall receive one copy of all such information and/or data. Lessor shall also timely receive all title opinions such as but not limited to Drilling Title Opinions, Division Order Title Opinions and any amendments, supplements and/or corrections related thereto such documents and covering any portion of the leased lands or lands pooled therewith.

17. Lessee shall within 60 days after its receipt submit to Lessor one county recorded copy of this oil and gas lease document. Lessee shall record in the county clerk's records within 60 days a release of oil and gas lease as to those portions of lands and depths which will have terminated under the terms of the lease. Lessor shall receive from Lessee one recorded copy of the release document within 60 days after such document has been received by Lessee from the county clerk.

18. Lessor conveys no warranties of any kind, express or implied.

END OF EXHIBIT A

\_\_\_\_\_

\_\_\_\_\_

## Grace Charboneau

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**From:** Grace Charboneau [gcharboneau@stratanm.com]  
**Sent:** Friday, October 24, 2014 2:28 PM  
**To:** 'Jim Ball'  
**Cc:** 'Mitch Krakauskas'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.  
**Attachments:** Yates Brothers Lease Revised 10-24-14.doc; image001.png

Mr. Jim,

Attached is the revised lease with your changes and our changes. Please review the changes and let me know if you have any questions.

Also, Mitch would like to speak to you tomorrow sometime about the lease. If you can please give me your cell number or will call Mitch on his at (575) 420-1181, I would greatly appreciate it.

Thank you for your help. Have a good day and great weekend.

Grace Charboneau  
Division Order Analyst

## Sovereign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

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**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Thursday, October 23, 2014 3:31 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Running late out the door. As to the terms I have gone over the lease with Mr. Yates and these are those are the things within your lease form we want changed if we use your lease form. Your marketing charges effect the net royalty we receive and thus Mr. Yates wants me to come back to him to see what you agree to change or not and he will be the one that decides what he will accept or not after seeing the changes....not me. As I said in an earlier email I will do my best to get him to agree but the lease form is VIP too. Using your lease form messed up the normal way we do things in presenting ...one of the reasons I did not want to use it. Honestly going out the door now.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572

Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Thursday, October 23, 2014 3:25 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,  
I'm sorry to hear about the loss of your friend. Our condolences to you.

As far as the length, this is something that you have revised on our lease form to three years. Sovereign is fine with the three year term. I would assume since you revised it to that, it was an acceptable term when you sent it back to me with the revisions.

With the bonus and royalty, we have leased the majority of the other mineral owners with the same terms that we are offering Yates Brothers. We do not feel it is fair or ethical to offer you a higher rate of bonus or royalty. I honestly would not feel right to offer a higher royalty rate or higher bonus. We are trying to keep everyone equal. We feel that every royalty owner is just as important as the other one. If you can please tell me why Yates Brothers minerals are worth more than the other mineral owners, I would love to listen and entertain the reasoning and offer. Sovereign wants every mineral owner to be treated equally and fairly. It is only right for everyone to be offered the same royalty rate and bonus payment terms to lease their mineral interest.

I will get the revisions to you first thing in the morning.

Thank you for your quick response. Be careful in your travels. Have a fantastic evening.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

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**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Thursday, October 23, 2014 2:52 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

That will be fine. I still do not know if the terms will be accepted in terms of bonus, length and royalty but for sure we need to have a good lease form. I am leaving for the funeral in 10 minutes but will be here on Monday mid morn. Thanks. Have a good day.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Thursday, October 23, 2014 2:51 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,  
I am currently working on the revisions that you requested and also placing Mitch's revision and what will be accepted and not. I should have this done by Friday and it will be waiting on you to see if it is acceptable or not.  
Have a great day.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Tuesday, October 21, 2014 2:43 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Grace, I have gone over the Sovereign lease form with Mr. Yates. Please see the requested changes that are attached and note the exhibit A that is also attached. Let use this rough amend version to settle our differences if that is possible. You may be able to read the hand writing better if blown up. If not let me know and I can read it to you in certain instances. Note that the last sentence of paragraph 14 which I crossed out I do have flexibility in what we can accept. I think the wording could be left in if it had a sentence added afterwards that said the interest would not be unreasonably held in suspense.

If we do not settle the differences then we know it will be force pooled. I however would have to ask for a continuance because of several follow-up medical appointments that I cannot miss in Oklahoma City on October 30th. If it had to be continued then I will also not be able to attend a hearing on November 17<sup>th</sup> and 18 due to appearing as a witness in Federal Court in Albuquerque.

I will be leaving for Santa Barbara, California on this Thursday afternoon to attend a funeral of a friend of mine and Mark Murphy's (Jim Dawson). I will return on Monday mid-day so if we can get this resolved before I leave that would be great.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Monday, October 20, 2014 4:28 PM  
**To:** 'Jim Ball'  
**Subject:** RE: counter Tule Field

Mr. Jim,  
Well I hope your travels were good and safe last week. It is always nice to get out of town to get a change of scenery.

Thank you for your response to my previous email and phone calls. I would love to still try to reach an agreement on the lease if at all possible.

Currently, we have several hundreds of different mineral owners that are currently on the lease form that we presented to you. We would like to continue to use our lease form at this time. If you would like to change the lease form that I sent to you around, then I would be more than happy to present it to Mitch at that time. Without knowing for sure

what you do not like about our lease form, it is hard to know if we can work with it or not. I know that it is a tremendous amount of work for you and I apologize for that, but please take a moment to try to do the changes to the form that I sent to you please.

The title opinion is something that is provided to working interest owners because it is paid for by the working interests owners typically. As far as royalty owners and the title opinions, we will provide the section of the title opinion that pertains to the royalty owners only and not a full copy of it at this time.

We are offering for Yates Brothers or any another party mineral owner to become a working interest owner if they wish. If you choose to do a farmout agreement to YPC, that might be a good opinion for Yates Brothers. However, the farmout agreement is your choice. We are not going to tell you one way or the other on what you should do. This would be completely your choice on what you would like to do.

I truly wish I could offer more than the 1/6 royalty and the \$25.00 per net mineral acre, but as we are all aware of the issues we have in that area, it is difficult for production alone. If I could offer more like we could in the Permian Basin, I would love to. The Tule field/Wildcat Area will not allow for it to work for everyone.

Please look at our lease and start doing changes so that I have a place to start. Please let me know if it is just really not an opinion. We are still planning on going forward with the force pooling that is set at the end of this month.

Thank you for your time.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Friday, October 17, 2014 2:23 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** counter Tule Field

Grace,

The Sovereign lease has too many changes. Don't have time to change ...that would take too long.... I do not like it ... It is the worst I have ever seen in my career and I cannot in good conscience put it in front of the Yates and say sign it. It would take up to many hours or days of negotiating back and forth and I do not believe some issues would be solvable if Sovereign cannot even agree to let us have a copy of title opinions for our files. The lease form I am presenting to Sovereign as a counter is a lease form that probably works for everyone in the Permian...and beyond. No one yet has had a problem with it that I have found. Mitch needs to get me the wording that he is concerned with on the gas processing and I will run it by the Yates for approval. (Fingers crossed.) We can argue all day about the fact that title opinions are given to WI owners but I agree with that statement because they pay for it. EQUALLY AS COMMON AS THAT IS THE FACT THAT industry royalty owners require the same thing in their standard lease forms and that is what the Yates family is requiring just like all the other industry royalty owners.

Try getting a lease without giving a TO and well info from the Cowdens, Scarburoughs, DK Boyd, Everett Haley, Andy Grooms, Featherstones, Tom and Tim Jennings to name a few. Yes we will be a royalty owner but this will be a condition of the lease.....and such a condition or request is normal for an industry royalty owner such as Murphy to ask for it. Final point, Murphy Oil Corp. has required it of me in the past I am 99% sure of it. Look at it this way too. I can flip it to YPC or another party and they then give Sovereign a farmout agreement ..... such a title opinion and well data would also be normal in the requirement of the farmout agreement ..... So does Sovereign want to deal with another party in negotiating a FO Agreement? Probably not. I hope we can agree to get the T.O. topic resolved in about one second and move on to the more important issues of the wording of the processing the gas etc.

It will cost Sovereign 2 minutes of time and about \$3.00 of ink to satisfy this issue. I further would see it as a courtesy when Sovereign is offering only \$25.00 per net acre and 1/6 royalty on a field that is has been producing for 30 years.

I am late leaving town and am going out the door. Thasnk.

Jim Ball  
Landman



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Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Friday, October 17, 2014 1:00 PM

**To:** 'Jim Ball'

**Subject:** RE: Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Mr. Jim,

I spoke to Mitch again about the title opinions and the drilling opinions. He basically said that we would provide you with a copy of your section of the title opinion as a royalty owner. The full title opinion will not be provided to a royalty owner because the royalty owner was not helping pay for the title opinion cost. Also, in the past, you might have been working for a participant in the well and that is why you may not have had a problem getting the copy of the title opinion in the past.

I have attached a copy of the original lease that was sent to you. If you don't mind, please go through and do the changes in our lease that you do not like and add the things that are important to you in. Mitch might come off on some of the things in the lease, but I cannot promise anything. The document is set up to where it will track changes as you type or delete. If you can do this, maybe we might be a step closer to putting this to bed.  
Thank you for your help. Have a great day.



Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

---

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Thursday, October 16, 2014 4:54 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Jim Ball  
Landman



**Yates Holdings LLP**

P.O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
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## OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 21th day of August 2014, between Yates Brothers, a Partnership, whose address is PO Box 1394, Artesia, NM 88211 as Lessor (whether one or more), and Sovereign Exploration Company, LLC, whose address is P.O. Box 968, Roswell, NM 88202, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

**Township 2 South, Range 29 East, NMPM**  
**Section 26: N/2, SE/4 SE/4**

these lands being located in the County of Roosevelt, State of New Mexico, containing 23.7092 net acres, whether it actually comprises more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription, or re-survey, or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon products and by-products, and non-hydrocarbon substances produced in association therewith ("Oil and Gas Substances"). ~~This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether or not the same be within the boundaries of the land particularly described above.~~ The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and ~~strips or parcels of land now or hereafter owned by Lessor~~ which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Consideration.** In exchange for Ten Dollars (\$10.00) and other good and valuable consideration, the terms of which shall remain confidential, the receipt and sufficiency of which is hereby acknowledged, the Lessor hereby conveys and exchanges this agreement.

3. **Ancillary Rights.** The rights granted to Lessee hereunder shall include the right of ingress and egress on the Leased Premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing Oil and Gas Substances, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells (including, but not limited to wells to inject gas, waters, other fluids, and air into subsurface strata), pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport Oil and Gas Substances and water produced from the Leased Premises or other lands that share central facilities and are jointly operated with the Leased Premises for gathering, treating, compression and water disposal. In its operations, Lessee shall have free use of any Oil and Gas Substances, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds, and the royalty shall be computed after deducting any such substances used. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

Lessor, by virtue of the lease,

a) grants a mineral permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity and/or other remote sensing data acquisition for the term of the lease; and

b) to the extent Lessor owns or controls surface rights, grants a surface permit for entry, exit, egress for all exploration and drilling purposes, including but not limited to surface seismic data acquisition, cross-well seismic data acquisition, well logging and data acquisition, airborne, gravity, and /or other remote sensing data acquisition for the term of the lease; and

c) to the extent Lessor owns or controls surface rights, grants rights-of-way for entry, exit and egress for all exploration, drilling and development purposes including but not limited to surface vehicles, electrification, oil and gas pipeline, and all related producing infrastructure.

4. **Term of Lease.** This lease shall be in force for a primary term of ~~five (5)~~ three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. ~~Lessee is hereby given the option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for a period of five (5) years as to all or any portion of the acreage then held hereunder which would expire unless so extended, the only action required by Lessee to exercise this option being the payment to Lessor (delivered by certified mail to the address hereinabove identified for Lessor) of the additional consideration of the sum equal to that paid for primary term, which payment shall cover the five (5) year term extension. If this lease is extended as to only a portion of the acreage then covered hereby, Lessee shall designate such portion by a recordable instrument and the additional consideration shall be proportionately reduced.~~

**Operations.** If Lessee drills a well which Lessee determines is uneconomic (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 180 days after completion of operations on such dry hole or within 180 days after such cessation of all production. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 180 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production from the Leased Premises or lands pooled or unitized therewith. After completion of a well hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the Leased Premises, or (b) protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. Notwithstanding anything herein to the contrary, Lessee shall not be required to drill additional wells or produce Oil and Gas Substances from existing wells that in Lessee's sole opinion in Lessee's sole opinion are uneconomic or inadequately priced in the market. As used herein, the term Operations shall mean any activity conducted on or off the Leased Premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, hydraulic fracturing, plugging back, deepening, treating, testing, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of Oil and Gas Substances; and (v) construction of water disposal facilities and the physical movement of water produced from the Leased Premises.

**6. Shut-in Royalty.** If at any time when this lease is not validated by other provisions hereof and there is a gas and/or oil well on said land, or land pooled therewith, but gas or oil is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 180 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may shall be made by check, or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within ~~90-10 days~~ 60 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of oil or gas on or off the premises shall be the price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders and after application of any allowed deductions for a royalty owner under state and federal statutes just as if this fee land was state or federal lands and after application of any applicable price adjustments specified in such contract or regulatory orders. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease if the error to correct the issue was timely corrected.

**7. Royalty Payment.** For all Oil and Gas Substances that are physically produced from the Leased Premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty one-sixth (1/6th) of the sales proceeds actually received by Lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, ~~less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale, less this same percentage share of all Post Production Costs and this same percentage share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale. These costs include without limitation, all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing required by the first unaffiliated party who purchases the affected production. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs or charges downstream of the point of sale.~~

Lessee or its affiliate shall have the right to construct, maintain and operate any facilities providing some or all of the services identified as Post Production Costs. ~~If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities. If this occurs, the actual costs of such facilities shall be included in the Post Production Costs as a per barrel or per mcf charge, as appropriate, calculated by spreading the construction, maintenance and operating costs for such facilities over the reasonably estimated total production volumes attributable to the well or wells using such facilities.~~

Lessee shall have free use of Oil and Gas Substances to assist in producing or enhancing production of Oil and Gas Substances and Lessor's royalty shall be computed after deducting any Oil and Gas Substances so used. If Lessee uses the Oil and Gas Substances (other than to assist in producing or enhancing production of Oil and Gas Substances or as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to

affiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the Leased Premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arm's-length transaction that is utilized.

**8. Pooling and Unitization.** Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises described herein and as to any one or more of the formations, subsurface depths, or horizons hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record in the county in which the lease premises are located either before or after completion of well(s) a declaration of such pooling, unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations, or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease, shall be treated as if it were production, drilling or reworking operations or a well shut in for want of market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right but not the obligation to unitize, pool, or combine all or any part of the above described lands or interest therein as to one or more of the formations thereunder with other lands in the same general area by entering in one or more cooperative or unit plan of development(s) or operation (approved by any governmental authority, if required by law) and, from time to time, with like approval if required by law, to modify, change or terminate any such plan or agreement. In such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and, if required by law then approved by any governmental agency, by executing the same upon request of Lessee. Upon permanent cessation thereof, Lessee may shall terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**9. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**10. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**11. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**12. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of ~~at least 90 days~~ at least 60 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a ~~reasonable time~~ a period of 10 days a period of 60 days after said judicial determination to remedy the breach or default and Lessee fails to do so.

**14. Title.** Lessor hereby ~~warrants and agrees to defend title conveyed to Lessee hereunder, and~~ agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. ~~In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.~~

**IN WITNESS WHEREOF,** this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:  
Yates Brothers  
By: Yates Private Equity II LLP, Partner

By: \_\_\_\_\_  
John A. Yates, Jr.

Title: Manager

**ACKNOWLEDGMENTS**

**NOTE:**  
The following short form certificate of notarial acts are sufficient for the purpose indicated, if completed with the information required by subsection A of Section 7 (14-14-17 NMSA) of the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of the state.

**Acknowledgment in a Representative Capacity**

STATE OF \_\_\_\_\_ )  
 ) § ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 2014, by John A. Yates, Jr., Manager of Yates Private Equity II LLP, a New Mexico limited liability partnership, in its capacity as general partner of Yates Brothers, a New Mexico general partnership, on behalf of said partnership.

\_\_\_\_\_  
**Notary Public in and for the State of** \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ (Seal, if any)

**EXHIBIT A**

**ATTACHED AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2014 BETWEEN YATES BROTHERS, A PARTNERSHIP, AS LESSOR AND SOVERIEGN EXPLORATION COMPANY LLC, AS LESSEE.**

~~15. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred eight (180) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed and as to lands so fully developed shall terminate as to all depths lying more than 100' below the total depth drilled.~~

~~16. Lessor shall receive all well information and/or data including daily drilling reports at the same time and manner as the working interest owners obtain their information. Lessor shall receive one copy of all such information and/or data. Lessor shall also timely receive all title opinions such as but not limited to Drilling Title Opinions, Division Order Title Opinions and any amendments, supplements and/or corrections related thereto such documents and covering any portion of the leased lands or lands pooled therewith.~~

~~1715. Lessee shall within 60 days after its receipt submit to Lessor one county recorded copy of this oil and gas lease document. Lessee shall record in the county clerk's records within 60 days a release of oil and gas lease as to those portions of lands and depths which well have terminated under the terms of the lease. Lessor shall receive from Lessee one recorded copy of the release document within 60 days after such document has been received by Lessee from the county clerk.~~

~~1816. Lessor conveys no warranties of any kind, express or implied.~~

**END OF EXHIBIT A**

## Grace Charboneau

---

**From:** Jim Ball [jimb@yatesholdings.com]  
**Sent:** Tuesday, October 28, 2014 5:19 PM  
**To:** grace@stratanm.com  
**Subject:** RE: Tule Field gas and the oil marketing infrastructure  
**Attachments:** image001.png

I am pretty sure that most of these questions will have the same answers but had to separate out in case I was wrong in my assumption. It really should not be that big of a task as I think it will be repetitive answers to the questions since the wells are in the same field and adjacent to each other. We have been netted and the Yates want to know the detail of where and why their money went elsewhere and who benefited from the extreme high deduct charges.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Tuesday, October 28, 2014 4:43 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Tule Field gas and the oil marketing infrastructure

Mr. Jim,

As you are aware, this is a pretty big task to pull and gather this information. This is a pretty big list of questions that will take quite a bit of effort to gather. Before I run with this and get the answers for your questions, can you please tell me what prompted all this?

Thank you.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Tuesday, October 28, 2014 4:23 PM  
**To:** [grace@stratahm.com](mailto:grace@stratahm.com)  
**Subject:** Tule Field gas and the oil marketing infrastructure

Grace can you or Mitch (or someone) give me a summary and/or answers on how the gas and the oil marketing infrastructure is set up in the Tule field?  
Such as but not limited to:

Each product....Is it piped or trucked?

How many hydrocarbon products are being processed? Who are the purchasers of the various individual products?

If applicable, who is the processor...or "Processing Company"? How much are they charging?

Who transports the products to the contracting purchasing company for each product and who is that? How much are they charging?

If applicable, is fuel from the lease being used in its operations? If so, is the fuel staying on the lease or is it being used off lease as well...or both? How much are they charging/crediting for it to be used off lease?

If applicable, who is the compression deduction being paid to? How much are they charging?

If applicable, who is the dehydration deduction being paid to? How much are they charging?

If applicable, is there a gathering charge and if so who is that being paid to? How much are they charging?

If applicable, is there a processing deduction and if so who is that being paid to? How much are they charging?

If applicable, is there a treating deduction and if so who is that being paid to? How much are they charging?

Are there any other cost associated with the production and extraction of minerals that are being deducted from the royalty owners and if so what are they and who is being paid? How much are they charging?

Also, what taxes are being withheld and if state tax is being withheld why are they?

Will additional wells in the Tule field be subject to EXACTLY the same existing charges and EXACTLY the same Revised Division Order and Marketing Agreement that was executed earlier this year on the Cook #1, Wendell Best #1, JT McGee Com #1 and the Perry #1? If not, how will it be different?

Thanks.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)



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**Grace Charboneau**

---

**From:** Mitch Krakauskas [mkrakauskas@stratanm.com]  
**Sent:** Tuesday, November 04, 2014 8:04 AM  
**To:** grace@stratanm.com  
**Subject:** FW: Tule Field gas and the oil marketing infrastructure  
**Attachments:** image001.png

**Mitch Krakauskas, RPL**  
Strata Production Company

**From:** Mitch Krakauskas [mailto:mkrakauskas@stratanm.com]  
**Sent:** Thursday, October 30, 2014 11:08 AM  
**To:** 'jimb@yatesholdings.com'  
**Subject:** RE: Tule Field gas and the oil marketing infrastructure

Jim-

Grace has forwarded on your request. I will get with management and get these answered for you at our earliest convenience.

Thank you,

**Mitch Krakauskas, RPL**  
Strata Production Company  
w. 575.622.1127 ext.23  
m. 575.420.1181  
e. [mkrakauskas@stratanm.com](mailto:mkrakauskas@stratanm.com)

**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Tuesday, October 28, 2014 4:43 PM  
**To:** 'Mitch Krakauskas'  
**Subject:** FW: Tule Field gas and the oil marketing infrastructure

**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Tuesday, October 28, 2014 4:23 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** Tule Field gas and the oil marketing infrastructure

Grace can you or Mitch (or someone) give me a summary and/or answers on how the gas and the oil marketing infrastructure is set up in the Tule field?  
Such as but not limited to:

Each product....Is it piped or trucked?

How many hydrocarbon products are being processed? Who are the purchasers of the various individual products?

If applicable, who is the processor...or "Processing Company"? How much are they charging?

Who transports the products to the contracting purchasing company for each product and who is that? How much are they charging?

If applicable, is fuel from the lease being used in its operations? If so, is the fuel staying on the lease or is it being used off lease as well...or both? How much are they charging/crediting for it to be used off lease?

If applicable, who is the compression deduction being paid to? How much are they charging?

If applicable, who is the dehydration deduction being paid to? How much are they charging?

If applicable, is there a gathering charge and if so who is that being paid to? How much are they charging?

If applicable, is there a processing deduction and if so who is that being paid to? How much are they charging?

If applicable, is there a treating deduction and if so who is that being paid to? How much are they charging?

Is there any other cost associated with the production and extraction of minerals that are being deducted from the royalty owners and if so what are they and who is being paid? How much are they charging?

Also, what taxes are being withheld and if state tax is being withheld why are they?

Will additional wells in the Tule field be subject to EXACTLY the same existing charges and EXACTLY the same Revised Division Order and Marketing Agreement that was executed earlier this year on the Cook #1, Wendell Best #1, JT McGee Com #1 and the Perry #1? If not, how will it be different?

Thanks.

Jim Ball  
Landman



**Yates Holdings LLP**

P. O. Box 1394

Artesia, NM 88211-1394

Direct Phone: (575) 736-8572

Main Phone: (575) 736-8575

Fax: (575) 736-8577

Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**Grace Charboneau**

---

**From:** Mitch Krakauskas [mkrakauskas@stratanm.com]  
**Sent:** Tuesday, November 04, 2014 8:04 AM  
**To:** grace@stratanm.com  
**Subject:** FW: Counter on Tule Field OGL of Sovereign.  
**Attachments:** image001.png

**Mitch Krakauskas, RPL**  
**Strata Production Company**

**From:** Mitch Krakauskas [mailto:mkrakauskas@stratanm.com]  
**Sent:** Thursday, October 30, 2014 2:51 PM  
**To:** 'jimb@yatesholdings.com'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Jim-

Even though both of us have tried to negotiate the terms of this lease in good faith, it looks as though we will not be able to come to an agreement. Unfortunately, the terms of your lease form for Yates Brothers are incompatible with our needs and the terms of our 40+ other leases. I think our best course of action is to let this go to the hearing and discuss it at that time.

At this time, I feel it is best to defer all future communication through our respective counsel.

Thank you again for your time and effort on this.

**Mitch Krakauskas, RPL**  
**Strata Production Company**  
w. 575.622.1127 ext.23  
m. 575.420.1181  
e. [mkrakauskas@stratanm.com](mailto:mkrakauskas@stratanm.com)

**From:** Jim Ball [mailto:jimb@yatesholdings.com]  
**Sent:** Monday, October 27, 2014 5:20 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Cc:** 'Mitch Krakauskas'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Grace and Mitch,

Returned mid-morning and went through a lot of emails on this and other topics. I have had meetings most of the day since arriving. Might be best if Mitch wants to talk and try me tomorrow. Will be gone to Okla. City for several Dr. appointments starting on Wed. afternoon through Thursday and Friday. Returning on Monday 1:00 PM.

I see the best chance of this being resolved if we go back to the initial suggestions I sent to your company. We are too far apart on what is a reasonable offer using your form and terms. Respectfully I/we do not agree with your claims for offering terms that in your opinion are reasonable and fair. We will remain hopeful that we can work things out and I have given indications to you both of how I think it could be best accomplished.

Jim Ball  
Landman



**Yates Holdings LLP**  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Friday, October 24, 2014 2:28 PM  
**To:** 'Jim Ball'  
**Cc:** 'Mitch Krakauskas'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,  
Attached is the revised lease with your changes and our changes. Please review the changes and let me know if you have any questions.

Also, Mitch would like to speak to you tomorrow sometime about the lease. If you can please give me your cell number or will call Mitch on his at (575) 420-1181, I would greatly appreciate it.

Thank you for your help. Have a good day and great weekend.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Thursday, October 23, 2014 3:31 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Running late out the door. As to the terms I have gone over the lease with Mr. Yates and these are those are the things within your lease form we want changed if we use your lease form. Your marketing charges effect the net royalty we receive and thus Mr. Yates wants me to come back to him to see what you agree to change or not and he will be the one that decides what he will accept or not after seeing the changes....not me. As I said in an earlier email I will do my best to get him to agree but the lease form is VIP too. Using your lease form messed up the normal way we do things in presenting ...one of the reasons I did not want to use it. Honestly going out the door now.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Thursday, October 23, 2014 3:25 PM

**To:** 'Jim Ball'

**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,  
I'm sorry to hear about the loss of your friend. Our condolences to you.

As far as the length, this is something that you have revised on our lease form to three years. Sovereign is fine with the three year term. I would assume since you revised it to that, it was an acceptable term when you sent it back to me with the revisions.

With the bonus and royalty, we have leased the majority of the other mineral owners with the same terms that we are offering Yates Brothers. We do not feel it is fair or ethical to offer you a higher rate of bonus or royalty. I honestly would not feel right to offer a higher royalty rate or higher bonus. We are trying to keep everyone equal. We feel that every royalty owner is just as important as the other one. If you can please tell me why Yates Brothers minerals are worth more than the other mineral owners, I would love to listen and entertain the reasoning and offer. Sovereign wants every mineral owner to be treated equally and fairly. It is only right for everyone to be offered the same royalty rate and bonus payment terms to lease their mineral interest.

I will get the revisions to you first thing in the morning.

Thank you for your quick response. Be careful in your travels. Have a fantastic evening.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Thursday, October 23, 2014 2:52 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

That will be fine. I still do not know if the terms will be accepted in terms of bonus, length and royalty but for sure we need to have a good lease form. I am leaving for the funeral in 10 minutes but will be here on Monday mid morn.  
Thanks. Have a good day.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]  
**Sent:** Thursday, October 23, 2014 2:51 PM  
**To:** 'Jim Ball'  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Mr. Jim,

I am currently working on the revisions that you requested and also placing Mitch's revision and what will be accepted and not. I should have this done by Friday and it will be waiting on you to see if it is acceptable or not.  
Have a great day.

Grace Charboneau  
Division Order Analyst

## Sovereign Exploration Company, L.L.C.

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]  
**Sent:** Tuesday, October 21, 2014 2:43 PM  
**To:** [grace@stratanm.com](mailto:grace@stratanm.com)  
**Subject:** RE: Counter on Tule Field OGL of Sovereign.

Grace, I have gone over the Sovereign lease form with Mr. Yates. Please see the requested changes that are attached and note the exhibit A that is also attached. Let use this rough amend version to settle our differences if that is possible. You may be able to read the hand writing better if blown up. If not let me know and I can read it to you in certain instances. Note that the last sentence of paragraph 14 which I crossed out I do have flexibility in what we can accept. I think the wording could be left in if it had a sentence added afterwards that said the interest would not be unreasonably held in suspense.

If we do not settle the differences then we know it will be force pooled. I however would have to ask for a continuance because of several follow-up medical appointments that I cannot miss in Oklahoma City on October 30th. If it had to be continued then I will also not be able to attend a hearing on November 17<sup>th</sup> and 18 due to appearing as a witness in Federal Court in Albuquerque.

I will be leaving for Santa Barbara, California on this Thursday afternoon to attend a funeral of a friend of mine and Mark Murphy's (Jim Dawson). I will return on Monday mid-day so if we can get this resolved before I leave that would be great.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [mailto:gcharboneau@stratanm.com]  
**Sent:** Monday, October 20, 2014 4:28 PM  
**To:** 'Jim Ball'  
**Subject:** RE: counter Tule Field

Mr. Jim,

Well I hope your travels were good and safe last week. It is always nice to get out of town to get a change of scenery.

Thank you for your response to my previous email and phone calls. I would love to still try to reach an agreement on the lease if at all possible.

Currently, we have several hundreds of different mineral owners that are currently on the lease form that we presented to you. We would like to continue to use our lease form at this time. If you would like to change the lease form that I sent to you around, then I would be more than happy to present it to Mitch at that time. Without knowing for sure what you do not like about our lease form, it is hard to know if we can work with it or not. I know that it is a tremendous amount of work for you and I apologize for that, but please take a moment to try to do the changes to the form that I sent to you please.

The title opinion is something that is provided to working interest owners because it is paid for by the working interests owners typically. As far as royalty owners and the title opinions, we will provide the section of the title opinion that pertains to the royalty owners only and not a full copy of it at this time.

We are offering for Yates Brothers or any another party mineral owner to become a working interest owner if they wish. If you choose to do a farmout agreement to YPC, that might be a good opinion for Yates Brothers. However, the farmout agreement is your choice. We are not going to tell you one way or the other on what you should do. This would be completely your choice on what you would like to do.

I truly wish I could offer more than the 1/6 royalty and the \$25.00 per net mineral acre, but as we are all aware of the issues we have in that area, it is difficult for production alone. If I could offer more like we could in the Permian Basin, I would love to. The Tule field/Wildcat Area will not allow for it to work for everyone.

Please look at our lease and start doing changes so that I have a place to start. Please let me know if it is just really not an opinion. We are still planning on going forward with the force pooling that is set at the end of this month.

Thank you for your time.

Grace Charboneau  
Division Order Analyst

**Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Friday, October 17, 2014 2:23 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** counter Tule Field

Grace,

The Sovereign lease has too many changes. Don't have time to change ...that would take too long..... I do not like it ... It is the worst I have ever seen in my career and I cannot in good conscience put it in front of the Yates and say sign it. It would take up to many hours or days of negotiating back and forth and I do not believe some issues would be solvable if Sovereign cannot even agree to let us have a copy of title opinions for our files. The lease form I am presenting to Sovereign as a counter is a lease form that probably works for everyone in the Permian...and beyond. No one yet has had a problem with it that I have found. Mitch needs to get me the wording that he is concerned with on the gas processing and I will run it by the Yates for approval. (Fingers crossed.) We can argue all day about the fact that title opinions are given to WI owners but I agree with that statement because they pay for it. **EQUALLY AS COMMON AS THAT IS THE FACT THAT** industry royalty owners require the same thing in their standard lease forms and that is what the Yates family is requiring just like all the other industry royalty owners.

Try getting a lease without giving a TO and well info from the Cowdens, Scarburroughs, DK Boyd, Everett Haley, Andy Grooms, Featherstones, Tom and Tim Jennings to name a few. Yes we will be a royalty owner but this will be a condition of the lease.....and such a condition or request is normal for an industry royalty owner such as Murphy to ask for it. Final point, Murphy Oil Corp. has required it of me in the past I am 99% sure of it. Look at it this way too. I can flip it to YPC or another party and they then give Sovereign a farmout agreement ..... such a title opinion and well data would also be normal in the requirement of the farmout agreement ..... So does Sovereign want to deal with another party in negotiating a FO Agreement? Probably not. I hope we can agree to get the T.O. topic resolved in about one second and move on to the more important issues of the wording of the processing the gas etc.

It will cost Sovereign 2 minutes of time and about \$3.00 of ink to satisfy this issue. I further would see it as a courtesy when Sovereign is offering only \$25.00 per net acre and 1/6 royalty on a field that is has been producing for 30 years.

I am late leaving town and am going out the door. Thasnk.

Jim Ball  
Landman



Yates Holdings LLP  
P. O. Box 1394  
Artesia, NM 88211-1394  
Direct Phone: (575) 736-8572  
Main Phone: (575) 736-8575  
Fax: (575) 736-8577  
Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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**From:** Grace Charboneau [<mailto:gcharboneau@stratanm.com>]

**Sent:** Friday, October 17, 2014 1:00 PM

**To:** 'Jim Ball'

**Subject:** RE: Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Mr. Jim,

I spoke to Mitch again about the title opinions and the drilling opinions. He basically said that we would provide you with a copy of your section of the title opinion as a royalty owner. The full title opinion will not be provided to a royalty owner because the royalty owner was not helping pay for the title opinion cost. Also, in the past, you might have been working for a participant in the well and that is why you may not have had a problem getting the copy of the title opinion in the past.

I have attached a copy of the original lease that was sent to you. If you don't mind, please go through and do the changes in our lease that you do not like and add the things that are important to you in. Mitch might come off on some of the things in the lease, but I cannot promise anything. The document is set up to where it will track changes as you type or delete. If you can do this, maybe we might be a step closer to putting this to bed.

Thank you for your help. Have a great day.

Grace Charboneau  
Division Order Analyst

## **Sovereign Exploration Company, L.L.C.**

P.O. Box 968  
Roswell, NM 88202  
(575) 622-1127 Ext. 20

**From:** Jim Ball [<mailto:jimb@yatesholdings.com>]

**Sent:** Thursday, October 16, 2014 4:54 PM

**To:** [grace@stratanm.com](mailto:grace@stratanm.com)

**Subject:** Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Looks like I misspelled Sovereign's name on the Exhibit A header. I will change that.

Jim Ball  
Landman



**Yates Holdings LLP**

P. O. Box 1394

Artesia, NM 88211-1394

Direct Phone: (575) 736-8572

Main Phone: (575) 736-8575

Fax: (575) 736-8577

Email: [jimb@yatesholdings.com](mailto:jimb@yatesholdings.com)

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# SOVEREIGN EAGLE, LLC

P.O. BOX 968    ROSWELL, NM 88202-0968

---

November 5, 2014

Mr. Jim Ball  
Yates Holdings LLP  
PO Box 1394  
Artesia, NM 88211-1394

Re: Tule Field Marketing

Dear Jim,

Mitch asked me to respond to your email of October 28<sup>th</sup> regarding Sovereign Eagle LLC's (Sovereign) marketing of Tule Field products.

First I want to provide you some historical background of Sovereign's history at Tule. Sovereign purchased the Tule field in 2008 when it was making ~70 Mcfd from the 6 producing wells. Sovereign immediately upgraded all of the facilities, began well work to hopefully re-establish the field as an economic venture and was planning aeromag surveys that would hopefully lead to a seismic shoot. By early 2011 the 6 wells were producing ~2,500 Mcfd, gas prices were \$4.00/MMBtu, 2-D & 3-D seismic was evaluated and Sovereign was planning development and exploratory drilling. Then in April 2011 Transwestern decided to start enforcing the inert gas specifications on their pipeline and ordered the field shut-in until we could remove enough nitrogen from the gas to meet their spec. Sovereign produced enough gas to keep the leases alive and started up a year later, April 2012, with a membrane system to remove nitrogen. Gas prices had dropped to \$1.83/MMBtu. The membrane technology was not a viable process so we shut-in again in Feb 2013 and started up in May 2013 with our current processing system which is described in detail below and on the attached schematic.

Sovereign received State and Federal approval for off-lease measurement, storage and sales after acquiring the field in 2008. All production is gathered & transported from the 6 producing wells to a central facility. The produced water is pipelined from the central facility for disposal to the Powell SWD well located in the field. Oil from the Cook #1 is stored at the central facility and sold arm's length to Shell Trading. Shell also arranges for the truck transport of the oil. After the wells are individually separated and the gas is metered, the combined gas stream flows through another separator and then enters the pressure swing absorption nitrogen removal plant. The nitrogen plant is leased arm's length from IACX Energy and the associated screw compressor is leased arm's length from Exterran. After nitrogen removal the gas flows through a 3 stage compressor which is also leased arm's length from Exterran. The gas is then dehydrated by Sovereign & WIO's and then flows through a JT skid for NGL recovery which is leased arm's length from Kinder Morgan. The NGL stabilizer, tower and NGL storage tank are also leased arm's length from Kinder Morgan. NGL's are sold arm's length to ICAN Energy Company and they also handle the trucking of the NGL's. The gas is then recompressed to sales line pressure in a 2 stage compressor owned by Sovereign & WIO's. There is a 7 mile pipeline owned by Southbound Gas Company from the central facility to Transwestern's

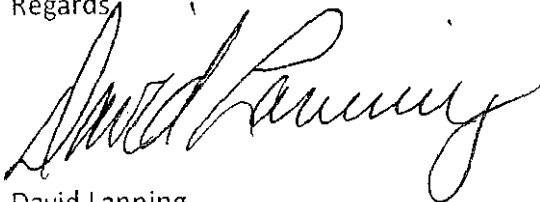
pipeline. The gas is sold arm's length to Southbound at the central facility based on Transwestern's index price less Southbound's transport charge, which averages ~\$.25/MMBtu. Sovereign & WIO's also own a natural gas fueled genset to provide electricity for the central facility. Lease gas provides the fuel consumed at the central facility by the 3 compressors, the dehy and the genset. There is also a small amount of gas vented as part of the IACX nitrogen removal process.

Sovereign & WIO's own the facilities that are not leased and Sovereign is only charging its arm's length direct costs and COPAS allowed direct and indirect charges. However, because the economics of this project are so challenging with low gas prices and high operating costs, in May 2013 Sovereign initiated discussions with the State about a processing allowance prior to the payment of State tax and royalty when we started up the new processing plant. The allowance approved by the State and implemented by Sovereign is \$2.081/Mcf. It was calculated based on the 2013 estimated expenses and projected gas volumes through the new facilities. Sovereign is applying the allowance prior to payment of State taxes and all royalty interests except the federal government. The actual 2013 expenses and gas volumes would have allowed Sovereign to significantly increase the processing allowance for 2014 but Sovereign decided as a show of good faith to maintain the allowance at \$2.081/Mcf.

Sovereign continues to make improvements in the mechanics and efficiency of the processing facilities and looks forward to the time when all of the interest owners are consistently making money from the Tule project.

Because Tom Kelley at Yates Petroleum has recently inquired about the Tule project I have also sent him a copy of this letter to help explain the current status. If you have other questions please let me know.

Regards

A handwritten signature in black ink, appearing to read "David Lanning", written in a cursive style.

David Lanning  
Exploration & Development Manager

cc: Tom Kelley

