

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

S. P. YATES
CHAIRMAN OF THE BOARD

JOHN A. YATES
PRESIDENT

PEYTON YATES EXECUTIVE VICE PRESIDENT RANDY G. PATTERSON SECRETARY

DENNIS G. KINSEY TREASURER

December 2, 1997

Amerind Oil Company Ltd. 415 West Wall Street Midland, Texas 79701-4467

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Hert Bullock

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Robert Bullock Landman

Case Nos. 11934 (consolidated with 11958 and 11959)

Exhibit No. 2

Submitted by: Yates Petroleum Corporation

Hearing Date: May 14, 1998

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1	US Postal Service Receipt for Cert No Insurance Coverage F Do not use for Internation Sent to Amerind Oil Com A 15 West Wall S	Provided. pal Mail (See reverse) pany Ltd itreet	
Ī	Midlara Chail exas		
	Postage	\$	
	Certified Fee		
	Special Delivery Fee		
	Restricted Delivery Fee		
1995	Return Receipt Showing to Whom & Date Delivered		
April	Return Receipt Showing to Whom, Date, & Addressee's Address		
800,	TOTAL Postage & Fees	\$	
PS Form 3800 , April 1995	Postmark or Date Jisld 4	PK Sta	, !
PS F(Com # 3	R8/4	_

SENDEM: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so the	I also wish to receive the following services (for an extra fee):		
card to you. Attach this form to the front of the mailpiece, or on the back if a permit. Write "Return Receipt Requested" on the mailpiece below the a The Return Receipt will show to whom the article was delivered delivered.	article number.	1.	•
3. Article Addressed to:	4a. Article N		
Amerind Oil Company Ltd. 415 West Wall Street Midland, Texas 79701-4467	4b. Service ☐ Register ☐ Express	ed Mail ceipt for Merchandi:	☑ Certified ☐ Insured
5. Received By: (Print Name)	8. Addresse and fee is	e's Address (Only paid)	y if requested
6. Signature: (Addressee or Agent)	On On	n #3	8B/4
PS Form 3811 , December 1994	102595-97-B-0179	Domestic Re	turn Receipt

S vour RETURN ADDRESS



Lea

100

LEASE NAME

LEGAL DESC.

DIVISION CODE

DISTRICT CODE

BRANCH CODE

PROGNOSIS:

920-100 920-110

920-120

920-130

920-140

920-150

920-160

920-170

920-180

920-190

920-200

920-210

920-220

920-230

920-240

920-350

920-410

920-420

920-430

920-440

920-450

920-460

920-470

920-480

920-490

920-510

920-500

930-010

930-020

930-030 930-040

940-010

940-020

940-030

940-040

TOTAL COSTS

RB

TANGIBLE EQUIPMENT COSTS:

Casing

INTANGIBLE DRILLING COSTS:

COUNTY

FIELD

AFE NO.

PROJ'D DEPTH

Oil & Gas Division

STATE

41 days @ \$7400/day + \$40k mobilization

one zone test only

2 DST's

LOCATION **HORIZON**

97-343-0

ATES PETROLEUM CORPORATION	AUTHORITY FOR EXPENDITURE NEW DRILLING & RECOMPLETION						
	AF	E Type:	We	Il Objective:	We	all Type:	Α
105 SOUTH FOURTH STREET	X	New Drilling	X	Oil		Development	X
ARTESIA, NEW MEXICO 88210		Recompletion	X	Gas	X	Exploratory	
TELEPHONE (505) 748-1471	_	· · · · · · · · · · · · · · · · · · ·	<i>-</i> [Injector	_		

Field APK State Com. #3

DIVISION NAME

DISTRICT NAME

BRANCH NAME

3,300' FSL & 760' FWL

Staking, Permit & Legal Fees

Drilling Water, Fasline Rental

Cementing - Surface Casing

Electric Logs & Tape Copies

Tools & Equip. Rntl., Trkg. & Welding

Mud Logging Unit, Sample Bags

Location, Right-of-Way

Drilling Mud & Additives

Drill Stem Testing, OHT

Supervision & Overhead

Coring, Tools & Service

Water for Completion

Cementing - Completion

Stimulation for Completion

Contingency for Completion

Christmas Tree & Wellhead

Packer & Special Equipment

Separation Equip., Flowlines, Misc.

Trucking & Construction Costs

Pumping Equipment

Storage Facilities

Supervision & O/H - Completion

Bits, Tool & Supplies Purchase

Cementing - Production Casing

Mud & Additives for Completion

Elec. Logs, Testing, Etc. - Completion

Additional LOC Charges - Completion

TOTAL INTANGIBLE DRILLING COSTS

11-3/4" @ 450' 8-5/8" @ 4650' 5-1/2" @ 12,600'

2 7/8" @ 12400'

TOTAL TANGIBLE EQUIPMENT COSTS

Bits, Tools & Supplies - Completion

Tools & Equip. Rental, Etc. - Completion

Completion Unit - Swabbing

Contingency

Drilling, Footage

Drilling, Daywork

	APE DATE	11/20/97
		*
AF	E STATUS:	
X	Original	
	Revised	
	Final	
- 46	,	
	,600'	
	w Mexico	
	ction 2-16S-35E	
Mo	orrow	·
		··
		· · · · · · · · · · · · · · · · · · ·
		
	DRY HOLE	COMP'D WELL
	1,200	1,200
	15,000	15,000
	365,000	365,000
	15,000	15,000
	32,000	32,000
	11,600	11,600
	24,000	24,000
	10,000	10,000
	25,400	25,400
	24,500	24,500
	17,400	17,400
*************	50,000	50,000
	30,000	36,500
*************		10,000
***********		8,000
************		1,000
		0
***********		35,000
		20,000
************		100,000
************		3,100
************		1,200
*************		1,800
*************		.,,,,,,
	591,100	807,700
	2,000	26,000
***********	7,600	7,600
*************	56,500	56,500
************		93,000
••••••	· · · · · · · · · · · · · · · · · · ·	
······		35,000
***********		8,000
•••••		116,000
***********		22,700
******		25,000
		15,700
	66,100	405,500
	657.200	1,213,200

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

including \$20,000 for electricity

Prepared By	AL SPRINGER	Operations Approval	
		OWNER	SHARE
BY ·		DATE	
BY		DATE	
BY .		DATE	



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

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

S. P. YATES

February 11, 1998

Amerind Oil Company, Ltd. Suite 500 Wilco Building 415 West Wall Street Midland, Texas 79701-4467

RE: Farmout Letter Agreement

Township 16 South, Range 35 East, NMPM

Section 2: SW/4SW/4 Lea County, New Mexico

Gentlemen:

Please find enclosed two (2) copies of the Farmout Letter Agreement for the captioned. If you find everything in order, please execute and return both copies to Yates Petroleum Corporation for our signature. We will return one (1) signed original to you.

Also enclosed is a copy for you records of our C-101 for the Field "APK" State Com. #3 proposed well.

If you have any questions regarding this matter, please contact me.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock Landman

RB/ljf enclosure(s)

CAlled Mary Aun Brock 2-26-98 1 shi said

MR. Leibrock . Attorny were looking over Flo opers,

PO Box 1980, Hobbs, NM 88241-1980

District II

811 South First, Artesia, NM 88210

District III

1000 Rio Brazos Rd., Aztec, NM 87410

District IV

State of New Mexico Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION 2040 South Pacheco Santa Fe, NM 87505

Form C-101 Revised October 18, 1994 Instructions on back Submit to Appropriate District Office State Lease - 6 Copies Fee Lease - 5 Copies

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APPLICA	.110N		, (perator Nan	or and Address. m Corpor		PEN	, PLUGBA	ACK,	³ 0G	D A ZONE RID Number 5 5 7 5
				105 S. 4	th Street				Ì	, 3 A	PI Number
			Artes	ia, New	Mexico 8821	10				30 - Ö	
⁴ Prope	rty Code					roperty Name "APK" St	ate	Com.			' Well No. 3
					⁷ Surface	Location					
UL or lot no.	Section	Township	Range	Lat Ida	Feet from the	North/South	ine	Feet from the	East/W	est line	County
Lot 13	2	16S	35E	•	3300	South	1	760'	Wes	st	Lea
		8 Pr	oposed	Bottom	Hole Locat	ion If Diff	erent	From Sur	face		
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South		Feet from the	1	Vest line	County
		•	ed Pool 1			<u> </u>	l.	14 Propo	sed Pool	2	
	W	ildcat	Morr	ow		· · · · · · · · · · · · · · · · · · ·					
" Work "	Type Code		Well Typ	e Code	¹³ Cable	-/Rotary		Lesse Type Co	ode	1	ad Level Elevation
" M	ultiple		Proposed		"For	mation row	Und	"Contractor esignate		3	Spud Date AP
			2	¹ Propos	ed Casing a	nd Cement	t Pro	gram			
Hole S	ize	Casi	ng Size		ng weight/foot	Setting D			f Cemen	ι	Estimated TOC
14 3	/4"	11	3/4"	4:	2.0#	450'	'	550	sx	Ci	rculate
11"		8	5/8"	3	2.0#	4600'		1050	sx	Ci	rculate
7 7	//8"	5	1/2"	1	7.0#	TD		1350	sx	Apr	ox. 1700
									•		
wae. Describe Yates F interme set and interme product and sti MUD PRO	ethe blower Petrol Petr	eum Co forma nt cir casin asing ed as FW G Star	rporam, in rpora tions culated will needed el, Por ch to E on massore is	tion p. Appled to l be suited for aper, 1 9600 8 5/8	product: LCM to 4: SW Gel Casing	to dril ely 450' . Appro cement of mented w ion. 50'; Bri Drispac and tes	of of oximulation of the contract of the contr	nd test surface ately 4: ulated. adequat to 4600 C Polim	the cas	Morro sing w of comme over p at Bri	w and ill be roial, erforate ne,
Title:		ATORY A		• .		Approval Date:			Expirati	ion Date:	
Dete: Decembe	er 19,	1997	Phone	: 505-748	-4347	Conditions of Ap	proval :	•			

DISTRICT I P.O. Box 1980, Hobbs, NM 88240

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102 Revised February 10, 1994 Instruction on back

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT II P.O. Crawer DD, Artesia, NM 88210

DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410

OIL CONSERVATION DIVISION P.O. Box 2088

Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	WILDCAT MORROW	
Property Code		roperty Name "STATE COM.	Well Number
OGRID No. 025575	•	perator Name TROLEUM CORPORATION	Elevation 3995

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Lot 13	2	165	35E		3300	SOUTH	760	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint o	or Infill Co	nsolidation	Code Or	der No.				<u> </u>

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

Lot 12 E-3003 VA-604	Lot 10	Lot 9	OPERATOR CERTIFICATION I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief. Signature
Lot 13 Lot 14 Ε ηγ20	Lot 15	Lot 16	Clifton R. May Printed Name Regulatory Agent Title December 19, 1997 Date SURVEYOR CERTIFICATION
VA-604			I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervison, and that the same is true and correct to the best of my belief. 12/05/97 Date Surveyed
FEE			Certific to Hersen John RLS 3640 FIED OF SENSING THE COMPANY

AMERIND OIL COMPANY, LTD.

ROBERT M. LEIBROCK ROBERT C. LEIBROCK Suite 500, WILCO BUILDING 415 WEST WALL STREET MIDLAND, TEXAS 79701-4467

Telephone (915) 682-8217 Facsimile (915) 686-0747

December 10, 1997

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

Attention: Mr. Robert Bullock, Landman

RE: Field APK State Com No. 3

DEC 12 1997

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL SW45W4

Lea County, New Mexico

Gentlemen:

This is in response to your letter of December 2, 1997.

Amerind, et al would farm out all its interest in the referenced well with Amerind retaining an overriding royalty interest equal to the difference between existing burdens and 75.0 percent until payout, convertible to a 33.3 percent working interest at payout. This letter is only to set forth the basic trade terms; other terms would be addressed in the farmout agreement.

If you are in agreement with the above referenced terms, please forward your farmout agreement for our review.

If you have any questions, please call Mary Ann Brock in our office.

Very truly yours,

AMERIND OIL COMPANY, LTD.

Robert C. Leibrock General Partner

RCL/mab

FARMOUT LETTER AGREEMENT

BETWEEN

AMERIND OIL COMPANY, LTD.
Suite 500 Wilco Building
415 West Wall Street
Midland, Texas 79701-4467

AND

YATES PETROLEUM CORPORATION 105 South Fourth Street Artesia, New Mexico 88210

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
Section 2: SW/4SW/4
Lea County, New Mexico

Dated_____

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	Signatures	5
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	Exhibit "B" - Operating Agreement	

FARMOUT LETTER AGREEMENT

Amerind Oil Company, LTD., Suite 500 Wilco Building, 415 West Wall Street

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

represent(s) that	they are	the	owner of various	fee Oil a	nd Gas Lease(s)
covering lands in	Lea	County,	i i	:	
			35 East, NMPM		
	Section 2:	SW/4SW/4			
					•
stratigraphic equivalent of any event not to exceed hereinafter referred to as If you comply we test well provided for he implied, an appropriate in which this farmout letter	12,700 feet land the series acreage." - with all the terms, or rein, we will execunstrument conveying	below the surfa covenants and c ite and deliver to ng the lease acre	ce, subject to the sonditions of this let o you, without warn	aid burden ter and dri anty of titl	Is on production, i
1. <u>INITIAL T</u>	EST WELL				
1.1 You shal drilling of a well for oil o Range 35 East, Lea (00' FSL & 76		2. Towns	, the actua
prosecute the drilling of approximately 12,600	feet to	adequately te	st theMorro	w Format	ion
formation. Should a forn gas in paying quantities zone and earn as provi accordance with the stan	at a lesser depth, ded in paragraph	you shall have 2. This test	the right to complet	te in the s	hallower formation
1.2 In the June 1, 1998 manner provided in Para	, or after o	commencing the	mence the tes	plete it w	

2. DRILL AND EARN

- 2.1 After such time as you have drilled and completed the initial test well as a well capable of producing oil and/or gas in paying quantities, we shall, upon your written demand after said completion, deliver to you and appropriate instrument conveying, without warranty of title, either express or implied, all of the operating rights in, to and under the lease acreage within the spacing unit, subject to an overriding royalty equal to the difference between 75% of 8/8ths and existing lease burdens of the market value of all (8/8ths) of oil gas and other hydrocarbon substances produced, saved and marketed from the lease acreage within the spacing unit until you shall have recovered all cost and expenses incurred in drilling, completing and operating said initial test well (payout) delivering to you a 75% net revenue interest lease.
- 2.2 During payout, you shall furnish us with current monthly statements summarizing income and expenses properly chargeable to payout. Upon payout, you shall promptly notify us by certified mail, and upon receipt of such notification, we shall have thirty (30) days within which to advise you if we elect to continue our reserved overriding royalty. If we fail to respond within said thirty (30) days, our reserved overriding royalty shall automatically convert to an undivided thirty three and one third percent (33.3333%) working interest, subject to proportionate reduction effective at 7:00 a.m. of the first day following that in which payout occurs.

3. RISK, COST AND EXPENSE OF OPERATIONS

- 3.1 All of your operations on the lease acreage shall be conducted at your sole cost, risk and expense, and you shall hold us harmless from any and all claims of whatsoever character or description resulting from or arising in connection withyour operations thereon. You shall comply with all of the terms and provisions of said oil and gas leases and all applicable rules and regulations pertaining to your operations hereunder. You shall carry or cause to be carried the following insurance, protecting us against loss by reason of your operations hereunder, to-wit:
 - (i) Workmens' Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico;
 - (ii) Liability Insurance in the amount of \$200,000.00 per person and \$500,000.00 per accident for personal injury and \$25,000.00 for property damage.

4. GEOLOGICAL DATA

4.1 You will allow us or our representative full access to the derrick floor; and we shall have access to all cores, cuttings, logs, testing, completion data and all other information pertaining to any wells drilled hereunder. Further requirements are set forth in Exhibit "A" attached hereto and made a part hereof.

5. BOND AND DESIGNATION OF OPERATOR

5.1 Prior to the time you commence drilling operations upon the lease covered by this farmout letter agreement, we will use our best efforts to furnish you with a Designation of Operator on such lease in the form approved by the Bureau of Land Management. In the event we do not have a lease bond filed on any such lease, then prior to commencing operations we will furnish the Bureau of Land Management with an approved bond.

6. **OVERRIDING ROYALTY RESERVED**

6.1 There is reserved from this farmout letter and there shall be reserved from any operating agreement granted hereunder an overriding royalty equal to see paragraph 2.1 of the net proceeds from the sale of all (8/8ths) of the oil, gas and other hydrocarbon substances produced, saved and marketed from the lease acreage under the terms of said oil and gas lease and all extensions and renewals thereof; said overriding royalty to be reserved by the undersigned, their heirs, successors and assigns in proportion to their percentage ownership of the lease acreage. This overriding royalty shall be computed and paid at the same time and in the same manner as royalties payable to the lessor under the terms of said oil and gas lease are computed and paid, but the undersigned shall be responsible for their proportionate part of all taxes and assessments levied against or measured by the production of oil or gas from said premises.

7. RENTALS

7.1 We will use our best efforts to pay the rentals and shut-in royalty, if any, to the lessor, but shall not be liable in damages for the failure to pay the same, and you shall reimburse us for such rentals and shut-in royalty so paid on the lease as follows:

your proportionate part

8. ABANDONED WELLS

8.1 You shall notify us of your intention to abandon any well on the lease acreage and we shall have twenty-four hours (24) after receipt of such notice of intention to abandon a well in which to elect to take over the well you propose to abandon. In the event we elect to take over the well, we will pay to you the reasonable market value of the salvage materials in the well, and in such event you shall furnish us with a release of the lease acreage within the spacing unit dedicated to such well. In the event we do not notify you of our election to take over the well within the time herein provided, you shall plug and abandon the well in accordance with applicable rules and regulations.

9. FORCE MAJEURE

9.1 The performance by you of any of the terms and provisions of this farmout letter shall be excused in the event such performance is prevented by strikes, fire, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond your control; provided, however, that such performance shall be resumed within reasonable time after such cause has been removed.

10. NOTICES

10.1 Time is of the essence in this agreement, and all notices provided for in this farmout letter shall be deemed to have been sufficiently given if sent by telegram or certified mail, addressed as follows:

SEE ATTACHED GEOLOGICAL REQUIREMENTS

All information required to be delivered to the undersigned shall be delivered at the addresses above set forth. For the purpose of this paragraph, either party may change his address by giving written notice to the other party thereof.

11. RESTORATION OF PREMISES

11.1 You agree to fill in all pits which may be dug in connection with any operations hereunder and to restore the surface of the lands on which such operations are conducted, in accordance with any applicable surface owner agreements, and to plug and abandon any of the wells provided for herein, all at your sole cost, risk and expense and in accordance with any regulation promulgated by any governmental regulatory body having jurisdiction thereof.

12. OPERATING AGREEMENT

12.1 Upon conveyance of the rights earned by the performance of the obligations set forth herein, all subsequent operations on the lease acreage will be conducted in accordance with the terms of a mutually acceptable Operating Agreement. Said Operating Agreement shall be on A.A.P.L. Form 610 and include a 300% non-consent provision, a provision stating that consent to drill is not consent to case, the deletion of the Preferential Right to Purchase paragraph, a mutually acceptable gas balancing agreement, and such other provisions that shall be mutually agreed upon.

13. SUBSTITUTE TEST WELL

13.1 If, in the drilling of the option well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of the Operator, to drill the well to the objective depth, or plug and abandons the initial test well as a dry hole, then and in any such event, on or before thirty (30) days after completion of the initial test well, Operator shall have the option to commence the actual drilling of another well ("substitute test well") at a lawful location of Operator's selection on the lease acreage. The substitute test well shall be drilled in the same manner as provided for in the initial test well. For all purposes of this agreement, the drilling of the substitute test well shall be considered as the drilling of the initial test well.

14. PRODUCTION IN KIND

- 14.1 We shall have the continuing option, at any time and from time to time, to purchase at the market price prevailing in the area on the date of purchase, or designate a purchaser, of any oil, gas, casinghead gas or other hydrocarbon substances that may be produced from the lands assigned pursuant to this agreement, whether overriding royalty or working interest, whether by reason of such interest or portion thereof being included in any pool or in any pooling agreement or unit, planned or otherwise.
- 14.2 Before you enter into any contract for the sale, purchase or processing of gaseous hydrocarbons from the interest involved herein, you shall submit to us in writing the contract into which you propose to enter. We shall have the right and option, at our election, to (I) take in kind or otherwise dispose of our share of the gas upon such terms and conditions as we deem advisable, or (2) allow you to dispose of all of the gas and account to us, all in accordance with the terms of the proposal submitted; provided, however, that if you are in any way affiliated with the purchaser of such gas, then you shall account to us on the basis of the highest price offered or paid in the area by any purchaser or prospective purchaser. If we fail to notify you of our election hereunder within sixty (60) days after receipt of such notice from you, then it shall be considered that we made election (2) above. For the purpose of election (2) above, the interest of ours shall be considered to be only the overriding royalty interest reserved under this farmout agreement and shall not include our working interest gas. In the event that we exercise our reserved option to convert our overriding royalty to a working interest upon payout of any well herein provided for, or at any time during which we may have a working interest in any well, we shall at all times have the express right to take our proportionate share of the working interest gas in kind or to independently market or dispose of the same and nothing herein contained shall be construed as giving or granting to you the right to market or otherwise dispose of the proportionate share of the working interest gas of ours without express authorization from time to time to do so.

15. NON-ASSIGNABILITY

15.1 This farmout letter is personal to you and neither this farmout letter nor any interest herein shall be assigned by you (other than to any other Yates "in house" entities) without our express consent in writing, the breach of which shall, at our election, automatically terminate this farmout letter.

16. BINDING EFFECT

16.1 This farmout letter shall be covenant running with the ownership of the lease acreage and, as such, shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors, and when assigned as herein provided, upon the assigns of the parties hereto.

Farmout	Letter	Agreement
Page 5		

17. ACCEPTANCE

17.1 This letter is not binding upon us until such time as it has been accepted by you and one (I) fully executed copy returned to us within ten (10) days from the date hereof.

AMERIND OIL COMPANY, LTD.				
Ву:	-			
Title:	_			
Date:	<u>.</u>			
The foregoing farmout letter agreement and a accepted and agreed to this	all of its terms, day of	covenants and	conditions are, 1998.	hereby
				÷
YATES PETROLEUM CORPORATION				
By:Attorney-in-Fact	•			

EXHIBIT "A" GEOLOGICAL REQUIREMENTS

Mr. Mike Hayes Yates Petroleum Corporation 105 South Fourth Street Artesia, New Mexico 88210 (505) 748-1471 (Office) (505) 748-8767 (Home) (505) 365-7106 (Cellular) (505) 748-4570 (Fax)

ALTERNATE: Mr. Ray Beck (505) 748-2565

I. Notification:

- Ä. You shall immediately notify the above company representative (or alternate) by telephone, at your expense, sufficiently in advance of the following events in order that a representative of the company may be present to witness same:
 - 1. Spudding of any test well hereunder,
 - 2. All drill stem or other tests of said well,
 - 3. Logging or other downhole surveys,
 - 4. Any coring operations,
 - 5. Any plugging operations,
- B. You shall, at your expense, furnish us current progress reports (daily drilling, completion, or workover and daily mud log) on said well with full information thereon each day by fax. This requirement may be waived and well progress reports may be mailed daily when practicable.

II. Other Requirements:

- A. Unless waived by us, you shall run:
 - 1. A GR-Dual Laterolog, Dual Induction or equivalent saturation log.
 - 2. A GR-Compensated Neutron-Formation Density or equivalent porosity log.
 - 3. A mudlog commencing 100' above 1st potential pay continuous to TD.
- B. You shall furnish us the following data and information:
 - 1. Two copies of field prints and two copies of final prints of all electric logs or other downhole surveys run in said well; this includes dipmeter logs and any derivative logs such as "Coriband", "Saraband", "Elan", or equivalent survey analysis.

 2. One copy of digital data on 3-1/2" diskette - LAS Format,

 - 3. Two copies of all drill stem test reports,
 - 4. Two copies of all core analysis reports,
 - 5. One copy of all fluid analysis reports,
 - 6. Two copies of the preliminary mudlog sheets and two copies of the final mud log,
 - 7. One copy of any paleontological report,
 - 8. One copy of any geological report,
 - 9. One copy of the sample description
 - 10. One copy of the drilling time,
 - 11. One copy of all government reports,
 - 12. One copy of daily production reports for sixty (60) days after completion of the well.
- C. One set of representative samples to be filed with Midland Sample Cut.



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON

DENNIS G. KINSEY
TREASURER

February 26, 1998

Fuel Products, Inc. P.O. Box 3098 Midland, Texas 79702-3098 CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Fields APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Polart Bullak

Robert Bullock

Landman

RB/ljf enclosure(s)

	Z 443 8	10 437	
, F , F	US Postal Service Receipt for Cer No Insurance Coverage Do not use for Internation Sent to uel Products, Inc. 30et 80x53098	Provided. nal Mail (See reverse)	
	Postage	\$	
	Certified Fee		
	Special Delivery Fee		
10	Restricted Delivery Fee		
1995	Return Receipt Showing to Whom & Date Delivered		
April	Return Receipt Showing to Whom, Date, & Addressee's Address		
800	TOTAL Postage & Fees	\$	
PS Form 3	Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom, Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date	ex spete	

the reverse side	ENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if spac permit. Write 'Return Receipt Requested' on the mailpiece below the article The Return Receipt will show to whom the article was delivered an delivered.	e does not e number.	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
ADDRESS completed on	Fuel Products, Inc. P.O. Box 3098 Midland, Texas 79702-3098	4a. Article N 2 4 4b. Service Registere Express Return Rec 7. Date of De	Type ed Mail Ceipt for Merchandise Cumber A Certified Dissured COD Cod Cod Cod Cod Cod Cod Cod Co
ls your REI	5. Received By: (Print Name) THOMAS M. BEALL 6. Signature: (Addressee or Agent) X Dume my July PS Form 3811, December 1994	and fee is	e's Address (Only if requested







TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE 97-343-0 11/26/97

NEW DRILLING & RECOMPLETION

AFE Type: 105 SOUTH FOURTH STREET X New Drilling ARTESIA, NEW MEXICO 88210

Well Objective: Well Type: X Oil Development X Gas X Exploratory Recompletion Injector

AFE STATUS: X Original Revised Final

LEASE NAME COUNTY LEGAL DESC. FIELD

Field APK State Com. #3 3,300' FSL & 760' FWL

PROJ'D DEPTH STATE LOCATION **HORIZON**

-	
12,600'	
New Mexico	
Section 2-16S-35E	· .
Morrow	

657,200

1,213,200

DIVISION CODE DISTRICT CODE **BRANCH CODE**

100

DIVISION NAME DISTRICT NAME **BRANCH NAME**

Oil & Gas Division

PROGNOSIS:

TOTAL COSTS

INTANGIBLE DE	RILLING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only	******	100,000
920-480	Supervision & O/H - Completion	******	3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion	******	1,800
920-500	Contingency for Completion		,
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQU	IPMENT COSTS:	, -	
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		25 000
930-040	Packer & Special Equipment		35,000 8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		
940-040	Trucking & Construction Costs		25,000
3-10-0 -10		<u></u>	15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL 000TO			

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

AL SPRINGER	Operations Approval	
OV	NNER	SHARE
	DATE	
	DATE	
	DATE	
	AL SPRINGER ON	AL SPRINGER Approval OWNER DATE DATE



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

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

February 26, 1998

Ameristate Oil & Gas, Inc. Ameristate Exploration L.L.C. 1211 W. Texas Midland, Texas 79701 CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Fields APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Bolart Bullock

Robert Bullock Landman

RB/ljf enclosure(s)

	·
SENDER: "Complete items 1 and/or 2 for additional services." "Complete items 3, 4a, and 4b, "Print your name and address on the reverse of this form so the card to you. "Attach this form to the front of the mailpiece, or on the back if a permit. "Write "Return Receipt Requested" on the mailpiece below the a "The Return Receipt will show to whom the article was delivered delivered.	space does not 1. Addressee's Address article number. 2. Restricted Delivery
3. Article Addressed to: Ameristate Oil & Gas, Inc. Ameristate Exploration L.L.C. 1211 W. Texas Midland, Texas 79701	4a. Article Number 2 443 810 436 4b. Service Type Registered Express Mait Return Receipt for Merchandise COD 7. Date of Delivery
5. Received By: (Print Name) Make Veavourg 6. Signature: (Addressee or Agent) X. Mull Sur	8. Addressee's Address (Only if requested and fee is paid) The HA Sha Cm #3 RB/ff
PS Form 3811. December 1994	102595-97-B-0179 Domestic Return Receipt

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AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE 97-343-0 11/26/97

CORPORATION	NEW DRILLING & RECOMPLET				
		AFE Type:		Well Objective:	
105 SOUTH FOURTH STREET	X	New Drilling	X	Oil	
ARTESIA, NEW MEXICO 88210 TELEPHONE (505) 748-1471		Recompletion	X	Gas	X
			·	Injector	-

AFE STATUS: ell Type: Development

X	riginal		
R	evised		
F	inal	• •	
40.00	<u></u> -	 	

66,100

657,200

405,500

1,213,200

ARTESIA, NEW	MEXICO 88210 Recompletion X Gas X Exploratory	Revised	
TELEPHONE (505) 748-1471 Injector	Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea STATE	New Mexico	
LEGAL DESC.	3,300' FSL &'760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
1 ILLO			
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		·
PROGNOSIS:			
			•
INTANGIBLE DRIL	LING COSTS:	DRY HOLE (COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920 -170	Compating Surface Cosing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230			
	Coring, Tools & Service	50,000	50 000
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410 920-420	Completion Unit - Swabbing		10,000
	Water for Completion		8,000
920-430 920-440	Mud & Additives for Completion		1,000 0
920-440 920-450	Cementing - Completion		35,000
920-450 920-460	Elec. Logs, Testing, Etc Completion		20,000
920-470	Tools & Equip. Rental, Etc Completion		100,000
920-480	Stimulation for Completion one zone test only Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		1,000
320-300			
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQUIPM	MENT COSTS:		·
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
030 030	Tubing 2.7/8" @ 42400"		35,000
930-030	Tubing 2 7/8" @ 12400'		
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700

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

TOTAL TANGIBLE EQUIPMENT COSTS

TOTAL COSTS

Prepared RB By	AL SPRINGER	Operations Approval	:
		OWNER	SHARE
ву		DATE	
вү		DATE	
ВУ		DATE	



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

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

TREASURER

February 26, 1998

John F. Harbig, Jr. Suite 280, One Marienfeld Place Midland, Texas 79701 CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Fields APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullack

Ropert Bullock Landman

RB/ljf enclosure(s)

Z 443 810 438 US Postal Service Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse) Sent to John F. Harbig, Jr. Suite 280, One Marienfeld Place Midlands Texas 79701 Postage Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered

Return Receipt Showing to Whom Date, & Addressee's Address Return Receipt Showing to Whom, Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date Found HK State
Com # 3 RB/8 PS

on the reverse side?	ENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we can return this card to you. Attach this form to the front of the mailpiece, or on the back if space does not permit. Write "Return Receipt Requested" on the mailpiece below the article number. The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
ADDRESS completed or	3. Article Addressed to: John F. Harbig, Jr. Suite 280, One Marienfeld Place Midland, Texas 79701	4a. Article Number Z 443 810 438 4b. Service Type	
	5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X PS Form 3811, December 1994	and fee is	a's Address (Only if requested paid) LAR SAC A B C Domestic Return Receipt







AUTHORITY FOR EXPENDITURE

AFE NO AFE DATE

AFE STATUS:

97-343-0 11/26/97

COMP'D WELL

1,200

15,000

93,000

NEW DRILLING & RECOMPLETION

Injector

105 SOUTH FOURTH STREET ARTESIA. NEW MEXICO 88210 TELEPHONE (50\$) 748-1471

AFE Type:		Well Objective:		_	Well Ty		
X	New Drilling]	X	Oil .]		De
	Recompletion	1 1	X	Gas	1	X	Ēχ

	Wel	I Туре:
		Development
	X	Exploratory
l '		

X Origina	
Revised	
Final	
12 600'	

LEASE NAME	Field APK State Com. #3		
COUNTY	Lea		
LEGAL DESC.	3,300' FSL & 760' FWL		
FIELD			
DIVISION CODE	400 DIVISION NAME		

Staking, Permit & Legal Fees

5-1/2" @ 12,600'

Location, Right-of-Way

PROJ'D DEPTH STATE LOCATION **HORIZON**

12,600'	
New Mexico	
Section 2-16S-35E	
Morrow	

DRY HOLE

1,200

15,000

DISTRICT CODE **BRANCH CODE**

920-100

920-110

INTANGIBLE DRILLING COSTS:

DISTRICT NAME **BRANCH NAME**

X

Oil & Gas Division

PROGNOSIS:

320-110	Location, right-or-vay	10,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920 -210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQ	UIPMENT COSTS:		
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500

2 7/8" @ 12400' 35,000 930-030 Tubing 930-040 Packer & Special Equipment 8,000 940-010 116,000 **Pumping Equipment** including \$20,000 for electricity 940-020 Storage Facilities 22,700 940-030 Separation Equip., Flowlines, Misc. 25,000 940-040 **Trucking & Construction Costs** 15,700

66,100 405,500 **TOTAL TANGIBLE EQUIPMENT COSTS** TOTAL COSTS 657,200 1,213,200

FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.			
Prepared		Operations	
Bv	AL SPRINGER	Approval	

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS

	OWNER	SHARE
ВҮ	DATE	
вү	DATE	
3 Y	DATE	



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

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

TREASURER

February 27, 1998

Joan Garrison 5221 Ira Ft. Worth, TX 76117

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Garrison:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600°. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Host Bullock

Robert Bullock Landman

RB/ljf enclosures

Z 443 810 359

	US Postal Service				
	Receipt for Certified Mail				
	No Insurance Coverage Provided.				
	Do not use for Internation	onal Mail (See reverse)			
	oan Garrison				
	204 Mumber				
ı		17			
	Fost Office State X 766	de			
,	ļ	T			
•	Postage	\$			
	Certified Fee				
	Special Delivery Fee				
2	Restricted Delivery Fee				
ő	Return Receipt Showing to				
Ξ	Whom & Date Delivered				
PS Form 3800, April 1995	Return Receipt Showing to Whom, Date, & Addressee's Address				
800	TOTAL Postage & Fees	\$			
5	Postmark or Date				
5	Fill H	1 State			
PS	Con # 3	RB/4			

SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so the card to you. Attach this form to the front of the mailpiece, or on the back if permit. Write 'Return Receipt Requested' on the mailpiece below the The Return Receipt will show to whom the article was delivered.	space does not 1. Addressee's Address inticle number. 2. Restricted Delivery
Joan Garrison 5221 Ira 1Ft. Worth, TX 76117	4a. Article Number 2 443 810 359 4b. Service Type Registered Express Mail Return Receipt for Merchandise 7. Date of Delivery 3 7 2 9 8
5. Received By: (Print Name) 6. Signature: (Addressee or Agent)	8. Addressee's Address (Only if requested and fee is paid) Lied IPK Set Com # 3 RB/U
	8. Addressee's Address (Only if requeste and fee is paid)



AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE NO.

97-343-0

AFE DATE 11/26/97

66,100

657,200

405,500

1,213,200

LUI	AFE Type: Well Object	etiner Mell Tunor	AFE STATUS:	
105 South Fo				
	X New Dining X On	Development	X Original	
	The completion A Gas	X Exploratory	Revised	
TEEFTONE (Inject	or	Final	·
LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'	
COUNTY	Lea	STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	
FIELD		HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME	Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME	Oli & Gas Division		
BRANCH CODE	BRANCH NAME		<u> </u>	
	BRANCHINAIVIE			
PROGNOSIS:				
INTANGIBLE DRIL	LING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees		1,200	1,200
920-110	Location, Right-of-Way	•••••••••••••••••••••••••••••••••••••••	15,000	15,000
920-120	Drilling, Footage	***************************************		10,000
920-130	Drilling, Daywork 41 days @ \$7400/day	+ \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental		15,000	15,000
920-150	Drilling Mud & Additives	••••••••••••••••••••••••••	32,000	32,000
920-160	Mud Logging Unit Sample Rags	***************************************	11,600	11,600
920-170	Cementing - Surface Casing Drill Stem Testing, OHT 2 DST's		24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's		10,000	10,000
920-190	Electric Logs & Tape Copies		25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding		24,500	24,500
920-210	Supervision & Overhead	•••••••••••••••••••••••••••••••••••••••	17,400	17,400
920-220	Contingency -			17,400
520-220	4 4444444444444444444444444444444444444			
920-230	Coring, Tools & Service			
920-240	Bits, Tool & Supplies Purchase		50,000	50,000
920-350	Cementing - Production Casing			36,500
920-410	Completion Unit - Swabbing			10,000
920-420	Water for Completion			8,000
920-430	Mud & Additives for Completion			1,000
920-440	Cementing - Completion		•	0
920-450	Elec. Logs, Testing, Etc Completion			35,000
920-460	Tools & Equip. Rental, Etc Completion			20,000
920-470	Stimulation for Completion one zone test	only		100,000
920-480	Supervision & O/H - Completion			3,100
920-490	Additional LOC Charges - Completion			1,200
920-510	Bits, Tools & Supplies - Completion			1,800
920-500	Contingency for Completion			
	TOTAL INTANCIDI E DDILLING COSTS	·	504 400	907 700
	TOTAL INTANGIBLE DRILLING COSTS	***************************************	591,100	807,700
TANGIBLE EQUIPA	MENT COSTS:			
930-010	Christmas Tree & Wellhead		2,000	26,000
930-020	Casing 11-3/4" @ 450'	,	7,600	7,600
	8-5/8" @ 4650'		56,500	56,500
	5-1/2" @ 12,600'			93,000
930-030	Tubing 2 7/8" @ 12400'			35,000
930-040	Packer & Special Equipment			8,000
940-010	Pumping Equipment including \$20,000 for electr	ioitu		116 000
940-010	Pumping Equipment including \$20,000 for electr Storage Facilities	iory		116,000
940-030		***************************************	··········· - - - - - - -	22,700
940-040	Separation Equip., Flowlines, Misc.	***************************************	·····	25,000
340-040	Trucking & Construction Costs		1	15,700

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

TOTAL TANGIBLE EQUIPMENT COSTS

TOTAL COSTS

Prepared B By	AL SPRINGER		Operations Approval	
		OWNER		 SHARE
BY			DATE	
BY ·			DATE	
ВҮ			DATE	

SS#

(One YEAR PAID UP LEASE)

٠.		OIL AND GAS LEASE		I	iall-Poorbaugh Press, Is Roswell, New Mexi
THIS AGREEMENT made this	27th	day o	Februa	ry	19 <u>98</u> betwe
CORPORATION - 70%, INDUSTRIES, INC	YATES DRILLING 10%, all New Me	e and separate prope COMPANY - 10%, ABO exico corporations,	PETROLEUM COR LESSEE.	PORATION -	PETROLEUM 10%, MYCO Lessee, WITNESSETT
1000					Dolla
purpose of investigating, exploring, prospect thereon and on, over and across lands owned the following described land in	ing, drilling and mining for and or claimed by Lessor adjacent and	d contiguous thereto, to produce, save, tal	building roads, tanks, now	er stations, telephone I own said products, a	lines and other structure and housing its employed
	Township 16 Section 2:	South, Range 35 Eas	t, NMPM		
 Without reference to the commencement production of oil or gas and without further pastrom this date (called "primary term") and as The royalties to be paid by Lessee are 	yments than the royalties herein p long thereafter as oil or gas is pr	provided, and notwithstanding anything e roduced from said land or land with whice	lse herein contained to the co ch said land is pooled hereun	ntrary, this lease shall der.	be for a term of 1 yea
which the wells may be connected; Lessee me purchase; (b) on gas, including casingleed gather market value at the well of 1/4 there is a gas well on this lease or on acreage; is shut in and thereafter at annual intervals the this lease in paying quantities. Payment or to payment is due. Lessee shall have free use of after deducting any so used.	ay from time to time purchase an s or other gaseous substance, pro- of the gas so sold or used, pooled therewith but gas is not be sum of \$1.00 per acre, and if such noder of said shut-in gas royalty n	y royalty oil in its possession, paying the duced from said land, and sold, or used to provided that on gas sold at the wells the ining sold or used, Lessee may pay or tend h payment is made or tendered, this lease may be made by check or draft of Lessee	market price therefor prevail off the premises or for the ex- royalty shall be 1/4 ler as royalty, on or before his shall not terminate and it will mailed or delivered to the p	ling for the field when raction of gasoline or of the amount reali- nety (90) days after the I be considered that ga- pries entitled thereto o	s produced on the date of other product therefrom zed from such sale; while se date on which sale we is is being produced from on or before the date sale
4. Lessee, at its option, is hereby given the or leases in the immediate vicinity thereof to it said leased premises in compliance with the since conservation of oil and gas in and under a gas hereunder shall not substantially exceed in of units larger than those specified, units therefore combine acreage covered by this lease, or any stratum or strata need not conform in size or gas units. The pooling in one or more instant appropriate records of the county in which the pooling option after commencing operations in the commencing operations.	ne extent, hereinafter stipulated, voscing rules of the New Mexico of and that may be produced from sain area 640 acres each plus a tolers eafter created may conform substy portion thereof as above providures with the unit or units into winces shall not exhaust the rights eleased premises are situated and or or completing an oil or gas we	when in Lessee's judgement it is necessar, Oil Conservation Commission, or other is did premises. Units pooled for oil hereund nace of 10% thereof, provided that should tantially in size with those prescribed by ed as to oil in any one or more strata and high the lesse is pooled or combined as a of the Lessee hereunder to pool this let instrument describing and designating in ill on the lessed premises, and the pooled	y or advisable to do so in orde awful authority or when to do der shall not substantially exc governmental authority havi governmental regulations. Li as to gas in any one or more o any other stratum or strata, ase or portions thereof into the pooled acreage as a poole unit may include, but it is not	r properly to explore, so would, in the judg seed 40 acres each in a ng jurisdiction preser essee under the provi- strata. The units for and oil units need no ther units. Lessee at de unit. Lessee may a reoutred to include. Is	or to develop and operat ment of Lessee, promot hes, and units pooled for libe or permit the creatio sions hereof may pool of med by pooling as to an a conform as to area wit hall file for record in the tis election exercise it and or lesses upon which
a well capable of producing oil or gas in pay Operations for drilling on or production of oil drilling were commenced or such production on or production of oil and gas from land cover as to oil and gas, or either of them, as herein particularly the purpose of computing the royalities to pooled unit, there shall be allocated to the land that used for operations on the pooled units. Spro rata portion of the oil and gas, or either of surface acres included in the pooled unit. It by this lease and included in the unit just as the it is producing and not as production from a gr	l or gas from any part of the poor was secured before or after the extend by this lease whether or not the ovided, shall be treated for all purchich owners of royalties and particle overed by this lease and include the allocation shall be on acreage them, produced from the pooled to coyalties hereunders shall be come ugh such production were formed to production were the pooled unit; and production from the production from	oled unit which includes all or a portion ecution of this instrument or the instrume we well or wells be located on the premise. proses, except the payment of royalties or yments out of production and each of the ied in said unit a pro rata portion of the or e basis—that is to say, there shall be allocs unit which the number of surface acres co puted on the portion of such production, uch land. The production from an oil well on a gas well will be considered as production and production and the portion of such and the production of such and the production from an oil well on a gas well will be considered as production.	of the land covered by this lent designating the pooled un int designating the pooled un in production from the pooled m, shall be entitled on produ- il and gas, or either of them, and to the acreage covered by wered by this lease and inclu- whether it be oil and gas, or et i will be considered product uction from the lease or gas to	case regardless of who t, shall be considered e entire acreage consti- unit, as if the same we stion of oil and gas, or produced from the po- r this lesse and includ- ied in the pooled unit in the of them, so allow on from the lease or oil cooled unit from whice	sther such operations for as operations for drilling ituting such unit or units req included in this lease reither of them, from the oled unit after deducting ed in the pooled unit that bears to the total number asted to the land covered asted to the land covered to pooled unit from which hit is producing and no
from an oil pooled unit. In addition to the for covered hereby to any cooperative or unit agr. Commission or other lawful governmental aut the terms of any such agreement or plan of op- not expire during the life of such agreement Commission, or other lawful authority, and Le the commitment thereto, and the same may be	eement or plan of development a hority. In such event, the royalty existion, which basis shall be the s or plan and shall be subject to a sees shall record in the county in	and operation, and to any modifications payable to Lessor hereunder shall be co same by which the royalty due the United the terms thereof and said agreement or which the leased premises are situated, a	thereof, which have been ap imputed and paid on the basis I States or the State of New h plan of operation shall be	proved by the New M i of the oil or gas allow fexico is computed ar iled with the New M	lexico Oil Conservation cated to such land under od paid. This lease shall exico Oil Conservation
5. If at the expiration of the primary term or shall have completed a dry hole thereon with additional well are prosecuted with no cessation land pooled therewith. If, after the expiration on any cause, this lease shall not terminate if Less as such operations are prosecuted with no cess or from land pooled therewith. Any pooled unthe county in which the leased premises are at paying quantities should be brought in on adjureasonably prudent operator would drill under or portions of the above described premises and	nin 60 days prior to the end of the n of more than 60 consecutive day f the primary term of this lease an ee commences operations for dri ation of more than 60 consecutive the designated by Lessee in accord- mated at any time after the comp accent land and within 660 feet of the same or similar circumstance.	e primary terms, the lease shall remain in ya, and if they result in the production of d after oil or gas is produced from said las illing or reworking within 60 days after the e days, and if they result in the productio lance with the terms hereof, may be disso letion of a dry hole or the cessation of pri f and draining the lease premises, or last s. Lessee may at any time execute and de	force so long as operations of oil or gas so long thereafter as and, or from land pooled there ee cessation of such production of oil and gas, so long them olded by Lessee by instrumen roduction on said unit. In the depooled therewith. Lessee liver to Lessor or place of reconstructions.	a said well or for drill oll or gas is produced with, the production the sa, but shall remain in safter as oil or gas is p t filed for record in the swent a well or wells agrees to drill such o cord a release or releas	ing or reworking of any from said land, or from said land, or from force and effect so long roduced from said land, a appropriate records of producing oil or gas in offset well or wells as a see covering any portion any portion any portion any portion and portion any portion and po
6. Lessee shall have the right at any time all casing. When required by Lessor, Lessee without Lessor's consent.	during or after the expiration of t will bury all pipe lines below ord	his lease to remove all property and fixtu linary plow depth, and no well shall be o	res placed by Lessee on said frilled within two hundred fo	land, including the riet of any residence of	ght to draw and remove r barn now on said land
7. The rights of either party hereunder ma of the land or royalties, however accomplished, thirty (30) days after Lessee shall have been furnithe event of assignment hereof in whole or breach. If six or more parties become entitled designating an agent to receive payment for all	shall operate to enlarge the oblig mished by registered U.S. mail a a part liability for breach of any to royalty hereunder, Lessee ma	ations or diminish the rights of Lessee; as t Lessee's principal place of business wit obligation hereunder shall rest exclusive	nd no change or division in su th a certified copy of recorde thy upon the owner of this lea	ch ownership shall be I instrument or instru use or of a portion the	binding on Lessee until ments evidencing same, reof who commits such
8. The breach by Lessee of any obligation grounds for cancellation hereof in whole or in writing of the facts relied upon as constituting a imposed by virtue of this instrument. After the but in discharging this obligation it shall in no one well per 640 acres plus an acreage tolerance.	part. In the event Lessor consider breach hereof, and Lessee, if in discovery of oil or gas in paying event by required to drill more that	ers that operations are not at any time be default, shall have sixty days after receip g quantities on said premises, Lessee shal an one well per forty (40) acres of the are	ing conducted in compliance t of such notice in which to ec Il develop the acreage retaine a retained hereunder and cap	with this lease, Lesse emmence the complise d hereunder as a rease able of producing oil i	or shall notify Lessee in nee with the obligations anably prudent operator
 Lessor hereby warrants and agrees to de and in event Lessee does so, it shall be subrogat under the warranty in event of failure of title, it Lessor shall be reduced proportionately. Shoul same. 	ed to such lien with the right to e	inforce same and apply royalties accruing interest in the oil or gas on, in or under s	; hereunder toward satisfying aid land less than the entire i	same. Without imper se simple estate, then	irment of Lessee's right the royalties to be paid
10. Should Lessee be prevented from community therefrom by reason of scarcity of or inability that authority, then while so prevented, Lessee's obtained while and so long as Lessee is time while Lessee is so prevented shall not be of	o obtain or to use equipment or n igation to comply with such cover prevented by any such cause fro	naterial, or by operation of force majeure enant shall be suspended, and Lessee sha om conducting drilling or reworking ope	, any Federal or state law or : ill not be liable in damages f rations on or from producing	any order, rule or regu or failure to comply th	lation of governmental serewith; and this lease
IN WITNESS WHEREOF, this instrument	is executed on the date first above	ve written.			
Ioan Carrison					· · ·

Lessor

County, N.M. Cerm This instrument was filed for record on the day of, 19	Producers 88 Rev. (5 Year Lease) 5-96 No Oil and Gas Lease FROM TO Jated J19
Моғау Рирііс	My commission expires
property	by Joan Garrison, dealing in her sole and separate
	This instrument was acknowledged before me this
	STATE OF: County of
DCEMENT Votary Public	INDIAIDNYT YCKNOMPEI
	My commission expires
	on behalf of said corporation.
nousion	ło -
as corporation	γo
	pλ
	This instrument was acknowledged before me this
SS	County of This instrument was acknowledged before me this
SS	STATE OF NEW MEXICO, County of This instrument was acknowledged before me this
SS	STATE OF NEW MEXICO, County of This instrument was acknowledged before me this
SS	CORPORATION ACKNOWLE STATE OF NEW MEXICO, County of This instrument was acknowledged before me this This instrument was acknowledged before me this
BOEWEAT	STATE OF NEW MEXICO, County of This instrument was acknowledged before me this
BOEWEAT	My commission expires CORPORATION ACKNOWLE STATE OF NEW MEXICO, County of This instrument was acknowledged before me this
BOEWEAT	My commission expires CORPORATION ACKNOWLE CORPORATION ACKNOWLE This instrument was acknowledged before me this This instrument was acknowledged before me this
BOEWEAT	My commission expires CORPORATION ACKNOWLE STATE OF NEW MEXICO, County of This instrument was acknowledged before me this This instrument was acknowledged before me this
BOEWEAT	My commission expires CORPORATION ACKNOWLE CORPORATION ACKNOWLE This instrument was acknowledged before me this This instrument was acknowledged before me this



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

JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY

TREASURER

S. P. YATES CHAIRMAN OF THE BOARD

December 9, 1997

Lavena Howard, Joan Garrison and Reita Schnaubert 1204 Broadway Lubbock, Texas 79401

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ladies:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

best Bullock

Robert Bullock Landman

RB/ljf enclosures

Z 351 693 347

US Postal Service	
Receipt for Cer	tified Mail
savena Howard,	Joan Garrison,
me Rhorechnauk	pert
204 Broadway	<u> </u>
Lubbock, Texas	79401
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date Fill 4	RA/W
Cm # 3	RB/4
	Receipt for Cer No Insurance Coverage Do not use for Internation Sent to AVEN A HOWARD, AVEN R HENDS Chnauk POST Griffer, State, & Zir Loo Lubbock, Texas Postage Certified Fee Special Delivery Fee Restricted Delivery Fee

on the reverse side?	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if spac permit. Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered and delivered.	e does not e number.	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
N ADDRESS completed	3. Article Addressed to: Lavena Howard, Joan Garrison, and Rita Schnaubert 1204 Broadway Lubbock, Texas 79401	4b. Service 1 ☐ Registere ☐ Express I	Type Id
Is your RETUE	5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X	and fee is	43 28/4
	PS Form 3811 , December 1994	2595-97-B-0179	Domestic Return Receipt



SHARE

•				
AUITAAT	E5 AUTHORITY FOR EXP		AFE NO.	97-343-0
	AUTHORITY FOR EXP	ENDITURE	AFE DATE	11/26/97
	TROLEUM IRPORATION NEW DRILLING & RECOMP	PLETION	_	
LL	AFE Type: Well Objective:	Well Type:	AFE STATUS:	
105 Ѕоитн	FOURTH STREET X New Drilling X Oil	Development	X Original	
	A IVEW Drining A On	X Exploratory	Revised	
		A Exploratory	Final	<u> </u>
LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'	
COUNTY	Lea 1'	STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	
FIELD		HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME	Oil & Gas Division		***
DISTRICT CODE	DISTRICT NAME			
BRANCH CODE	BRANCH NAME			
PROGNOSIS: [
riconodio.		<u> </u>		· · · · · · · · · · · · · · · · · · ·
_ 				· · · · · · · · · · · · · · · · · · ·
				
NTANGIBLE DR			DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	***************************************	1,200	1,200
920-110	Location, Right-of-Way		15,000	15,000
920-120	Drilling, Footage	***************************************		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$4	Ok mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental		15,000	15,000
920-150	Drilling Mud & Additives		32,000	32,000
920-160	Mud Logging Unit, Sample Bags		11,600	11,600
920-170	Cementing - Surface Casing	•••••••••••••••	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	1.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0	10,000	10,000
920-190	Electric Logs & Tape Copies		25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	***************************************	24,500	24,500
920-210	Supervision & Overhead		17,400	17,400
920-220	Contingency -			
000 000	***************************************		······································	
920-230	Coring, Tools & Service	***************************************		· · · · · · · · · · · · · · · · · · ·
920-240	Bits, Tool & Supplies Purchase	······	50,000	50,000
920-350	Cementing - Production Casing			36,500
920-410	Completion Unit - Swabbing	*************************************		10,000
920-420	Water for Completion			8,000
920-430	Mud & Additives for Completion			1,000
920-440	Cementing - Completion	**********************************		0
920-450	Elec. Logs, Testing, Etc Completion			35,000
920-460	Tools & Equip. Rental, Etc Completion			20,000
920-470	Stimulation for Completion one zone test only	<i></i>		100,000
920-480	Supervision & O/H - Completion			3,100
920-490	Additional LOC Charges - Completion			1,200
920-510	Bits, Tools & Supplies - Completion			1,800
920-500	Contingency for Completion			
	TOTAL INTANGIBLE DRILLING COSTS		591,100	807,700
		***************************************		30.,700
ANGIBLE EQUIP				
930-010	Christmas Tree & Wellhead		2,000	26,000
930-020	Casing 11-3/4" @ 450'	***************************************	7,600	7,600
	8-5/8" @ 4650'	·	56,500	56,500
	5-1/2" @ 12,600'	••••••••••••••••		93,000

930-030	Tubing 2 7/8" @ 12400'			35,000
930-040	Packer & Special Equipment	••••••	LL	8,000
940-010	Pumping Equipment including \$20,000 for electricity			116,000
940-020	Storage Facilities	***************************************	······	22,700
940-030	Separation Equip., Flowlines, Misc.		······	25,000
940-040	Trucking & Construction Costs	***************************************		15,700

	TOTAL TANGIBLE EQUIPMENT COSTS		66,100	405,500
OTAL COSTS			657,200	1,213,200
ADDDOVAL OF	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION 1	O CUARCE THE POINT	CCOUNT MATH THEFT AD	COODS
AFFRUVAL OF	FROM THE OPERATOR'S WAREHOUSE STOCK			. 3000
repared AL	SPRINGER Operat Appro	Į.		ļ
-, IΛL	DI ITATIONEIN APPRO	·		

OWNER

BY

DATE

DATE

DATE

(One YEAR PAID UP LEASE) OIL AND GAS LEASE

Form 345
Hall-Poorbaugh Press, Inc.
Posturell New Mexico

. •	OIL AND G	as lease			ell, New Mexic
THIS AGREEMENT made this	9th	day of	December		97 herese
	state with Remaindermen be	ing Tommy G.	Schnaubert,	Bobby J. Sch	naubert
	Ruth M. Dake, each dealing				
	ATION - 70%, YATES DRILLIN				
10%, MYCO INDUSTRIES, I	INC 10% , all New Mexico	Corporations	, LESSEE,	Lessee, \	WITNESSETH:
1. Lessor in consideration of Te	INC 10%, all New Mexico en and no/100	maste of I seem hards socie	nined banks must les	and and late analysis are	Dollar
purpose of investigating, exploring, prospec	cting, drilling and mining for and producing oil and g	as, laying pipe lines, buildin	g roads, tanks, power st	ations, telephone lines and	other structure
thereon and on, over and across lands owned the following described land in	or claimed by Lessor adjacent and contiguous thereto,	to produce, save, take care o	f, treat, transport, and ow	n said products, and housi:	ng its employees
the following described land in		County,	110# 110#140		, to-wi
	Township 16 South	Panga 35 Fa	c+ NMDM		
	Section 2: SW/4S		st, NHH		
		•	•		
2. Without reference to the commencer	nent, prosecution or cessation at any time of drilling o	r other development operation	ons and/or to the discover	ry, development or cessation	on at any time o
production of oil or gas and without further p from this date (called "primary term") and a	payments than the royalties berein provided, and notwit as long thereafter as oil or gas is produced from said la	hstanding anything else herei ind or land with which said l	in contained to the contra and is pooled hereunder.	ry, this lease shall be for a t	erm of Lyean
3. The royalties to be paid by Lessee at	re: (a) on oil. $-1/4$ of that produced and saved from	om 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 r	may from time to time purchase any royalty oil in its purchase any royalty oil in its purchase or other easeous substance, produced from said lan	ossession, paying the market d. and sold, or used off the p	price therefor prevailing remises or for the extract	for the field where production of sasoline or other no	ed on the date of aduct therefrom
the market value at the well of 1/4	of the gas so sold or used, provided that on ga e pooled therewith but gas is not being sold or used, Le	s sold at the wells the royalty	shall be 1/4 o	f the amount realized from	such sale: while
is shut in and thereafter at annual intervals th	e sum of \$1.00 per acre, and if such payment is made of tender of said shut-in gas royalty may be made by the	r tendered, this lease shall no	ot terminate and it will be	considered that gas is being	g produced from
payment is due. Lessee shall have free use of	f oil, gas, coal and water from said land, except water f	rom Lessor's wells, for all op	erations hereunder, and t	he royalty on oil and gas sh	all be computed
after deducting any so used.					
or leases in the immediate vicinity thereof to	the right and power to pool or combine the acreage cov the extent, hereinafter stipulated, when in Lessee's jud	gement it is necessary or advi	isable to do so in order pr	operly to explore, or to dev	eloo and operate
the conservation of oil and gas in and under	spacing rules of the New Mexico Oil Conservation Co and that may be produced from said premises. Units p	ooled for oil hereunder shall	not substantially exceed	40 acres each in area, and	units pooled for
gas hereunder shall not substantially exceed of units larger than those specified, units the	in area 640 acres each plus a tolerance of 10% thereof, creafter created may conform substantially in size with	provided that should govern: those prescribed by government	mental authority having j nental regulations. Lesse	urisdiction prescribe or per se under the provisions her	rmit the creation reof may pool or
combine acreage covered by this lease, or at	ny portion thereof as above provided as to oil in any or r area with the unit or units into which the lease is poo	ne or more strata and as to ga	es in any one or more stra	ata. The units formed by p	ooling as to any
gas units. The pooling in one or more instr	ances shall not exhaust the rights of the Lessee heret the lessed premises are situated an instrument describi	inder to pool this lease or po	ortions thereof into other	units. Lessee shall file f	or record in the
pooling option after commencing operations	for or completing an oil or gas well on the leased pren	rises, and the pooled unit may	y include, but it is not req	uired to include, land or les	ases upon which
Operations for drilling on or production of o	lying quantities has theretofore been completed or up to or gas from any part of the pooled unit which inclu	ides all or a portion of the la	ind covered by this lease	regardless of whether suc	h operations for
drilling were commenced or such production	was secured before or after the execution of this instruered by this lease whether or not the well or wells be lo	ment or the instrument desig	nating the pooled unit, si	nall be considered as operat	tions for drilling
as to oil and gas, or either of them, as berein t	provided, shall be treated for all purposes, except the provided shall be treated for all purposes, except the provided shall be treated for all purposes.	syment of royalties on produc	tion from the pooled uni	t, as if the same were include	led in this lease.
nooled unit, there shall be allocated to the las	nd covered by this lease and included in said unit a pro	rata portion of the oil and ga	as, or either of them, proc	fuced from the pooled unit	after deducting
nro rata portion of the oil and gas, or either of	Such allocation shall be on acreage basis—that is to say f them, produced from the pooled unit which the numb	er of surface acres covered by	y this lease and included i	in the pooled unit bears to t	he total number
by this lease and included in the unit just as th	Royalties hereunder shall be computed on the portion rough such production were from such land. The produ	ction from an oil well will be	considered production fi	rom 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 b regoing, Lessee at its option is hereby given the right	e considered as production fr	rom the lease or gas pool	ed unit from which it is pro	educing and not
covered hereby to any cooperative or unit as	greement or plan of development and operation, and tuthority. In such event, the royalty payable to Lessor	o any modifications thereof,	, which have been appro-	red by the New Mexico O	il Conservation
the terms of any such agreement or plan of or	peration, which basis shall be the same by which the r	oyalty due the United States	or the State of New Mexi	ico is computed and paid.	This lease shall
Commission, or other lawful authority, and L	at or plan and shall be subject to the terms thereof are essee shall record in the county in which the leased pro-	emises are situated, an instru	r operation shall be filed ment describing such agr	t with the New Mexico Or eement or plan of operation	il Conservation n and reflecting
the commitment thereto, and the same may b	be recorded either before or after the completion of we	lls.			
5. If at the expiration of the primary term	m oil or gas is not being produced on said land, or from ithin 60 days prior to the end of the primary terms, the	a land pooled therewith, but I	Lessee is then engaged in long as operations on as	drilling or reworking oper	rations thereon,
additional well are prosecuted with no cessati	ion of more than 60 consecutive days, and if they result	in the production of oil or ga	s so long thereafter as oil	or gas is produced from sai	id land, or from
any cause, this lease shall not terminate if Les	of the primary term of this lease and after oil or gas is p see commences operations for drilling or reworking w	vithin 60 days after the cessat	tion of such production, b	out shall remain in force an	d effect so long
or from land pooled therewith. Any pooled u	ssation of more than 60 consecutive days, and if they man designated by Lessee in accordance with the terms	hereof, may be dissolved by	Lessee by instrument file	ed for record in the approp	riate records of
the county in which the leased premises are a paying quantities should be brought in on ac	situated at any time after the completion of a dry hole djacent land and within 660 feet of and draining the l	or the cessation of production ease premises, or land poole	on on said unit. In the eve ed therewith. Lessee agr	ent a well or wells product sees to drill such offset we	ng oil or gas in il or wells as a
reasonably prudent operator would drill under	r the same or similar circumstances. Lessee may at an and thereby surrender this lease as to such portion or p	y time execute and deliver to	Lessor or place of record	a release or releases cover	ing any portion
•	e during or after the expiration of this lease to remove		7	_	
all casing. When required by Lessor, Lessee	e will bury all pipe lines below ordinary plow depth, a	nd no well shall be drilled w	vithin two hundred feet o	o, including the right to dr if any residence or barn no	w and remove
without Lessor's consent.					
of the land or royalties, however accomplished	lay be assigned in whole or in part, and the provisions l d, shall operate to enlarge the obligations or diminish th	e rights of Lessee; and no ch	ange or division in such o	wnership shall be binding	on Lessee until
thirty (30) days after Lessee shall have been f In the event of assignment hereof in whole or	furnished by registered U.S. mail at Lessee's principal r in part liability for breach of any obligation hereunde	place of business with a certi er shall rest exclusively upor	ified copy of recorded in: the owner of this lease (strument or instruments every of a portion thereof who	idencing same. commits such
	ed to royalty hereunder, Lessee may withhold paymer				
	on arising hereunder shall not work a forfeiture or te	rmination of this lease nor c	suce a termination or res	vision of the estate constad	hembu nasha
grounds for cancellation hereof in whole or is	n part. In the event Lessor considers that operations a	re not at any time being cond	lucted in compliance wit	h this lease, Lessor shall n	otify Lessee in
imposed by virtue of this instrument. After th	a breach hereof, and Lessee, if in default, shall have si the discovery of oil or gas in paying quantities on said g	remises, Lessee shall develo	p the acreage retained he	reunder as a reasonably pr	rudent operator
	event by required to drill more than one well per forty nee not to exceed 10% of 640 acres of the area retains				quantities and
9. Lessor hereby warrants and agrees to d	defend the title to said land and agrees that Lessee at its	option may discharge any tr	ax, mortgage or other lies	1 upon said land either in w	hole or in part,
	ated to such lien with the right to enforce same and ap it is agreed that if Lessor owns an interest in the oil or				
	uld any one or more of the parties named as Lessors for				
	mplying with any express or implied covenant of this	lease, from conduction drill	ing or powerking assert	one thereon as form assisti	cine oil or ass
therefrom by reason of scarcity of or inability	to obtain or to use equipment or material, or by opera	tion of force majeure, any Fe	deral or state law or any	order, rule or regulation of	governmental
shall be extended while and so long as Lessee	bligation to comply with such covenant shall be susper is prevented by any such cause from conducting drill	ing or reworking operations			
ime while Lessee is so prevented shall not be	counted against Lessee, anything in this lease to the	ontrary notwithstanding.	•	-	
IN WITNESS WHEREOF, this instrumen	nt is executed on the date first above written.				
Tommy G. Schnaubert	Lessor	Bobby J. Sc	hnaubert	Les	sor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF}		
COUNTY OF}		
This instrument was acknowledged before me this		
by Tommy G. Schnaubert, dealing in his sole and separate property		
My Commission Expires:		
INDIVIDUAL ACKNOWLEDGEMENT		
STATE OF		
This instrument was acknowledged before me this		
My Commission Expires:		
INDIVIDUAL ACKNOWLEDGEMENT		
STATE OF}		
COUNTY OF}		
This instrument was acknowledged before me this		
by Mary A. Irwinsky, dealing in her sole and separate property		
My Commission Expires:		
Notary Public		
INDIVIDUAL ACKNOWLEDGEMENT		
STATE OF} :ss		
COUNTY OF}		
This instrument was acknowledged before me this		
by Ruth M. Dake, dealing in her sole and separate property		
My Commission Expires: Notary Public		
on the Openty Deputy		
Oil and Gas Lease FROM FROM o'clock o'clock records of Co		
Dil and Gas Lease FROM FROM of of o'clock recorded retu		
Ojil Ojil Ojil When When		
Prop Pr		
Pro- Pro- Pro- Pro- Pro- Pro- Pro- Pro-		



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

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

TREASURER

December 9, 1997

Mr. Clifford Cone P.O. Box 1629 Lovington, New Mexico 88260

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Mr. Cone:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

not Bullock

Robert Bullock Landman

RB/ljf enclosures

Z 351 693 340

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See rev

	Sent to	onal Mail (See reverse)					
7	Sent to Clifford Cone						
	SP:0.NBbx 1629						
	PLANIESISM. NO	Mexico 88260					
	ļ						
	Postage	\$					
	Certified Fee						
	Special Delivery Fee						
ı,	Restricted Delivery Fee						
April 1995	Return Receipt Showing to Whom & Date Delivered						
	Return Receipt Showing to Whom, Date, & Addressee's Address						
PS Form 3800	TOTAL Postage & Fees	\$					
E	Postmark or Date	Postmark or Date					
٥	Jula 1 Com #3	IN JACO					
3	(om # 3	RB/E/					
		1017					

on the reverse side?	SENDER: " = Complete items 1 and/or 2 for additional services. = Complete items 3, 4a, and 4b. = Print your name and address on the reverse of this form so that we card to you. = Attach this form to the front of the mailpiece, or on the back if space permit. = Write "Return Receipt Requested" on the mailpiece below the article. The Return Receipt will show to whom the article was delivered and delivered.	1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.		
is your <u>RETURN ADDRESS</u> completed o	3. Article Addressed to: Clifford Cone P.O. Box 1629 Lovington, New Mexico 88260	4a. Article Number Z 351 693 340 4b. Service Type Registered Express Mail Return Receipt for Merchandise COD 7. Date of Delivery		
	5. Received By: (Print Name) 6. Signature: (Addressee of Agent) X PS Form 3811, December 1994	and fee is	a's Address (Only if requested paid) AN State # 3 Ref. Compared to the paid Domestic Return Receipt	Thank

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rigers.

49-1963



DISTRICT CODE

97-343-0 11/26/97

PETROLEUM CORPORATION			TY FOR EXP		AFE NO. AFE DATE
105 SOUTH FOR ARTESIA, NEW! TELEPHONE (50	URTH STREET MEXICO88210	AFE Type: X New Drilling Recompletion	Well Objective: X Oil X Gas Injector	Well Type: Development X Exploratory	AFE STATUS: X Original Revised Final
LEASE NAME COUNTY LEGAL DESC. FIELD	Field APK Stat Lea 3,300' FSL & 70			PROJ'D DEPTH STATE LOCATION HORIZON	12,600' New Mexico Section 2-16S-3 Morrow
DIVISION CODE	100. DI	VISION NAME		Oil & Gas Division	· · · · · · · · · · · · · · · · · · ·

DISTRICT NAME

12,600'		
New Mexico	1.7	
Section 2-16S-35E	•	
Morrow		

591,100

807,700

BRANCH CODE BRANCH NAME PROGNOSIS: INTANGIBLE DRILLING COSTS: DRY HOLE COMP'D WELL 920-100 Staking, Permit & Legal Fees 1,200 1.200 920-110 Location, Right-of-Way 15,000

15,000 920-120 Drilling, Footage 920-130 41 days @ \$7400/day + \$40k mobilization Drilling, Daywork 365,000 365,000 920-140 Drilling Water, Fasline Rental 15,000 15,000 920-150 **Drilling Mud & Additives** 32,000 32,000 920-160 Mud Logging Unit, Sample Bags 11,600 11,600 920-170 24,000 Cementing - Surface Casing 24,000 2 DST's 920-180 Drill Stem Testing, OHT 10,000 10,000 25,400 920-190 **Electric Logs & Tape Copies** 25,400 920-200 Tools & Equip. Rntl., Trkg. & Welding 24,500 24,500 17,400 920-210 17,400 Supervision & Overhead 920-220 Contingency 920-230 Coring, Tools & Service 50,000 920-240 Bits, Tool & Supplies Purchase 50,000 920-350 36,500 Cementing - Production Casing 920-410 10,000 Completion Unit - Swabbing 920-420 Water for Completion 8,000 1,000 920-430 Mud & Additives for Completion 920-440 Cementing - Completion 0 920-450 Elec. Logs, Testing, Etc. - Completion 35,000 920-460 20,000 Tools & Equip. Rental, Etc. - Completion 920-470 Stimulation for Completion one zone test only 100,000 3,100 920-480 Supervision & O/H - Completion 920-490 1,200 Additional LOC Charges - Completion 920-510 Bits, Tools & Supplies - Completion 1.800

Contingency for Completion

TOTAL INTANGIBLE DRILLING COSTS

920-500

PMENT COSTS:		
WELL TETIT		·
Christmas Tree & Wellhead	2,000	26,000
Casing 11-3/4" @ 450'	7,600	7,600
8-5/8" @ 4650'	56,500	56,500
5-1/2" @ 12,600'		93,000
Tubing 27/8" @ 12400'		35,000
Packer & Special Equipment		8,000
Pumping Equipment including \$20,000 for electricity		116,000
Storage Facilities		22,700
Separation Equip., Flowlines, Misc.		25,000
Trucking & Construction Costs		15,700
TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
	657,200	1,213,200
	Casing 11-3/4" @ 450' 8-5/8" @ 4650' 5-1/2" @ 12,600' Tubing 27/8" @ 12400' Packer & Special Equipment Pumping Equipment including \$20,000 for electricity Storage Facilities Separation Equip., Flowlines, Misc. Trucking & Construction Costs	Casing 11-3/4" @ 450' 7,600 8-5/8" @ 4650' 56,500 5-1/2" @ 12,600' 1 Tubing 2 7/8" @ 12400' 1 Packer & Special Equipment 1 Pumping Equipment including \$20,000 for electricity 1 Storage Facilities 5 Separation Equip., Flowlines, Misc. 1 Trucking & Construction Costs 66,100 TOTAL TANGIBLE EQUIPMENT COSTS 66,100

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

Prepared B By	AL SPRINGER	Operations Approval	
	ow	NER	SHARE
ВУ		DATE	
ВҮ		DATE	
ВҮ		DATE	

Clifford Cone

Lessor

(One YEAR PAID UP LEASE)

Form 345

C.	•	OIL AND GAS LEASE		Hall-Poorbaugh Press, In Roswell, New Mexic
THIS AGREEMENT made t	his9th	day o	December	19 97 betwee
Clifford Cone, 10%, ABO PETRO Corporations,	LEUM CORPORATION -	PETROLEUM CORPORATIO 10%, MYCO INDUSTRIES	N - 70%, YATES , INC 10%; a	DRILLING COMPANY - 11 New Mexico
	Ten and no/100			Lessee, WITNESSETH
1. Lessor in consideration of (\$\frac{10.00}{}\]) in hand paid, of the royalties berein p	rovided and of the agreements of Lessee her	ein contained, hereby grants, le	Dolla
purpose of investigating, exploring	 prospecting, drilling and mining for a ds owned or claimed by Lessor adjacent 	and producing oil and gas, laying pipe lines and contiguous thereto, to produce, save, tal	, building roads, tanks, power s is care of, treat, transport, and or	tations, telephone lines and other structure
are tollowing described land in				, w-w/
		2: SW/4SW/4	East, NMPM	
	bección	2. 54, 454, 4		
production of oil or gas and without	t further payments than the royalties here	at any time of drilling or other development in provided, and notwithstanding anything e s produced from said land or land with whic	ise herein contained to the contr	ary, this lease shall be for a term of 1 year
which the wells may be connected; purchase; (b) on gas, including cas; the market value at the well of	Lessee may from time to time purchase inghead gas or other gaseous substance, 1/4 of the gas so sold or u	produced and saved from said land, the san e any royalty oil in its possession, paying the produced from said land, and sold, or used o sed, provided that on gas sold at the wells the k being sold or used, Lessee may pay or tend	market price therefor prevailing off the premises or for the extract royalty shall be 1/4	g for the field where produced on the date of stion of gasoline or other product therefrom of the amount realized from such sale; while
is shut in and thereafter at annual in this lease in paying quantities. Pay	tervals the sum of \$1.00 per acre, and if ment or tender of said shut-in gas royal	such payment is made or tendered, this lease ty may be made by check or draft of Lessee aid land, except water from Lessor's wells, f	shall not terminate and it will be mailed or delivered to the partic	considered that gas is being produced from
or leases in the immediate vicinity t said leased premises in compliance	hereof to the extent, hereinafter stipulate with the spacing rules of the New Mexi	ombine the acreage covered by this lease, or d, when in Lessee's judgement it is necessary co Oil Conservation Commission, or other is	y or advisable to do so in order powful authority or when to do so	roperly to explore, or to develop and operate would, in the judgment of Lessee, promot
gas hereunder shall not substantiall	y exceed in area 640 acres each plus a to	a said premises. Units pooled for oil hereund lerance of 10% thereof, provided that should abstantially in size with those prescribed by	governmental authority having	jurisdiction prescribe or permit the creatio
combine acreage covered by this le stratum or strata need not conform	rase, or any portion thereof as above pro in size or area with the unit or units into	wided as to oil in any one or more strata and which the lease is pooled or combined as t	as to gas in any one or more strong any other stratum or strata, and	rata. The units formed by pooling as to and oil units need not conform as to area wi
appropriate records of the county i	n which the leased premises are situated	hts of the Lessee hereunder to pool this less i an instrument describing and designating well on the leased premises, and the pooled	he pooled acreage as a pooled t	unit. Lesses may at its election exercise i
well capable of producing oil or	gas in paying quantities has theretofore	been completed or upon which operations pooled unit which includes all or a portion	for the drilling of a well for oil	or gas have theretofore been commence
drilling were commenced or such p	roduction was secured before or after the	execution of this instrument or the instrument of the premise	nt designating the pooled unit, a s covered by this lease, and the e	hall be considered as operations for drilling anch unit or unit
For the numose of computing the re	realties to which owners of revalties and	purposes, except the payment of royalties of payments out of production and each of the	m, shall be entitled on production	on of oil and gas, or either of them, from th
that used for operations on the pool	ed units. Such allocation shall be on acr	cluded in said unit a pro rata portion of the o eage basis—that is to say, there shall be alloce ed unit which the number of surface acres co	ited to the acreage covered by th	is lease and included in the pooled unit the
of surface acres included in the poo	led unit. Royalties hereunder shall be c	omputed on the portion of such production, m such land. The production from an oil wel	whether it be oil and gas, or eith	er of them, so allocated to the land covere
it is producing and not as production from an oil pooled unit. In addition	n from a gas pooled unit; and production to the foregoing, Lessee at its option is	n from a gas well will be considered as prod hereby given the right and power from time	uction from the lease or gas poo to time to commit said land or	led unit from which it is producing and no any part or formation or mineral substance
Commission or other lawful govern	mental authority. In such event, the roy	ent and operation, and to any modifications alty payable to Lessor hereunder shall be contained to the complete due the United	imputed and paid on the basis of	f the oil or gas allocated to such land unde
not expire during the life of such a	agreement or plan and shall be subject	he same by which the royalty due the United to the terms thereof and said agreement or y in which the leased premises are situated, a	plan of operation shall be file	d with the New Mexico Oil Conservation
he commitment thereto, and the sa	me may be recorded either before or aft	er the completion of wells.		
or shall have completed a dry hole to additional well are prosecuted with and pooled therewith. If, after the e	hereon within 60 days prior to the end on no cessation of more than 60 consecutive expiration of the primary term of this leas	ed on said land, or from land pooled therew f the primary terms, the lease shall remain in days, and if they result in the production of e and after oil or gas is produced from said la	force so long as operations on a oil or gas so long thereafter as oi nd, or from land pooled therewith	aid well or for drilling or reworking of any l or gas is produced from said land, or from h, the production thereof should cease from
as such operations are prosecuted w	ith no cessation of more than 60 consecu	drilling or reworking within 60 days after the utive days, and if they result in the production	n of oil and gas, so long thereaft	er as oil or gas is produced from said land
he county in which the leased pren paying quantities should be brough reasonably prudent operator would a	vises are situated at any time after the co t in on adjacent land and within 660 fe drill under the same or similar circumsta	cordance with the terms hereof, may be disso empletion of a dry hole or the cessation of p et of and draining the lease premises, or la ances. Lessee may at any time execute and de- e as to such portion or portions and be reliev	roduction on said unit. In the ex ad pooled therewith. Lessee ag cliver to Lessor or place of recon	vent a well or wells producing oil or gas in rees to drill such offset well or wells as a d a release or releases covering any portion
6. Lessee shall have the right a ill casing. When required by Lesse without Lessor's consent.	t any time during or after the expiration or, Lessee will bury all pipe lines below	of this lease to remove all property and fixtue ordinary plow depth, and no well shall be or the state of the	res placed by Lessee on said la frilled within two hundred feet	nd, including the right to draw and remove of any residence or barn now on said land
of the land or royalties, however acc hirty (30) days after Lessee shall be in the event of assignment bereof in	omplished, shall operate to enlarge the o tre been furnished by registered U.S. m to whole or in part liability for breach of one entitled to royalty hereunder, Lesse	oart, and the provisions hereof shall extend to bligations or diminish the rights of Lessee; as all at Lessee's principal place of business wi any obligation hereunder shall rest exclusive e may withhold payment thereof unless and	nd no change or division in such th a certified copy of recorded in ely upon the owner of this lease	ownership shall be binding on Lessee until astrument or instruments evidencing same, or of a portion thereof who commits such
rounds for cancellation hereof in w writing of the facts relied upon as co mposed by virtue of this instrument out in discharging this obligation it a	whole or in part. In the event Lessor con- matituting a breach hereof, and Lessee, it. After the discovery of oil or gas in pay thall in no event by required to drill more	work a forfeiture or termination of this lea siders that operations are not at any time be fin default, shall have sixty days after receip ying quantities on said premises, Lessee sha e than one well per forty (40) acres of the are	ing conducted in compliance wi t of such notice in which to com Il develop the acreage retained h a retained hereunder and capabl	ith this lease, Leasor shall notify Leases in mence the compliance with the obligations screunder as a reasonably prudent operator is of producing oil in paying quantities and
9. Lessor hereby warrants and a	rerees to defend the title to said land and	acres of the area retained hereunder and cap agrees that Lessee at its option may dischar	ge any tax, mortgage or other lie	In upon said land either in whole or in part,
nd in event Lessee does so, it shall I nder the warranty in event of failure	be subrogated to such lien with the right a of title, it is agreed that if Lessor owns	to enforce same and apply royalties accruing an interest in the oil or gas on, in or under sties named as Lessors fail to execute this less	g hereunder toward satisfying sa aid land less than the entire foc	me. Without impairment of Lessee's right simple estate, then the royalties to be paid
nerefrom by reason of scarcity of or authority, then while so prevented, L nail be extended while and so long	inability to obtain or to use equipment essee's obligation to comply with such as Lessee is prevented by any such caus	mplied covenant of this lease, from conduct or material, or by operation of force majeure covenant shall be suspended, and Lessee she e from conducting drilling or reworking ope- ing in this lease to the contrary notwithstand	any Federal or state law or any all not be liable in damages for trations on or from producing of	y order, rule or regulation of governmental failure to comply therewith; and this lease
IN WITNESS WHEREOF, this	instrument is executed on the date first	above written.		

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO, County of	_ }ss.	:								
White the statement and a second should be force or										
This instrument was acknowledged before n	ne tnis	<u> </u>	, .							
byClifford Cone		•								
									•	
My commission expires				- ,	-		Notar	y Public		
							11000) I 45H0		
	COR	ORATIO	N ACKI	LIWON	EDGEM	ŒNT		,		
	COIG		I I I I CIL		2D O D.I.					
STATE OF NEW MEXICO, County of	} ss.									
This instrument was acknowledged before m	. J					•				
	ic ans									
by of				· · · · · ·		_				poration
on behalf of said corporation.	-			· · . · . · . · . · . · . · . · . ·					corp	Mation
My commission expires			 : -	- <u>.</u>				<u> </u>	<u> </u>	
							Notar	y Public		
	1				,					
	IND	IVIDUAI	ACKN	OWLE	DGEM	ENT				
STATE OF	1									
County of	_ } ss	•							·	
This instrument was acknowledged before	me this									
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My commission expires						· 	Nota	ry Public		
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No. Oil and Gas Lease FROM	4.			61,	County, N.M.	This instrument was filed for record on the	o'clock M., and duly	P records	County Clerk Deputy When recorded return to	
Producers No.				Dated	No. Acres	TermThis instrumen	day of at o'o	recorded in Book	ByWhen	



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

December 9, 1997

Mr. Clifford Cone P.O. Box 1629 Lovington, New Mexico 88260

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Mr. Cone:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

Rolfert Bullock Landman

YATES PETROLEUM CORPORATION

RB/ljf enclosures

01/21/98

Dear Mr. Bullock:

ET5-60-36-025-3A-M

Certified Mail: P 371 217 560

In a follow-up to our telephone conversation, I am interested in participating in the drilling of the subject well. However, I would like to review the proposed Joint Operating Agreement before making a final decision.

With regard to my interest in the subject lands, it is my position that the Townsend Unit has no affect on the lands in Section 2. I believe that I have a 0.5 acre mineral interest in the SW/4SW/4.

I have not signed the AFE which you enclosed, because it is unclear to me as to the total acreage in the proration unit and, therefore, I am uncertain of my decimal interest and the amounts which I am agreeing to executing the AFE.

Sincerely,

Clifford Cone



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES

PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

December 9, 1997

Mr. Kenneth G. Cone P.O. Box 11310 Midland, Texas 79702

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

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If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

wit Bullak

Robert Bullock Landman

RB/ljf enclosures

Z 351 693 341

Sent to Kenneth G. Co Signal and October 133	age Provided. ational Mail <i>(See reverse)</i> one
Wigitano Ostale Passa	8Code 9 / U.2
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showin Whom & Date Delivere	g to d
Return Receipt Showing to V Date, & Addressee's Addres	Whom, ss
TOTAL Postage & Fee	s \$
Return Receipt Showing to the Market Postmark or Date Com #3	APR SPEC
Com #3	RB/4

n the reverse side?	SENDER: © complete it ime 1 and/or 2 for additional services. © complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. **Attach this form to the front of the malipiece, or on the back if spacemit. Write **Return Receipt Requested** on the malipiece below the article. The Return Receipt will show to whom the article was delivered and delivered.	! also wish to receive the following services (for an extra fee): 1. □ Addressee's Address 2. □ Restricted Delivery Consult postmaster for fee.	
Ď	3. Article Addressed to:	4a. Article N	
your <u>RETURN ADDRESS</u> complete	Kenneth G. Cone P.O. Box 11310 Midland, Texas 79702	4b. Service Registere Express I	Mail Contified Copyright for Merchandise COD
	5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X Lapin A Lapin La	and fee is	e's Address (Only if requested paid) LAIK State BB/4
		2595-97-B-0179	Domestic Return Receipt

. (3)



AFE NO.

97-343-0

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

LEASE NAME

LEGAL DESC.

DIVISION CODE

DISTRICT CODE

BRANCH CODE

PROGNOSIS:

920-100

920-110

920-120

920-130

920-140

920-150

920-160 920-170

920-180

920-190

920-200

920-210

920-220

920-230

920-240

920-350

920-410

920-420

920-430

920-440

920-450

920-460

920-470

920-480

920-490

920-510

920-500

Т

INTANGIBLE DRILLING COSTS:

COUNTY

FIELD

AUTHORITY FOR EX	PENDITURE	AFE DATE	11/26/97
ROLEUM NEW DRILLING & RECOM	MPLETION	•	
AFE Type: Well Objective	Mall Tune	AFE STATUS:	
AFE Type: Well Objective X New Drilling X Oil	b: Well Type: Development	X Original	
MEXICO88210 Recompletion X Gas	X Exploratory	Revised	
605) 748-1471 Injector	Alexploratory	Final	
Field APK State Com. #3	PROJ'D DEPTH	12,600'	
Lea	STATE	New Mexico	•
3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	<u> </u>
	HORIZON	Morrow	
100 DIVISION NAME	Oil & Gas Division		
DISTRICT NAME			
BRANCH NAME			77
	<u> </u>		<u></u>
			<u></u>
			
LING COSTS:		DRY HOLE	COMP'D WELL
Staking, Permit & Legal Fees		1,200	1,200
Location, Right-of-Way		15,000	15,000
Drilling, Footage			
Drilling, Daywork 41 days @ \$7400/day + \$	40k mobilization	365,000	365,000
Drilling Water, Fasiline Rental		15,000	15,000
Drilling Mud & Additives		32,000	32,000
Mud Logging Unit, Sample Bags	***************************************	11,600	11,600
Cementing - Surface Casing		24,000	24,000
Drill Stem Testing, OHT 2 DST's		10,000	10,000
Electric Logs & Tape Copies Tools & Equip. Rntl., Trkg. & Welding		25,400	25,400
Tools & Equip. Rntl., Trkg. & Welding		24,500	24,500
Supervision & Overhead		17,400	17,400
Contingency			
Coring Tools & Service			
Bits, Tool & Supplies Purchase	***************************************	50,000	50,000
Cementing - Production Casing	***************************************	00,000	36,500
Completion Unit - Swabbing	***************************************		10,000
Water for Completion	***************************************		8,000
Mud & Additives for Completion	***************************************		1,000
Cementing - Completion	***************************************		- 1,000
Elec. Logs, Testing, Etc Completion	***************************************		35,000
Tools & Equip. Rental, Etc Completion	***************************************		20,000
Stimulation for Completion one zone test on			100,000
Supervision & O/H - Completion	····		3,100
Additional LOC Charges - Completion		····· -	1,200
Bits, Tools & Supplies - Completion			1,800
Contingency for Completion	***************************************		
***************************************	***************************************		
TOTAL INTANGIBLE DRILLING COSTS		591,100	807,700

TANGIBLE EQUI	PMENT COSTS:		
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200

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

Prepared B By	AL SPRINGER	Operation Approva	ons val
		OWNER	SHARE
ВУ		DATE	
ВУ		DATE	
BY Was		DATE	
		`	

Kenneth G. Cone

Lessor

(One YEAR PAID UP LEASE)

•	OILA	ND GAS LEASE		Hall-Poorbangh Press, Inc Roswell, New Mexico
THIS AGREEMENT made this	9th	day of	December	19 97 between
Kenneth G. Cone, I 10%, ABO PETROLEUM Corporations, LESS	ESSOR; and YATES PETRO CORPORATION - 10%, M SEE,	OLEUM CORPORATION YCO INDUSTRIES, II	- 70%, YATES DRI NC 10%, all Ne	w Mexico
1. Lessor in consideration ofT	en and no/100			Lessee, WITNESSETH:
purpose of investigating, exploring, prospe	paid, of the royalties herein provided and of the cing, drilling and mining for and producing of or claimed by Lessor adjacent and contiguous Lea	oil and gas, laying pipe lines, building	ng roads, tanks, power stations, tel	ephone lines and other atmetures
	Township 16 South, Section 2: SW/4SW/		<u> ИРМ</u>	
production of oil or gas and without further t	ment, prosecution or cessation at any time of d syments than the royalties berein provided, and is long thereafter as oil or gas is produced from	d notwithstanding anything else here	in contained to the contrary, this les	ment or cessation at any time of se shall be for a term of 1 years
which the wells may be connected; Lessee purchase; (b) on gas, including casinghead the market value at the well of	re: (a) on oil, $\sqrt{1/4}$ of that produced and a nay from time to time purchase any royalty oil as or other gaseous substance, produced from of the gas so sold or used, provided the pooled therewith but gas is not being sold or use sum of \$1.00 per acre, and if such payment is sender of said shut-in gas royalty may be made foil, gas, coal and water from said land, except	in its possession, paying the market said land, and sold, or used off the p at on gas sold at the wells the royalty ised, Lessee may pay or tender as roy made or tendered, this lease shall not by check or draft of Lessee mailed	price therefor prevailing for the fie remises or for the extraction of gas shall be 1/4 of the amor yalty, on or before ninety (90) days at terminate and it will be considere or delivered to the parties entitled	Id where produced on the date of oline or other product therefrom, not realized from such sale; while after the date on which said well d that gas is being produced from thereto on or before the date said
4. Lessee, at its option, is hereby given or leases in the immediate vicinity thereof to said leased premises in compliance with the the conservation of oil and gas in and under gas hereunder shall not substantially exceed of units larger than those specified, units the combine acreage covered by this lesse, or as stratum or strata need not conform in size or gas units. The pooling in one or more instruction of the county in which pooling option after commencing operations a well capable of producing oil or gas in particular of drilling were commenced or such production of drilling were commenced or such production on or production of oil and gas from land con as to oil and gas, or either of them, as herein. For the purpose of computing the royalties to pooled unit, there shall be allocated to the latter unit, there shall be allocated to the latter of surface acres included in the unit just as the is producing and not as production from a from an oil pooled unit. In addition to the focuered hereby to any cooperative or unit a Commission or other lawful governmental as Commission or other lawful governmental the commitment thereto, and the same may be commitment thereto, and the same may be	the right and power to pool or combine the acre- the extent, hereinafter stipulated, when in Less spacing rules of the New Mexico Oil Conserva and that may be produced from said premises, in area 640 acres each plus a tolerance of 10% reafter created may conform substantially in si- ry portion thereof as above provided as to oil it area with the unit or units into which the lease ances shall not exhaust the rights of the Less the leased premises are situated an instrument for or completing an oil or gas well on the leas ying quantities has theretofore been complete oill or gas from any part of the pooled unit whi it was secured before or after the execution of the ered by this lease whether or not the well or we provided, shall be treated for all purposes, exce- to which owners of royalties and payments out or ond covered by this lease and included in said us Such allocation shall be on acreage basis—that if them, produced from the pooled unit which the Royalties hereunder shall be computed on the lough such production shall be computed on the properties are the production from a gas we regoing. Lessee at its option is hereby given the greement or plan of development and operation thority. In such event, the royalty payable to peration, which basis shall be the same by whit essee shall record in the county in which the le we recorded either before or after the completion	ee's judgement it is necessary or advision Commission, or other lawful au Units pooled for oil hereunder shall thereof, provided that should governize with those prescribed by governin any one or more strata and as to ge e is pooled or combined as to any or ee hereunder to pool this lease or p describing and designating the pooled premises, and the pooled unit may do rupon which operations for the lich includes all or a portion of the led instrument or the instrument design is be located on the premises covere pt the payment of royalties on product for production and each of them, shall nit a pro rata portion of the oil and gisto say, there shall be allocated to the number of surface acres covered by portion of such production, whether he production from an oil well will be ill will be considered as production fine right and power from time to time no, and to any modifications thereof, and to any modifications thereof Lessor hereunder shall be computed to the royalty due the United States ereof and said agreement or plan of each premises are situated, an instruction of wells.	isable to do so in order properly to enthority or when to do so would, in a not substantially exceed 40 acres of mental authority having jurisdiction mental regulations. Lessee under the sin any one or more strata. The under stratum or strata, and oil units is ortions thereof into other units. Led acreage as a pooled unit. Lessey include, but it is not required to in drilling of a well for oil or gas han didilling of a well for oil or gas han and covered by this lease regardles gnating the pooled unit, shall be cond by this lease, and the entire acreage tion from the pooled unit, as if the ib entitled on production of oil and as, or either of them, produced from the acreage covered by this lease and y this lease and included in the pool it be oil and gas, or either of them, econsidered production from the lease or gas pooled unit from the lease of your proved by the land paid on the basis of the oil or or the State of New Mexico is comforted production shall be filed with the ment describing such agreement or	explore, or to develop and operate the judgment of Lesses, promote such in area, and units pooled for a prescribe or permit the creation as prescribe or permit the creation as provisions hereof may pool or mits formed by pooling as to any meed not conform as to area with essee shall file for record in the may at its election exercise its chide, land or lesses upon which we may at its election exercise its chide, land or lesses upon which we have a commenced of whether such operations for drilling go constituting such unit or units, same were included in this lesse, do gas, or either of them, from the in the pooled unit after deducting included in the pooled unit that led unit bears to the total number, so allocated to the land covered use or oil pooled unit from which m which it is producing and not formation or mineral substance. New Mexico Oil Conservation gas allocated to such iand under puted and paid. This lesse shall New Mexico Oil Conservation plan of operation and reflecting
or shall have completed a dry hole thereon wadditional well are prosecuted with no cessard land pooled therewith. If, after the expiration any cause, this lease shall not terminate if Le as such operations are prosecuted with no cetor from land pooled therewith. Any pooled to the county in which the leased premises are appaying quantities should be brought in on a reasonably condent operator would drill under	n oil or gas is not being produced on said land, thin 60 days prior to the end of the primary ter on of more than 60 consecutive days, and if the of the primary term of this lease and after oil or usee commences operations for drilling or reversation of more than 60 consecutive days, and in the designated by Lessee in accordance with the dituated at any time after the completion of a diffuser than and within 660 feet of and draining the same or similar circumstances. Lessee mund thereby surrender this lease as to such portune the same of th	rms, the lease shall remain in force so by result in the production of oil or ga gas is produced from said land, or far orking within 60 days after the cessal f they result in the production of oil the terms hereof, may be dissolved by try hole or the cessation of production ing the lease premises, or land poole ay at any time execute and deliver to	o long as operations on said well or s so long thereafter as oil or gas is p om land pooled therewith, the produ- tion of such production, but shall re and gas, so long thereafter as oil or Lessee by instrument filed for rec- on on said unit. In the event a well det therewith. Lessee agrees to dril Lessor or place of record a release:	for drilling or reworking of any reduced from said land, or from said land, or from said in force and effect so long gas is produced from said land, and in the appropriate records of or wells producing oil or gas in it such offset well or wells as a or releases covering any portion
 Lessee shall have the right at any tim all casing. When required by Lessor, Lessee without Lessor's consent. 	during or after the expiration of this lease to a will bury all pipe lines below ordinary plow	remove all property and fixtures placed the depth, and no well shall be drilled well and no well shall be drilled well as the drilled well as the depth of the de	ced by Lessee on said land, including within two hundred feet of any resident of the control of	ng the right to draw and remove dence or barn now on said land
of the land or royalties, however accomplishe thirty (30) days after Lessee shall have been in the event of assignment beroof in whole o	ay be assigned in whole or in part, and the prod, shall operate to enlarge the obligations or directions of the distribution of the product of the part liability for breach of any obligation had to royalty hereunder, Lessee may withhold all.	ninish the rights of Lessee; and no ch rincipal place of business with a cert percunder shall rest exclusively upon	nange or division in such ownership ified copy of recorded instrument on the owner of this lease or of a por	shall be binding on Lessee until or instruments evidencing same, tion thereof who commits such
grounds for cancellation hereof in whole or i writing of the facts relied upon as constitution imposed by virtue of this instrument. After it has in discharging this obligation it shall in no	on arising hereunder shall not work a forfeitu n part. In the event Lessor considers that oper a breach hereof, and Lessee, if in default, shal he discovery of oil or gas in paying quantities of a event by required to drill more than one well a noe not to exceed 10% of 640 acres of the area	ations are not at any time being cond have sixty days after receipt of such on said premises, Lessee shall develo per forty (40) acres of the area retain	ducted in compliance with this least in notice in which to commence the copy the acreage retained hereunder a ed hereunder and canable of products	e, Lessor shall notify Lessee in compliance with the obligations is a reasonably prudent operator cing oil in paying quantities and
and in event Lessee does so, it shall be subrog	defend the title to said land and agrees that Les ated to such lien with the right to enforce same it is agreed that if Lessor owns an interest in the uld any one or more of the parties named as L	e and apply royalties accruing hereun he oil or gas on, in or under said land	nder toward satisfying same. Without items than the entire fee simple est	out impairment of Lessee's right ate, then the royalties to be paid
therefrom by reason of scarcity of or inability authority, then while so prevented, Lessee's of thall be extended while and so long as Lessee time while Lessee is so prevented shall not be	mplying with any express or implied covenant to obtain or to use equipment or material, or biligation to comply with such covenant shall be in prevented by any such cause from conduct counted against Lessee, anything in this lease	y operation of force majeure, any Fe be suspended, and Lessee shall not b ing drilling or reworking operations	ederal or state law or any order, rule se liable in damages for failure to c	or regulation of governmental comply therewith; and this lease
IN WITNESS WHEREOF, this instrumen	at is executed on the date first above written.			

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,						
County of	ss.					
	1					
This instrument was acknowledged before me	this	1.	· · · · · · · · · · · · · · · · · · ·			
by				· · · · · ·		

My commission expires					· ·	
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CC)RPORAT	TION ACK	NOWLED	GEMENT	•	
STATE OF NEW MEXICO,	; ;			4		· .
County of	s s .			•		
This instrument was acknowledged before me t	his		_ 		· · · · · · · · · · · · · · · · · · ·	
by				as		
of	Andrews Programme 1 and					corporation
on behalf of said corporation.			·			corporation
My commission expires				···		· · · · · · · · · · · · · · · · · · ·
	<u> </u>	·			Notary Publi	c .
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	INDIVID	UAL ACKN	OWLEDO	GEMENT		. •
STATE OF TEXAS	1					
County of) 5 5.					
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This instrument was acknowledged before me	trais					
by Kenneth G. Cone		·			· · · · · · · · · · · · · · · · · · ·	
<u> </u>	-			······································		
My commission expires	-		,	·		
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Oil and Gas Lease FROM	P	-			as n	records (Co
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No. Oil and Gas Lease FROM					day ofo' in Book_	M _{Pe}
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105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

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

February 12, 1998

Mary Irwinsky 4404 Odessa Avenue Ft. Worth, TX 76133

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Irwinsky:

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If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Short Bullak

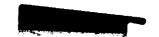
Robert Bullock Landman

RB/ljf enclosures

Z 443	810	∃ P E
US Postal Service Receipt for No Insurance Cov. Do not use for Inte	Certifi erage Prov	rided.
Mary Irwinsky short Adhessa Ft. Worth, Te Post Office, State, &	Avenue xas 76°	
Postage	\$	
Certified Fee		
Special Delivery Fee		
Restricted Delivery Fe	99	
Return Receipt Showi Whom & Date Deliver		
Return Receipt Showing to Date, & Addressee's Address		
TOTAL Postage & Fed	es \$	
Return Receipt Showing Whom & Date Delivern Return Receipt Showing to Date, & Addressee's	APK	Store

SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form card to you.	I also wish to receive the following services (for an extra fee):
 Attach this form to the front of the mailpiece, or on the beamit. Write "Return Receipt Requested" on the mailpiece beloe The Return Receipt will show to whom the article was delivered. 	the article number. 2. Restricted Delivery
3. Article Addressed to: Mary Irwinsky	4a. Article Number Z 443 810 396
4404 Odessa Avenue	4b. Service Type
Ft. Worth, Texas 76133	Registered Certific
<u> </u>	7. Date of Delivery 2-17-94
5. Received By: (Print Name)	8. Addressee's Address (Only if requested and fee is paid)
6. Signature: (Addressee or Agent) X 1050 Ru), N5/1	J'ul LOK State







BY

AFE NO. 97-343-0

	AUTHORITY FOR EXPENDITURE	AFE DATE	11/26/97
	TROLEUM NEW DRILLING & RECOMPLETION		*
	740 176.	AFE STATUS:	
	OURTH STREET X New Drilling X Oil Development	X Original	
	VMEXICO 88210 Recompletion X Gas X Exploratory	Revised	
· ELEPHONE (505) 748-1471 Injector	Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		· · · · · · · · · · · · · · · · · · ·
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
PROGNOSIS:			
INTANGIBLE DRII	LING COSTS:	DRY HOLE C	OMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190		25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overnead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion	****	8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQUIP	MENT COSTS:		•
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
	***************************************	······	
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000 15,700
940-040	Trucking & Construction Costs		
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200
APPROVAL OF 1	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACC FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED AB		OODS
Prepared AL	SPRINGER Operations Approval		
UT INL	OWNER	SHARE	
		0.000	
3,500 (1.474.46000000)	$egin{array}{cccccccccccccccccccccccccccccccccccc$		

DATE

DATE

SS#

1 100 decratos Res 4 lear Leave) 5-90		TD GAS LEASE		Form 343 Hall-Poorbaugh Press, Inc
THIS AGREEMENT made this	12th	day of	February .	Roswell, New Mexico
Mary Irwinsky, dealing CORPORATION - 10%, YATE INDUSTRIES, INC 10%,	S DRILLING COMPAN	Y - 10%, ABO PETRO	OLEUM CORPORATION	DETROI EIM
1. Lessor in consideration of Ten an	d no/100			· Lessee, WITNESSETH:
10 00	ne royalties herein provided and of the ing and mining for and producing oil d by Lessor adjacent and contiguous t	e agreements of Lesses herein contai	ned, hereby grants, leases and lets en roads, tanks, power stations, telepho treat, transport, and own said product	chalvely unto Lessee for the
	Tormohin 16 Cau	#h Dames 25 B. (77.674.	•
	Section 2: SW/	th, Range 35 East 4SW/4	, NMPM	•
Without reference to the commencement, prosproduction of oil or gas and without further payments the from this date (called "primary term") and as long the	nan the royalties herein provided, and, reafter as oil or gas is produced from the second control of the secon	notwithstanding anything else herein said land or land with which said lan	contained to the contrary, this lease she is pooled hereunder.	all be for a term of 1 years
3. The royalties to be paid by Lessee are: (a) on of which the wells may be connected; Lessee may from a purchase; (b) on gas, including casinghead gas or other the market value at the well of	me to time purchase any royalty oil it gaseous substance, produced from sa f the gas so sold or used, provided that rewith but gas is not being sold or use 1.00 per acre, and if such payment is n id shut-in gas royalty may be made b	n its possession, paying the market paid land, and sold, or used off the pre- on gas sold at the wells the royalty si- ed, Lessee may pay or tender as royal nade or tendered, this lease shall not to the condition of Lessee mailed or	rice therefor prevailing for the field wimises of for the extraction of gasoline tall be 1/4 of the amount relity, on or before ninety (90) days after the erminate and it will be considered that delivered to the parties entitled them.	here produced on the date of or other product therefrom, alized from such sale; while the date on which said well gas is being produced from the on or hefore the date said
4. Lessee, at its option, is hereby given the right an or leases in the immediate vicinity thereof to the extent, said leased premises in compliance with the spacing rule conservation of oil and gas in and under and that m gas hereunder shall not substantially exceed in area 640 of units larger than those specified, units thereafter crecombine acreage covered by this lesse, or any portion is tratum or strata need not conform in size or area with gas units. The pooling in one or more instances shall appropriate records of the county in which the leased pooling option after commencing operations for or com a well capable of producing oil or gas in paying quant Operations for drilling on or production of oil or gas farilling were commenced or such production was secure on or production of oil and gas from land covered by this as to oil and gas, or either of them, as herein provided, at For the purpose of computing the royalties to which ow pooled unit, there shall be allocated to the land covered that used for operations on the pooled units. Such alloc pro rata portion of the oil and gas, or either of them, pro faurface acres included in the pooled unit. Royalties is by this lease and included in the pooled unit. Royalties by this lease and included in the unit just as though such it is producing and not as production from a gas pooled from an oil pooled unit. In addition to the foregoing. Lovered hereby to any cooperative or unit agreement or Commission or other lawful governmental authority. In the terms of any such agreement or plan of operation, who completed a day hole thereon within 60 day additional well are prosecuted with no cessation of more land pooled therewith. It, after the expiration of the prim any cause, this lease shall not terminate if Lessee comme as such operations are prosecuted with no cessation of more land pooled therewith. It, after the expiration of the prim any cause, this lease shall not terminate if Lessee comme as such operations are prosecuted with no cessation of more land pooled t	hereinafter stipulated, when in Lessee es of the New Mexico Oil Conservation by be produced from said premises. Lessee the new Mexico Oil Conservation by be produced from said premises. Lessee are should be a tool in size the unit or units into which the lease is not exhaust the rights of the Lessee remises are situated an instrument depleting an oil or gas well on the lease it of the same that the pooled unit which the defere or after the execution of this it lease whether or not the well or wells all be treated for all purposes, except the sers of royalties and payments out of by this lease and included in said unit which the stream of the pooled unit which the stream of the pooled unit which the it is the service of the pooled unit which the interest of the pooled unit which the lease it is option is hereby given the plan of development and operation, such event, the royalty payable to Lester the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in the pooled unit which the lease it is option in t	's judgement it is necessary or advisa on Commission, or other lawful authority pooled for oil hereunder shall neteof, provided that should governme awith those prescribed by governme any one or more strata and as to gas is pooled or combined as to any other hereunder to pool this lease or port scribing and designating the pooled in remises, and the pooled unit may it or upon which operations for the drift includes all or a portion of the land instrument or the instrument designate be located on the premises covered by the payment of royalties on production and each of them, shall be a pro rata portion of the oil and gas, to say, there shall be allocated to the number of surface acres covered by the production from an oil well will be considered as production from ight and power from time to time to and to any modifications thereof, wester hereunder shall be computed an the royalty due the United States or sof and said agreement or plan of o ed premises are situated, an instrume of wells. It from land pooled therewith, but Lete, the lease shall remain in force so be the sesult in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing within 60 days after the cessation hey result in the production of oil or gas as as is produced from said land, or from ing withi	ble to do so in order properly to exploodly or when to do so would, in the je of subutantially exceed 40 acres each intal authority having jurisdiction position and or strain. The units in any one or more strain. The units if a stratum or strain, and oil units need ions thereof into other units. Lesses acreage as a pooled unit. Lesses madelude, but it is not required to include illing of a well for oil or gas have the covered by this lease regardless of wing the pooled unit, shall be consider by this lease, and the entire acreage con from the pooled unit, as if the same is entitled on production of oil and gas, or either of them, produced from the acreage covered by this lease and included in the pooled unit as lease and included in the pooled unit is lease and included in the pooled unit is lease and included in the pooled unit from who commit said land or any part or form the lease or gas pooled unit from who commit said land or any part or form the lease or gas pooled unit from who commit said land or any part or form the lease of New Maxico is computed peration shall be filed with the New and describing such agreement or plantand pooled therewith, the production of oils and passes is then engaged in drilling or rewent as the constitute of the production in a sid unit. In the event a well or gas is seen by instrument filed for record in said unit. In the event a well or we therewith. Lesses agrees to drill such sec or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of record a release or release or or place of the place of the place of the pla	to, or to develop and operate alignment of Lesses, promote in area, and units pooled for scribe or permit the creation wisions hereof may pool or formed by pooling as to any not conform as to area with shall file for record in the y at its election exercise its, land or lesses upon which retofore been commenced, whether such operations for deals operations for drilling astituting such unit or units, were included in this lease, or either of them, from the pooled unit after deducting under its desired to the land covered oil pooled unit from which it is producing and not astion or mineral substance of mercial pooled unit from which it is producing and not astion or mineral substance is made and paid. This lease shall Mexico Oil Conservation of operation and reflecting or seworking of any self from said land, or from theseof should cease from in force and effect so long a produced from said land, or from the sepropriate records of its producing oil or gas in a offset well or wells as a bases covering any portion dd.
 Lessee shall have the right at any time during or all casing. When required by Lessor, Lessee will bury a without Lessor's consent. The rights of either party hereunder may be assigned. 	Il pipe lines below ordinary plow de	pth, and no well shall be drilled with	in two hundred feet of any residence	or barn now on said land
of the land or royalties, however accomplished, shall open thirty (30) days after Lesses shall have been furnished by In the event of assignment hereof in whole or in part lial breach. If six or more parties become entitled to royalt designating an agent to receive payment for all.	rate to enlarge the obligations or dimin registered U.S. mail at Lessee's prin pility for breach of any obligation her	uish the rights of Lessee; and no chang cipal place of business with a certifie cunder shall rest exclusively upon th	ge or division in such ownership shall id copy of recorded instrument or inst e owner of this lesse or of a portion t	be binding on Lesses until ruments evidencing same, bereof who commits such
8. The breach by Lessee of any obligation arising grounds for cancellation hereof in whole or in part. In the writing of the facts relied upon as constituting a breach himposed by virtue of this instrument. After the discovery but in discharging this obligation it shall in no event by reone well per 640 acres plus an acreage tolerance not to experience.	ne event Lessor considers that operations of and Lessee, if in default, shall he of oil or gas in paying quantities on quired to drill more than one well per acced 10% of 640 acres of the area re	ons are not at any time being conductive sixty days after receipt of such no acid premises, Lesses shall develop to forty (40) acres of the area retained lettined hereunder and capable of pro-	ted in compliance with this lease, Le pice in which to commence the compl he acreage retained hereunder as a re hereunder and capable of producing o ducing gas in paying quantities.	iter shall notify Lesses in lence with the obligations asceably prudent operator il in paying quantities and
9. Lessor hereby warrants and agrees to defend the tand in event Lessee does so, it shall be subrogated to suclander the warranty in event of failure of title, it is agreed Lessor shall be reduced proportionately. Should any one tame.	Hen with the right to enforce same as that if I essor owns an interest in the	nd apply royalties accruing hereunder oil or was on, in or under said land le	r toward satisfying same. Without im as than the entire fee simple estate, th	pairment of Lesses's right on the royalties to be paid
10. Should Lessee be prevented from complying with the form the prevented from the control of scarcity of or inability to obtain outhority, then while so prevented, Lessee's obligation to hall be extended while and so long as Lessee is prevented me while Lessee is so prevented shall not be counted as	r to use equipment or material, or by a comply with such covenant shall be a by any such cause from conducting	operation of force majeure, any Feder suspended, and Lessee shall not be il godfilling or reworking operations on	ral or state law or any order, rule or re table in damages for failure to comply	guiation of governmental therewith: and this lease
IN WITNESS WHEREOF, this instrument is execute	d on the date first above written.			
Mary Trwinsky				•

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INDI	IVIDUAL ACKNOWLEDGEMENT	
STATE OF NEW MEXICO, County of }ss.		
muta tananana ana antanana tanana tanana tanana ana		
This instrument was acknowledged before me this		·
by		
My commission expires		
	Notary Public	
CORPO	ORATION ACKNOWLEDGEMENT	u Notae
STATE OF NEW MEXICO, County of }ss.		•
This instrument was acknowledged before me this		
by	as	
of		corpor ation
on behalf of said corporation.		
My commission expires	Notary Public	
	Notary Fibric	
INDI	VIDUAL ACKNOWLEDGEMENT	
STATE OF:		
County of		
This instrument was acknowledged before me this_		
by Mary Irwinsky, dealing in her so	ole and separate property	
		 :
My commission expires		
	Notary Public	
and Gas Lease FROM	vas filed for record on the vas filed for record on the vas filed for record on the records of this office. County Clerk Deputy	corded return to
Producers 88 %	Dated No. Acres Term This instrument w day of at o'clo recorded in Book of the	When rec



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

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

February 12, 1998

Constance Cobb Keen 4915-D 94th Street Lubbock, TX 79424

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Keen:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Hobert Bullock

Robert Bullock Landman

RB/ljf enclosures US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
No Insurance Coverage Provided.
No Insurance Cobb Keen
Sept to Constance Cobb Keen
SugrebubleAth Street
Lubback TX 79424
Post Office, State, & ZIP Code

Postage

Postage

Special Delivery Fee
Special Deliv

the reverse side	NDER; Implete items 1 and/or 2 for additional services. Implete items 3, 4a, and 4b. Int your name and address on the reverse of this form so that we rd to you. Iach this form to the front of the mailpiece, or on the back if space init. Intel "Return Receipt Requested" on the mailpiece below the article Return Receipt will show to whom the article was delivered an livered.	e does nat e number.	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.	
ADDRESS complete	Article Addressed to: Constance Cobb Keen 4915-D 94th Street Lubbock, TX 79424	4a. Article Ni 2 44 4b. Service 1 Registere Express I Return Rec 7. Date of De	Type ad Certified Mail Insured Scipt for Merchandise COD	78
13H Jnox 81	Received By: (Print Name) Signature: (Addressee or Agent) X Form 3811, December 1994	and fee is	S Address (Only if requested paid) H 3 Ro/4 Domestic Return Receipt	



AUTHORITY FOR EXPENDITURE

AFE NO.

97-343-0 11/26/97

25,000

15,700

405,500

1,213,200

66,100

657,200

NEW DRILLING & RECOMPLETION

CORPORATION	NEW D
	AFE Type:
105 SOUTH FOURTH STREET	X New Drilling

Well Objective: Well Type:

| X Oil | Developm | X Gas | X Explorato

Il Type: AFE STATUS:

Development X Original

ARTESIA, NEW MEXICO 88210 Revised Recompletion X Exploratory TELEPHONE (505) 748-1471 Injector Final LEASE NAME Field APK State Com. #3 12,600' PROJ'D DEPTH COUNTY STATE **New Mexico** LEGAL DESC. 3,300' FSL & 760' FWL LOCATION Section 2-16S-35E **HORIZON** FIELD Morrow **DIVISION CODE** 100 **DIVISION NAME** Oil & Gas Division DISTRICT CODE **DISTRICT NAME BRANCH CODE BRANCH NAME** PROGNOSIS: INTANGIBLE DRILLING COSTS: **DRY HOLE** COMP'D WELL 920-100 Staking, Permit & Legal Fees 1,200 1,200 15,000 920-110 Location, Right-of-Way 15,000 920-120 Drilling, Footage 920-130 Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization 365,000 365,000 920-140 **Drilling Water, Fasline Rental** 15,000 15,000 920-150 **Drilling Mud & Additives** 32,000 32,000 920-160 Mud Logging Unit, Sample Bags 11,600 11,600 920-170 Cementing - Surface Casing 24,000 24,000 920-180 Drill Stem Testing, OHT 2 DST's 10,000 10,000 920-190 **Electric Logs & Tape Copies** 25,400 25,400 Tools & Equip. Rntl., Trkg. & Welding 920-200 24,500 24,500 920-210 Supervision & Overhead 17,400 17,400 920-220 Contingency 920-230 Coring, Tools & Service 50.000 920-240 Bits, Tool & Supplies Purchase 50,000 920-350 **Cementing - Production Casing** 36,500 920-410 Completion Unit - Swabbing 10,000 Water for Completion 920-420 8,000 920-430 Mud & Additives for Completion 1,000 920-440 Cementing - Completion 0 920-450 Elec. Logs, Testing, Etc. - Completion 35,000 920-460 Tools & Equip. Rental, Etc. - Completion 20,000 920-470 Stimulation for Completion 100,000 one zone test only 920-480 Supervision & O/H - Completion 3,100 Additional LOC Charges - Completion 920-490 1,200 1,800 920-510 Bits, Tools & Supplies - Completion 920-500 **Contingency for Completion** TOTAL INTANGIBLE DRILLING COSTS 591,100 807,700 TANGIBLE EQUIPMENT COSTS: 26,000 930-010 Christmas Tree & Wellhead 2,000 930-020 Casing 11-3/4" @ 450' 7,600 7,600 8-5/8" @ 4650' 5-1/2" @ 12,600' 56,500 56,500 93,000 2 7/8" @ 12400' 930-030 Tubing 35,000 930-040 Packer & Special Equipment 8,000 940-010 **Pumping Equipment** including \$20,000 for electricity 116,000 940-020 Storage Facilities 22,700

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

Separation Equip., Flowlines, Misc.

TOTAL TANGIBLE EQUIPMENT COSTS

Trucking & Construction Costs

940-030

940-040

TOTAL COSTS

Prepare By	d	AL	SPRINGER		Operations Approval		
				OWNER			SHARE
вү					DATE		
ЗҮ					DATE		
ЗҮ					DATE		
		BY	BY AL	BY AL SPRINGER BY	BY AL SPRINGER OWNER BY	BY AL SPRINGER OWNER BY DATE BY DATE	BY AL SPRINGER OWNER DATE DATE

Constance Cobb Keen

SS#

(One YEAR PAID UP LEASE)

		OIL AND GAS LEASE	,	Hall-Poorbaugh Press, I
THIS AGREEMEN	T made this1	2th da	yofFebruary	Roswell, New Mex
TRIKOLEUM	CORPORATION - /U%.	in her sole and separat YATES DRILLING COMPANY 10%, all New Mexico cor	e property, LESSOR;	and WARRING
1. Lessor in consid	_	/100		Lessee, WIINESSET
(\$ 10.00 purpose of investigating, thereon and on, over and s	in hand paid, of the royaltic exploring, prospecting, drilling and m cross lands owned or claimed by Lesso	s herein provided and of the agreements of Lessee l ining for and producing oil and gas, laying pipe lin or adjacent and contiguous thereto, to produce, save,	herein contained, hereby grants, leases an nes, building roads, tanks, power stations, take care of, treat, transport, and own said	talanhana tinan and askes
the following described is	nd in	County,	New Mexico	, to-w
		wnship 16 South, Range 35 ction 2: SW/4SW/4	5 East, NMPM	
from this date (called "pd	d without further payments than the roy mary term") and as long thereafter as o	cessation at any time of drilling or other developmer alties herein provided, and notwithstanding anything oil or gas is produced from said land or land with w	g else herein contained to the contrary, this hich said land is pooled hereunder.	s lease shall be for a term of 11 year
which the wells may be co purchase; (b) on gas, inch the market value at the wel there is a gas well on this i is shut in and thereafter at this lease in paying quant	ding casinghead gas or other gaseous a ding casinghead gas or other gaseous a lof	de of that produced and saved from said land, the sepurchase any royalty oil in its possession, paying to substance, produced from said land, and sold, or use a sold or used, provided that on gas sold at the wells tegas is not being sold or used, Lessee may pay or tegas, and if such payment is made or tendered, this gas royalty may be made by check or draft of Lesseter from said land, except water from Lessor's wells	the market price therefor prevailing for the doff the premises of for the extraction of the royalty shall be 1/4 of the author as royalty, on or before ninety (90) does shall not terminate and it will be equal to mailed or delivered to the parties entitle.	e field where produced on the date of gasoline or other product therefron mount realized from such sale; while any after the date on which said we lead that gas as being produced from and thereto on or before the date sale
4. Lesses, at its option or leases in the immediate said leased premises in on the conservation of oil and gas hereunder shall not suit of units larger than those so combine acreage covered	s, is hereby given the right and power to vicinity thereof to the extent, hereinafte upilance with the spacing rules of the I gas in and under and that may be prod stantially exceed in grea 640 acres each pecified, units thereafter created may on this lesse, or any portion thereof as	pool or combine the acreage covered by this lease, or stipulated, when in Lessee's judgement it is necess. New Mexico Oil Conservation Commission, or other used from said premises. Units pooled for oil hereu in plus a tolerance of 10% thereof, provided that show onform substantially in size with those prescribed be above provided as to oil in any one or more strata as units into which the lease is pooled or combined as	ary or advisable to do so in order properly in lawful authority or when to do so would, inder shall not substantially exceed 40 act ald governmental authority having jurisdicity governmental regulations. Lessee under a sa to gas in any one or more atrats. The	to explore, or to develop and operat In the judgment of Lesson, promot us each in area, and units pooled for the provisions hereof may pool or the provisions hereof may pool or in units formed by nooling as to any
gas units. The pooling in appropriate records of the pooling option after counts a well capable of producin Operations for drilling on drilling were commenced of	one or more instances shall not exhau county in which the leased premises as encing operations for or completing as ag oil or gas in paying quantities has the production of oil or gas from any pays as such production was secured before of	ust the rights of the Lessee bereunder to pool this i re situated an instrument describing and designating oil or gas well on the leased premises, and the pooler erectofore been completed or upon which operation art of the pooled unit which includes all or a portion or after the execution of this instrument or the instrument	lease or portions thereof into other units, g the pooled acreage as a pooled unit. Le d unit may include, but it is not required to as for the drilling of a well for oil or gas in of the land covered by this lease regard nent designating the pooled unit, shall be o	Lesses shall file for record in the sace may at its election exercise it to include, land or leases upon which have theretofore been commenced less of whether such operations for considered as operations for drilling
as to oil and gas, or either of the purpose of computition of the purpose of computition of the oil and that used for operations on or or rate portion of the oil as of surface acres included it is producing and not as prom an oil pooled unit. Incovered hereby to any cool commission or other lawfithe terms of any such agree to expire during the life of commission, or other lawfithe commission, or other lawfither thereto, as	If them, as herein provided, shall be treating the royalities to which owners of royalilocated to the land covered by this lide the pooled units. Such allocation shall ad gas, or either of them, produced from the pooled unit. Royalities hereunder to the unit just as though such production roduction from a gas pooled unit; and it addition to the foregoing. Lessee at its perative or unit agreement or plan of dil governmental authority. In such ever ment or plan of operation, which basis of such agreement or plan and shall but authority, and Lessee shall record in the did not same may be recorded either before the production of the same may be recorded either before the production of the same may be recorded either before the production of the same may be recorded either before the production of the same may be recorded either before the production of the same may be recorded either before the production of the production of the same may be recorded either before the production of the produ	•	on production from the pooled unit, as if it nom, shall be entitled on production of oil oil and gas, or either of them, production coated to the acreage covered by this lease covered by this lease mad included in the pt, whether it be oil and gas, or either of the eil will be considered production from the duction from the lease or gas pooled unit no to time to commit said land or any part is thereof, which have been approved by computed and paid on the basis of the oil and States or the State of New Maxico is or or plan of operation shall be filled with the an instrument describing such agreement	he same were included in this lease and gas, or either of them, from the from the pooled unit after deducting and included in the pooled unit that coled unit bears to the total number sm, so allocated to the land covered lease or oil pooled unit from which from which it is producing and no to e formation or mineral substance the New Mexico Oil Conservation or gas allocated to such land under computed and paid. This lease shall the New Mexico Oil Conservation to r plan of operation and reflecting
or shall have completed a diditional well are prosective and pooled therewith. If, at my cause, this lease shall me such operations are prosect from land pooled therewith county in which the lease are guaranteed as a sonably prudent operators as a sonably prudent operators.	ry hole thereon within 60 days prior to be with no essention of more than 60 co for the expiration of the primary term for terminate if Lessee commences oper cuted with no cessation of more than 6 th. Any pooled unit designated by Lesed premises are situated at any time at brought in on adjacent land and with would drill under the same or similar or	ng produced on said land, or from land pooled there the end of the primary terms, the lease shall remain insecutive days, and if they result in the production or it his lease and after oil or gas is produced from said I ations for drilling or reworking within 60 days after 0 consecutive days, and if they result in the production in accordance with the terms hereof, may be dister the completion of a dry hole or the cessation of in 660 feet of and draining the lease premises, or liferomstances. Lessee may at any time execute and of this lease as to such portion or portions and be relie	in force so long as operations on said well foil or gas so long thereafter as oil or gas land, or from land pooled therewith, the prothetion, but shall on of oil and gas, so long thereafter as oil solved by Lessee by instrument filed for a production on said unit. In the event a we and pooled therewith. Lessee agrees to each leliver to Lessor or place of record a releas.	or for drilling or reworking of any is produced from said land, or from oduction thereof should cease from i remain in force and effect so long or gas is produced from said land, ecord in the appropriate records of all or wells producing oil or gas in drill such offset well or wells as a see or releases covering any portion
6. Lessee shall have the il casing. When required to thout Lessor's consent.	right at any time during or after the exy Lessor, Lesses will bury all pipe lin	spiration of this lease to remove all property and fix es below ordinary plow depth, and no well shall be	tures placed by Lessee on said land, including different of any resulted within two hundred feet of any re	ding the right to draw and remove asidence or barn now on said land
f the land or royalties, how airty (30) days after Lesses the event of assignment t	ever accomplished, shall operate to enla shall have been furnished by registered ereof in whole or in part liability for b es become entitled to royalty hereunde	ole or in part, and the provisions hereof shall extend trge the obligations or diminish the rights of Lessee; i U.S. mail at Lessee's principal place of business we reach of any obligation hereunder shall rest exclusi- tr, Lessee may withhold payment thereof unless an	and no change or divisi on in such ownersh rith a certified copy of recorded instrumen vely upon the owner of this lease or of a r	sip shall be binding on Lessee until at or instruments evidencing same, portion thereof who commits such
rounds for cancellation her riting of the facts relied up apposed by virtue of this ins	eof in whole or in part. In the event Lion as constituting a breach hereof, and it tument. After the discovery of oil or patter it shall in no event by required to a	shall not work a forfeiture or termination of this le essor considers that operations are not at any time b Lessee, if in default, shall have sixty days after recei- gas in paying quantities on said premises, Lessee sh irill more than one well per forty (40) acres of the ar- te of 640 acres of the area retained hereunder and ca-	eing conducted in compliance with this ke pt of such notice in which to commence the all develop the acreage retained hereundes rea retained hereunder and canable of proc	ease, Lessor shall notify Lessos in as compliance with the obligations or as a reasonably prudent operator ducing oil in paying quantities and
id in event Lessee does so,	it shall be subrogated to such lien with	land and agrees that Lessee at its option may discha the right to enforce same and apply royalties accrui- sor owns an interest in the oil or gas on, in or under f the parties named as Lessors fail to execute this le	ng hereunder toward satisfying same. Wit said land less than the entire fee simple &	thout impairment of Lessee's right astate, then the royalties to be paid.
erefrom by reason of scarce thority, then while so prevent all be extended while and	ity of or inability to obtain or to use equented, Lessee's obligation to comply we long as Lessee is prevented by any a	ress or implied covenant of this lease, from conduction of force majeure it such covenant shall be suspended, and Lessee alouch cause from conducting drilling or reworking of ee, anything in this lease to the contrary notwithstate.	re, any Federal or state law or any order, r hall not be liable in damages for failure to perations on or from producing oil or gas	o comply therewith; and this lease
IN WITNESS WHERE	OF, this instrument is executed on the d	ate first above written.		
			: 	

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,)	, :					
County of	ss.					•	
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This instrument was acknowledged before me	this	-					
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My commission expires					. ·	•	
					Notary Public		
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STATE OF NEW MEXICO,							
County of	ss.	1					
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My commission expires							
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STATE OF	} ss.				,I		
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	May 1. 1 years to may 1. 1 yea		.19	erm County, N.M. This instrument was filed for record on the	M., and duly Page records of this office.	County Clerk Deputy to	
Oil and Gas Lease FROM	to the state of th			Cou	M., Page	Count	
Dil and Gas Lease FROM				led f	2	Co When recorded return to	
Lease FROM	2			ras fi	Sk	corde	
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105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

CHAIRMAN OF THE BOARD

JOHN A. YATES

PRESIDENT

PEYTON YATES

EXECUTIVE VICE PRESIDENT

RANDY G. PATTERSON

S. P. YATES

SECRETARY
DENNIS G. KINSEY
TREASURER

February 12, 1998

Charles M. Fuchtman P.O. Box 10109 Huntsville, AL 35801

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Mr. Fuchtman:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock

Robert Bullock Landman

RB/ljf enclosures

7 443 Aln 394

	7 443 91	10 374
, d	US Postal Service Receipt for Cerl No Insurance Coverage Do not use for Internation Paries M. Fuchtma Schola Marie 109 Iuntsville, AL 3580 Post Office, State, & ZIP Cod	Provided. nal Mail (See reverse) an
	Postage	\$
	Certified Fee	
	Special Delivery Fee	
۸	Restricted Delivery Fee	
38	Return Receipt Showing to Whom & Date Delivered	
April	Return Receipt Showing to Whom, Date, & Addressee's Address	
S)	TOTAL Postage & Fees	\$
PS Form 3000 , April 1995	Postmark or Date J: Lld 47 Com 43	x Stoll

on the reverse side?	■ Complete items 1 and/or 2 for additional services. ■Complete items 3, 4a, and 4b. ■Print your name and address on the reverse of this form so that we card to you. ■Attach this form to the front of the mailpiece, or on the back if spacemit. ■Write "Return Receipt Requested" on the mailpiece below the article "The Return Receipt will show to whom the article was delivered and delivered.	e does not	I also wish to red following service extra fee): 1. Address 2. Restricte Consult postmas	es (for an eee's Address ed Delivery
_	3. Article Addressed to:	4a. Article N	· · ·	_ , <u>š</u>
completed	Charles M. Fuchtman	244	3 810 3	3 <i>99</i>
Ĕ	P.O. Box 10109	4b. Service 7	Гуре	Cartificat H
Ξ.	Huntsville, AL 35801	☐ Registere	ed .	
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ETU	5. Received By: (Print Name)	8. Addressee and fee is	e's Address (Only paid)	if requested
드	6. Signature: (Addressee or Agent)	Fills	CAPK -	5x2 -
s you	X Cherles M. Fuchtran	Com	#3 RB	14
-2	PS Form 3811 , December 1994	2595-97-B-0179	Domestic Ret	urn Receipt



BY

AUTHORITY FOR EXPENDITURE

AFE NO.

97-343-0 11/26/97

W//////PE1	ROLEUM NEW DRILLING & RECOMPLETION	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
COF	AFE Type: Well Objective: Well Type:	AFE STATUS:	
105 SOUTH FO	URTH STREET X New Drilling X Oil Development	X Original	
ARTESIA, NEW	MEXICO88210 Recompletion X Gas X Exploratory	Revised	
TELEPHONE (5	05) 748-1471 Injector	Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division	······································	
DISTRICT CODE	DISTRICT NAME	······································	
BRANCH CODE	BRANCH NAME		
PROGNOSIS:			
PROGNOSIS.			_
INTANGIBLE DRILL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140 920-150	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
	Mud Logging Unit, Sample Bags	11,600	11,600
920-170 920-180	Cementing - Surface Casing Drill Stem Testing, OHT 2 DST's	24,000	
920-160	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies Tools & Equip. Rntl., Trkg. & Welding	25,400	25,400
920-210	Owner data of October 1	4 - 400	24,500
920-220	Contingency		17,400
	· · · · · · · · · · · · · · · · · · ·		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510 920-500	Bits, Tools & Supplies - Completion		1,800
	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQUIPM		0.000	
	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030			35,000
	Tubing 2 7/8" @ 12400' Packer & Special Equipment		8,000
	Pumping Equipment including \$20,000 for electricity		116,000
	Storage Facilities		22,700
	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs	L	15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200
APPROVAL OF TH	IIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT AC FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED AE		GOODS
Prepared AL C	Operations	<u>. · ·</u>	
By ALS	PRINGER Approval OWNER	SHAR	 E
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ву	DATE		***************************************
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BY	DATE	<u> </u>	

DATE

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· rouncers on Key, 4. leaf Lease, 5-50	O :	IL AND GAS LEASE		Form 345 Hall-Poorburgh Press, Inc.
THIS AGREEMENT made this	12th	day of	February .	Roswell, New Mexico
Charles M. Fuchtman, de PETROLEUM CORPORATION -	/U%, YATES DE	sole and separate	property, LESSOR;	and VATEC
MYCO INDUSTRIES, INC	10%, all New	Mexico corporatio	ons, LESSEE,	Lessee, WITNESSETH:
	d no/100			Dollars
purpose of investigating, exploring, prospecting, drill thereon and on, over and across lands owned or claime	ing sout mining for and provi	ncine oil ead eas levine nice lines	care of, treat, transport, and own said;	4. S L
•	Tormahin 16	Courth Dames 25	Tt-meny	
	Section 2:	South, Range 35. SW/4SW/4	East, NMPM	
Without reference to the commencement, prose production of oil or gas and without further payments it from this date (called "primary term") and as long ther	an the royalties berein provid	ied, and notwithstanding anything els	to becain contained to the contrary, this i	slopment or cessation at any time of lease shall be for a term of 1.1 years
3. The royalties to be paid by Lessee are: (a) on o which the wells may be connected; Lessee may from the purchase; (b) on gas, including casinghead gas or other the market value at the well of 1/4 othere is a gas well on this lease or on acreage pooled this is that in and thereafter at amual intervals the sum of 3 this lease in paying quantities. Payment or tender of supayment is due. Lessee shall have free use of oil, gas, cafter deducting any so used.	me to time purchase any roy gaseous substance, produced the gas so sold or used, provice with but gas is not being so 1.00 per acre, and if such paying the substance of the such paying the substance of the subs	alty oil in its possession, paying the i d from said land, and sold, or used of ided that on gas sold at the wells the r old or used, Lessee may pay or tende ment is made or tendered, this lease s a made by check or draft of Lessee n	narket price therefor prevailing for the if the premises of for the extraction of g oyalty shall be 1/4 of the an r as royalty, on or before ninety (90) at hall not terminate and it will be consided usiled or delivered to the parties extitle	field where produced on the date of product therefrom, count realized from such sale; while ye after the date on which sald well red that gas is being produced from the product on or before the day said
4. Lessee, at its option, is hereby given the right an or leases in the immediate vicinity thereof to the extent, said leased premises in compliance with the spacing rul the conservation of oil and gas in and under and that my gas hereunder shall not substantially exceed in srea 640 of units larger than those specified, units thereafter cres combine acreage covered by this lease, or any portion a stratum or strata need not conform in size or area with it gas units. The pooling in one or more instances shall appropriate records of the county in which the leased p pooling option after commencing operations for or come a well capable of producing oil or gas in paying quant Operations for drilling on or production of oil or gas for drilling were commenced or such production was secure on or production of oil and gas from land covered by this as to oil and gas, or either of them, as herein provided, at For the purpose of computing the royalties to which ow pooled unit, there shall be allocated to the land covered that used for operations on the pooled units. Such allocate the such a production of the oil and gas, or either of them, procof surface acres included in the unit just as though such it is producing and not as production from a gas pooled from an oil pooled unit. In addition to the foregoing, Le covered hereby to any cooperative or unit agreement of Commission or other lawful governmental authority. In	bereinafter stipulated, when it est of the New Mexico Oil Cory be produced from said presented may conform substantial hereof as above provided as the unit or units into which it not exhaust the rights of the remises are situated an instruction of the said of the remises are situated an instruction and oil or gas well on it dies has theretofore been corour any part of the pooled us defore or after the execution lease whether or not the well all be treated for all purposes sers of royalties and payment by this lease and included intion shall be on acreage basis used from the pooled unit will be computed or conduction were from such as unit; and production from a gassee at its option is hereby golan of development and of such event, the royalty payal	in Lessee's judgement it is necessary- miservation Commission, or other law mises. Units pooled for oil hereunde f 10% thereof, provided that should g liy in size with those prescribed by g to oil in any one or more strata and a ne lease is pooled or combined as to a s Lessee hereunder to pool this less ument describing and designating the he leased premises, and the pooled un mpleted or upon which operations for not this instrument or the instrument or wells be located on the premises of a, except the payment of royalties on g ts out of production and each of them said unit a pro rata portion of the oil s-that is to say, there shall be allocate his the number of surface acres cow on the portion of such production, wi not. The production from an oil well v tas well will be considered as produc iven the right and power from time to poration, and to any modifications th ble to Lessor hereunder shall be com-	or advisable to do so in order properly to radvisable to do so in order properly to a shall not substantially exceed 40 acres to the substantially exceed 40 acres to case in any one or more strata. The any other stratum or strata, and oil units or portions thereof into other units, a pooled acreage as a pooled unit. Les ait may include, but it is not required to or the drilling of a well for oil or gas he the land covered by this lease regardle designating the pooled unit, shall be covered by this lease, and the entire acre production from the pooled unit, as iff the shall be entitled on production of oil a and gas, or either of them, produced find to the acreage covered by this lease a unit by this lease as the dotter it be oil and gas, or either of them, produced find to the acreage covered by this lease a unit by this lease and included in the position from the lease or gas pooled unit if of the to commit said land or any part. The production from the lease or gas pooled unit if of the oil of the strategy which have been approved by the putted and paid on the basis of the oil of	o explore, or to develop and operate in the ludgment of Lasses, promots a seach is area, and units pooled for ion preactibe or permit the creation; the provisions hereof may pool or units formed by pooling as to any a need not conform as to area with Lasses shall file for record in the see may at its election exercise its include, land or lesses upon which save theretofors been commenced east of whether such operations for considered as operations for drilling sage constituting such unit or units, as same were included in this lesse, and gas, or either of them, from the com the pooled unit after deducting and included in the pooled unit that toled unit bears to the total number m, so allocated to the land covered lesse or oil pooled unit from which from which it is producing and not or formation or mineral substance he New Mexico Oil Conservation or gas allocated to such land under
the terms of any such agreement or plan of operation, who expire during the life of such agreement or plan at Commission, or other lawful authority, and Lessee shall the commitment thereto, and the same may be recorded. 5. If at the expiration of the primary term oil or gas or shall have completed a dry hole thereon within 60 day additional well are prosecuted with no cessation of more land pooled therewith. It, after the expiration of the primary cause, this lease shall not terminate if Lessee comme as such operations are prosecuted with no cessation of more from land pooled therewith. Any pooled unit designation the county in which the leased premises are situated at a paying quantities should be brought in on adjacent land reasonably prudent operator would drill under the same of printing of the above described premises and thereby	and shall be subject to the ter record in the county in which either before or after the con is not being produced on sale a prior to the end of the prime than 60 consecutive days, and after one of this lease and after necs operations for drilling of one than 60 consecutive days, and by Lease in accordance way time after the completion and within 660 feet of and a similar circumstances. Les	ms thereof and said agreement or p in the leased premises are situated, an appletion of wells. If land, or from land pooled therewith any terms, the lease shall remain in for if if they result in the production of oil or reworking within 60 days after the they are sult in the production with the terms hereof, may be dissolved of a dry hole or the cessation of pro- draining the lease premises, or land see may at any time executs and deli-	olan of operation shall be filed with the instrument describing such agreement of the state of t	se New Maxico Oil Conservation or plan of operation and reflecting or reworking operations thereon, or for drilling or reworking of any produced from said land, or from duction thereof should cease from remain in force and effect so long or gas is produced from said land, cord in the appropriate records of il or wells producing oil or gas in till such offset well or wells as a cor releases covering any portion
6. Lessee shall have the right at any time during or all casing. When required by Lessor, Lessee will bury a without Lessor's consent.	ifter the expiration of this lea	se to remove all property and fixture	s placed by Lesses on said land, include	ling the right to draw and remove
7. The rights of either party hereunder may be assign of the land or royalties, however accomplished, shall oper thirty (30) days after Lesses shall have been furnished by In the event of assignment hereof in whole or in part list breach. If six or more parties become entitled to royalty designating an agent to receive payment for all.	ate to enlarge the obligations registered U.S. mail at Less dity for breach of any obliga	or diminish the rights of Lessee; and ee's principal place of business with ation hereunder shall rest exclusively	no change or division in such ownershi a certified copy of recorded instrument rupon the owner of this lesse or of a p	p shall be binding on Lesses until or instruments evidencing same, ortion thereof who commits such
8. The breach by Lessee of any obligation arising a grounds for cancellation hereof in whole or in part. In the writing of the faces relied upon as constituting a breach he imposed by virtue of this instrument. After the discovery but in discharging this obligation it shall in no event by reone well per 640 acres plus an acreage tolerance not to expend the state of t	e event Lessor considers that reof, and Lessee, if in default of oil or gas in paying quant outred to drill more than one	t operations are not at any time being t, shall have sixty days after receipt o titles on said premises, Lessee shall o well ner forty (40) acres of the area;	g conducted in compliance with this let f such notice in which to commence the levelop the acreage retained hereunder retained hereunder and canable of prod-	ase, Lessor shall notify Lessoe in s compliance with the obligations as a reasonably predent operator ucing oil in paying quantities and
 Lessor hereby warrants and agrees to defend the ti and in event Lesses does so, it shall be subrogated to such under the warranty in event of failure of title, it is agreed Lessor shall be reduced proportionately. Should any one same. 	lien with the right to enforce	same and apply royalties accruing her in the oil or east on, in or under sai	ereunder toward satisfying same. Will d land less than the entire fee simple es	tate, then the royalties to be paid.
10. Should Lessee be prevented from complying witherefrom by reason of scarcity of or inability to obtain or authority, then while so prevented, Lessee's obligation to shall be extended while and so long as Lessee is preventetime while Lessee is so prevented shall not be counted ag	to use equipment or material comply with such covenant of the say such cause from con	l, or by operation of force majeure, a shall be suspended, and Lessee shall nducting drilling or reworking opera	ny Federal or state law or any order, ru not be liable in damages for failure to tions on or from producing oil or gas f	comply therewith; and this lease
IN WITNESS WHEREOF, this instrument is execute	•			
Charles M. Fuchtman	; · · · ·			

	INDIV	TOUAL ACKI	OWLEDO	GEMENT		
STATE OF NEW MEXICO, County of	_ } ss.					
This instrument was acknowledged before	me this				,	
by		,				
•,	•					
Mu annuladan arabas	<u>.</u>			"	•	
My commission expires					Notary Public	
	2					
	CORPO	RATION ACK	NOWLED	GEMENT		
STATE OF NEW MEXICO, County of	_ }ss.		·	· .		
This instrument was acknowledged before n	i			·	-	· .
by	·	·		as _		
of				·		corporation
on behalf of said corporation.						
My commission expires					Notary Public	·
STATE OF	INDIV	TOUAL ACKN	IOWLEDO	SEMENT		
County of	- } ss; me this					· · · · · · · · · · · · · · · · · · ·
by Charles M. Fuchtman, deal	ing in	his sole a	nd sepa	rate prop	erty	· '.
				·		
My commission expires				·		·
					Notary Public	
		4,				·
Producers B Ren. (5 Year Leave) 5.96 No	TO		Dated,19No. Acres	Term County, N.M. This instrument was filed for record on the	ato'clockM, and duly recorded in Book, Page of the records of this office.	By Deputy When recorded return to



105 SOUTH FOURTH STREET

ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

TREASURER

February 12, 1998

Mary Carolyn Johnston 320 Oakbrook Greenwood, IN 46142

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Johnston:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

oliert Bullek

Robert Bullock Landman

RB/ljf enclosures

US Postal Service Receipt for Certified Mail No Insurance Coverage Provided. Do not use for International Mail (See reverse) Sent to Mary Carolyn Johnston 328 Oskbrook Greenwood IN 46142 Post Office, State, & ZIP Code Postage Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date Link AMK State Com #3 Relly

	0			
SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4a, and 4b. "Print your name and address on the reverse of this form so that we card to you. "Attach this form to the front of the mailpiece, or on the back if space permit. "Write" Return Receipt Requested" on the mailpiece below the article "The Return Receipt will show to whom the article was delivered and delivered.	e does not e number. d the date	Restric Consult postma	es (for an see's Address ted Delivery	ceipt Service.
3. Article Addressed to: Mary Carolyn Johnston 320 Oakbrook Greenwood, IN 46142	4b. Service Registere Express Return Re	/3 8103 Type ed Mail ceipt for Merchandi	Certified Insured	for using Return Rec
5. Received By: (Print Name) 6. 5	7. Date of D 8. Addresse and fee is	e's Address (Onl	y if requested Receipt	Thank you



TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE	NO.
AFE	DATE

97-343-0 11/26/97

26,000

7,600

56,500

93,000

35,000

8,000

116,000

22,700 25,000

15,700

405,500

1,213,200

2,000

7,600

56,500

66,100

657,200

105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

AFE Type: New Drilling Recompletion

Well Objective: X Oil X Gas Injector

Well Type: Development X Exploratory

AFE STATUS: Original Revised Final

LEGAL DESC. FIELD
DIVISION CODE DISTRICT CODE

LEASE NAME

COUNTY

Field APK State Com. #3 Lea 3,300' FSL & 760' FWL

12,600 PROJ'D DEPTH New Mexico STATE LOCATION Section 2-16S-35E **HORIZON** Morrow

BRANCH CODE

100

DIVISION NAME DISTRICT NAME **BRANCH NAME**

Oil & Gas Division

PROGNOSIS:

930-010

930-020

930-030

930-040

940-010

940-020

940-030

940-040

TOTAL COSTS

Christmas Tree & Wellhead

Packer & Special Equipment

Separation Equip., Flowlines, Misc.

TOTAL TANGIBLE EQUIPMENT COSTS

Trucking & Construction Costs

Pumping Equipment

Storage Facilities

Casing

Tubing

11-3/4" @ 450"

8-5/8" @ 4650' 5-1/2" @ 12,600

2 7/8" @ 12400'

INTANGIBLE D	PRILLING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-1 40	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service	[
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQ	JIPMENT COSTS:		

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

including \$20,000 for electricity

Prepared By	AL SPRINGER	Operations Approval	
		OWNER	SHARE
ВҮ		DATE	
BY		DATE	
ВҮ		DATE	

SS#

(One YEAR PAID UP LEASE)

• • •	OIL AND GA	AS LEASE		Hall-Poorbengh Press, In Roswell, New Mexic
THIS AGREEMENT made this	12th	day of	February	19 98 betwee
PEIROLEUM CORPORATIO	on, dealing in her sole an ON - 70%, YATES DRILLING C S, INC 10%, all New Mex	COMPANY - 10% AP	O PETROLEIM CO	nd YATES RPORATION -
Lessor in consideration ofTen	n and no/100			Louse, WITNESSETH
Durbose of investigating, exploring, progrechs	id, of the royalties herein provided and of the agreem ag, drilling and mining for and producing oil and gas, claimed by Lessor adjacent and contiguous thereto, to Lea	, laying pipe lines, building roads produce, save, take care of, treat, t		
	Township 16 South, Section 2: SW/4SW/	Range 35 East, N	<u>мрм</u>	
production of oil of sas and without further pay	nt, prosecution or cessation at any time of drilling or o ments than the royalties herein provided, and notwithst ong thereafter as oil or gas is produced from said land	anding anything else berein contain	ned to the contrary this lease of	nt or cessation at any time of all be for a term of 1. 1. years
which the wells may be connected; Lessee may purchase; (b) on gas, including casinghead gas the market value at the well of 1/4 there is a gas well on this lease or on acreage pois shut in and thereafter at annual intervals the sithis lease in paying quantities. Payment or ten	(a) on oil, 1/4 of that produced and saved from a from time to time purchase any royalty oil in its posse or other gaseous substance, produced from said land, a of the gas so sold or used, provided that on gas so soled therewith but gas is not being sold or used, lesse am of \$1.00 per acre, and if such payment is made or teler of said shut-in gas royalty may be made by check of the gas, coal and water from said land, except water from	ession, paying the market price the and sold, or used off the premises of old at the wells the royalty shall be so may pay or tender as royalty, on andered, this lease shall not termina or draft of Leasee mailed or delive	refor prevailing for the field with for the extraction of gasoline $1/4$ of the amount n or before ninety (90) days after the and it will be considered the red to the parties entitled they	here produced on the date of s or other product therefrom, salized from such sale; while r the date on which sald well to on or before the date sald
or leases in the immediate vicinity thereof to the said leased premises in compliance with the spathe conservation of oil and gas in and under and gas hereunder shall not substantially exceed in a of units larger than those specified, units therea combine acreage covered by this lease, or any stratum or strata need not conform in size or any gas units. The pooling in one or more instance appropriate records of the county in which the pooling option after commencing operations for a well capable of producing oil or gas in payin Operations for drilling on or production of oil of drilling were commenced or such production we on or production of oil and gas from land covere as to oil and gas, or either of them, as herein profer the purpose of computing the royalties to wipooled unit, there shall be allocated to the land of that used for operations on the pooled units. Sue pro rata portion of the oil and gas, or either of the of surface acres included in the unit just as thought is producing and not as production from a gas from an oil pooled unit. In addition to the forege covered hereby to any cooperative or unit agree Commission or other lawful governmental authous the terms of any such agreement or plan of open not expire during the life of such agreement of Commission, or other lawful authority, and Leas the commitment thereto, and the same may be re	right and power to pool or combine the acreage covered extent, hereinafter stipulated, when in Lessee's judgen cing rules of the New Mexico Oil Conservation Commithat may be produced from said premises. Units pool was 640 acres each plus a tolerance of 10% thereof, profeer created may conform substantially in size with the cortion thereof as above provided as to oil in any one of a with the unit or units into which the lesse is pooled as shall not exhaust the rights of the Lessee hereunds essed premises are situated an instrument describing or completing an oil or gas well on the lessed premises greated the same part of the pooled unit which includes a secured before or after the execution of this instrumed by this lesse whether or not the well or wells be located the same of the production overed by this lesse and included in said unit a pro-rational content of the same shall be on acreage basis—that is to say, the major of the such production were from such land. The production pooled unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well will be considered unit; and production from a gas well	ment it is necessary or advisable to enission, or other lawful authority of led for oil hereunder shall not substituted that should governmental are prescribed by governmental reprimers and as to gas in anyone or combined as to any other atrainer to pool this lease or portions the and designating the pooled acreas, and the pooled unit may include which operations for the drilling of a line of the premises covered by this least or to the instrument designating the on the premises covered by this least of the drilling of the drilling of the production from an deach of them, shall be entitled portion of the oil and gas, or either shall be allocated to the acreas of surface acres covered by this least on from an oil well will be considered as production, whether it be oil at the power from time to time to common modifications thereof, which hunder shall be computed and paid by due the United States or the State and agreement or plan of operations are situated, an instrument described to the series are situated.	do so in order properly to explor when to do so would, in the juntially exceed 40 acres each athority faving jurisdiction pregulations. Lessee under the proper one or more strata. The units need more strata, and oil units need ereof into other units. Lessee as a pooled unit. Lessee as a pooled unit. Lessee as a pooled unit. Lessee as a pooled unit, and to each of a well for oil or gas have the do by this lease regardless of a pooled unit, shall be consider lesse, and the entire acreage conthe acreage on the pooled unit, as if the same of on production of oil and gas, or either of them, so a ed production from the second production from the lease of production from the lease on gas pooled unit from whit said land or any part or for ave been approved by the New on the basis of the oil or gas a see of New Mexico is computed a shall be filed with the New ribing such agreement or plan	re, or to develop and operate adgment of Lesses, promote in area, and units pooled for scribe or permit the creation ovisions hereof may pool or formed by pooling as to any not conform as to area with a shall file for record in the ty at its election exercise its, lend or lesses upon which restoftes been commenced. whether such operations for drilling authoring such unit or units, were included in this lesses, or either of them, from the pooled unit after deducting under the located to the land covered roll pooled unit from which hich it is producing and not serios or mineral substance of Mexico Oil Conservation flocated to such land under it and paid. This lease shall Mexico Oil Conservation of operation and reflecting
or shall have completed a dry hole thereon within additional well are prosecuted with no cessation a land pooled therewith. If, after the expiration of it any cause, this lease shall not terminate if Lesses as such operations are prosecuted with no cessation from land pooled therewith. Any pooled unit the county in which the leased premises are situs paying quantities should be brought in on adjace reasonably prudent operator would drill under the or portions of the above described premises and the county in which the leased premises are situsticated to the county in which the leased premises are situsticated to the county in which the leased premises are situsticated to the county in which the leased premises are situated to the county in which the lease of the county in the county in the county in the lease of the county in the	l or gas is not being produced on said land, or from lar a 60 days prior to the end of the primary terms, the leas of more than 60 consecutive days, and if they result in the primary term of this lease and after oil or gas is produce commences operations for drilling or reworking within on of more than 60 consecutive days, and if they result designated by Lessee in accordance with the terms here tend at any time after the completion of a dry hole or the same or similar circumstances. Lessee may at any time hereby surrender this lease as to such portion or portice.	se shall remain in force so long as the production of oil or gas so long used from said land, or from land p in 60 days after the cessation of suc in the production of oil and gas, a cof, may be dissolved by Lessee b the cessation of production on said a premises, or land pooled therew me execute and deliver to Lessor or ons and be relieved or all obligations.	operations on said well or for dithereafter as oil or gas is produced therewith, the production of the production, but shall remais to long thereafter as oil or gas is y instrument filed for record in unit. In the event a well or with. Lesses agrees to drill suc place of record a release or sains as to the acreage surrender	rilling of reworking of any sed from said land, or from a thereof should cease from its force and effect so long a produced from said land, the appropriate records of alls producing oil or gas in h offset well or wells as a sesses covering any portion ad.
 Lessee shall have the right at any time du all casing. When required by Lessor, Lessee wil without Lessor's consent. 	ring or after the expiration of this lease to remove all p I bury all pipe lines below ordinary plow depth, and r	property and fixtures placed by Lesson well shall be drilled within two	see on said land, including the hundred feet of any residence	e right to draw and remove or bern now on said land
of the land or royalties, however accomplished, sh thirty (30) days after Lessee shall have been furni In the event of assignment bereaf in whole or in	e assigned in whole or in part, and the provisions here all operate to enlarge the obligations or diminish the rig shed by registered U.S. mail at Lessee's principal plac part liability for breach of any obligation hereunder ab royalty hereunder, Lessee may withhold payment the	ghts of Lessee; and no change or di se of business with a certified copy tall rest exclusively upon the own	ivision in such ownership shall of recorded instrument or insi or of this lease or of a portion (be binding on Lesses until ruments evidencing same, hereof who commits such
grounds for cancellation hereof in whole or in pa writing of the facts relied upon as constituting a b imposed by virtue of this instrument. After the di but in discharging this obligation it shall in no eve	rising hereunder shall not work a forfeiture or termin the in the event Lessor considers that operations are not reach hereof, and Lessee, if in default, shall have sixty scovery of oil or gas in paying quantities on said premant by required to drill more than one well per forty (40 not to exceed 10% of 640 acres of the area retained he	ot at any time being conducted in a days after receipt of such notice in hises, Lessee shall develop the acro acres of the area retained hereun	compliance with this lease, Le which to commence the comp eage retained hereunder as a re der and capable of producing o	ssor shall notify Lessee in liance with the obligations asonably prudent operator
and in event Lessee does so, it shall be subrogated	nd the title to said land and agrees that Lessee at its opt to such lien with the right to enforce same and apply r agreed that if Lessor owns an interest in the oil or gas any one or more of the parties named as Lessors fail to	royalties accruing hereunder towar on, in or under said land less than	d satisfying same. Without im the entire fee simple estate, fi	pairment of Lessee's right on the royalties to be paid.
therefrom by reason of scarcity of or inability to a authority, then while so prevented, Lessee's oblig shall be extended while and so long as Lessee is g	ying with any express or implied covenant of this leas btain or to use equipment or material, or by operation ation to comply with such covenant shall be suspended covented by any such cause from conducting drilling of inted against Lessee, anything in this lease to the contri	of force majeure, any Federal or s d, and Lessee shall not be liable in or reworking operations on or from	tate law or any order, rule or n damages for failure to compl	egulation of governmental y therewith; and this lease
IN WITNESS WHEREOF, this instrument is	executed on the date first above written.			
Mary Carolyn Johnston		·		

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,		·		•
County of \int ss.	i i			
This instrument was acknowledged before me this _			·	
by		<u> </u>		
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Managed and a series				•
My commission expires			Notary Public	
			Notaly Fublic	S
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CORPO	TRATION ACK	NOWLEDGEM	ENT	
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STATE OF NEW MEXICO, County of }ss.				
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by			as	
of		<u> </u>		corporati
on behalf of said corporation.			:	
My commission expires				
			Notary Public	
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INDI	VIDUAL ACKI	NOWLEDGEME	NT	
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STATE OF:	. •			
County of				
This instrument was acknowledged before me this				
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by Mary Carolyn Johnston, dealing t	in her sole	and separate	property	
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My commission expires			· · · · · · · · · · · · · · · · · · ·	
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105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

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

February 12, 1998

Flo Scott Brown 8610 Miami Avenue Midland, TX 79423

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms Brown:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

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If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Obert Bullak

Róbert Bullock Landman

RB/ljf enclosures

Z 443 810 390 **US Postal Service** Receipt for Certified Mail No Insurance Coverage Provided. Do not use for International Mail (See reverse) Flo Scott Brown Midland Stark a 79 623 Postage \$ Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom, Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date Sind APK State Com #3 RB/4

SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4a, and 4b. "Print your name and address on the reverse of this form so that we can return this card to you. "Attach this form to the front of the mailpiece, or on the back if space does not permit. "Write "Return Receipt Requested" on the mailpiece below the article number. "The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1.		eipt Service.
3. Article Addressed to: Flo Scott Brown 8610 Miami Avenue Midland, TX 79423	4a. Article No Z 444 4b. Service T Registere Express N Actum Rec 7. Date of De	Jimber 3 810 30 Type d Mail eipt for Merchandise	20 Certified	oe della petatu pec
5. Peceiyed By: (Print Name) 6. S PS F	8. Addressee and fee is a	's Address (Only if i	requested .	







AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE 97-343-0 11/26/97

	PORATION NEW DRILLING & RECOMPLETION		*		
	AFE Type: Well Objective: Well Type:	AFE STATUS:			
105 South Fo	DURTH STREET X New Drilling X Oil Development	X Original			
ARTESIA, NEW	MEXICO 88210 Recompletion X Gas X Exploratory	Revised	<u> </u>		
TELEPHONE (5	05) 748-1471 Injector	Final			
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'			
COUNTY		New Mexico	1 2		
LEGAL DESC.	<u></u>	Section 2-16S-35E			
FIELD		Morrow			
DIVISION CODE	100 DIVISION NAME Oil & Gas Division				
DISTRICT CODE	DISTRICT NAME		 		
BRANCH CODE	BRANCH NAME	·			
PROGNOSIS:					
<u></u>					
INTANGIBLE DRILL	LING COSTS:	DRY HOLE	COMP'D WELL		
920-100	Staking, Permit & Legal Fees	1,200	1,200		
920-110	Location, Right-of-Way	15,000	15,000		
920-120	Drilling, Footage				
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000		
920-140	Drilling Water, Fasline Rental	15,000	15,000		
920-150	Drilling Mud & Additives	32,000	32,000		
920-160	Mud Logging Unit, Sample Bags	11,600	11,600		
920-170	Cementing - Surface Casing	24,000	24,000		
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000		
920-190	Electric Logs & Tape Copies	25,400	25,400		
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500		
920-210	Supervision & Overhead	17,400	17,400		
920-220	Contingency				
920-230	Coring, Tools & Service				
920-240	Bits, Tool & Supplies Purchase	50,000	50,000		
920-350	Cementing - Production Casing		36,500		
920-410	Completion Unit - Swabbing		10,000		
920-420	Water for Completion		8,000		
920-430	Mud & Additives for Completion 1,000				
920-440	Cementing - Completion	•	0		
920-450	Elec. Logs, Testing, Etc Completion		35,000		
920-460	Tools & Equip. Rental, Etc Completion		20,000		
920-470	Stimulation for Completion one zone test only		100,000		
920-480	Supervision & O/H - Completion	***	3,100		
920-490	Additional LOC Charges - Completion		1,200		
920-510	Bits, Tools & Supplies - Completion		1,800		
920-500	Contingency for Completion				
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700		
TANGIBLE EQUIPM		0.000	20.000		
,	Christmas Tree & Wellhead	2,000	26,000		
930-020	Casing 11-3/4" @ 450'	7,600	7,600		
	8-5/8" @ 4650'	56,500	56,500		
	5-1/2" @ 12,600'		93,000		
930-030	Tubing 2 7/8" @ 12400'		35,000		
	Packer & Special Equipment				
	***************************************	<u></u>	8,000		
	Pumping Equipment including \$20,000 for electricity		116,000		
	Storage Facilities		22,700		
	Separation Equip., Flowlines, Misc.		25,000		
940-040	Trucking & Construction Costs		15,700		
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500		
TOTAL COSTS					
1017E 00313		657,200	1,213,200		
APPROVAL OF TH	IIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACC FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABO		GOODS		

Prepared By	AL SPRINGER	Operations Approval	
	(DWNER	SHARE
BY		DATE	
ву		DATE	
ВУ		DATE	

SS#

(One YEAR PAID UP LEASE)

345 Inc. pulco

•	OILA	ND GAS LEASE		Hall-Poorbaugh Press, Inc. Roswell, New Mexico
THIS AGREEMENT made this	12th	day of	February .	19 · 98 between
Flo Scott Brown, dea CORPORATION - 70%, Y INDUSTRIES, INC 1	ALES DEILLING COMPAI	NY - 10%, ABO PETRO	OLEUM CORPORATION	TES DETPOTETM
1. Lessor in consideration of Ten	and no/100			Lessee, WITNESSETH:
(\$ 10.00) in hand paid	of the royalties herein provided and of a	he agreements of Lessee herein contain	seeds theles serves and an adval	exclusively unto Lesses for the
thereon and on, over and across lands owned or el the following described land in	Lea	thereto, to produce, save, take care of,	treat, transport, and own said produc	xx, and housing its employees, , to-wit:
	Township 16 Sor Section 2: SW	uth, Range 35 East /4SW/4	, NMPM	
Without reference to the commencement, production of oil or gas and without further payme from this date (called "primary term") and as long	nts than the royalties herein provided, and	i notwithstanding anything else herein (contained to the contract, this lesse s	ent or cessation at any time of thall be for a term of 1 years
3. The royalties to be paid by Lessee are: (a) which the wells may be connected; Lessee may fi purchase; (b) on gas, including casinghead gas or the market value at the wall of 1/4 there is a gas well on this lesse or on acreage pool is shut in and thereafter at annual intervals the sum this lesse in paying quantities. Payment or tender payment is due. Lessee shall have free use of oil, a after deducting any so used.	om time to time purchase any royalty oil other gaseous substance, produced from a confidence of the gas so sold or used, provided the differentiable that the confidence of \$1.00 per acre, and if such payment is of said shut-in gas royalty may be made	in its possession, paying the market presid land, and sold, or used off the presid on gas sold at the wells the royalty absed, Lessee may pay or tender as royal made or tendered, this lease shall not to by check or draft of Lessee mailed or	ice therefor prevailing for the field a mises of for the extraction of gasolic all be 1/4 of the amount; ity, on or before ninety (90) days after erminate and it will be considered the delivered to the parties artiful the	where produced on the date of se or other product therefrom, sealized from such sale; while or the date on which said well sat gas is being produced from the one or before the date said
4. Lessee, at its option, is hereby given the rig or leases in the immediate vicinity thereof to the exsaid leased premises in compliance with the specitive conservation of oil and gas in and under and the gas hereunder shall not substantially exceed in are of units larger than those specified, units thereafter combine acreage covered by this lesse, or any por stratum or strata need not conform in size or area under the production after commencing operations for or a well capable of producing oil or gas in paying of Operations for drilling one or production of oil or in drilling were commenced or such production was a on or production of oil and gas, or either of them, as herein provide For the purpose of computing the royalities to which producing that the shall be allocated to the land covered be as to oil and gas, or either of them, as herein provide For the purpose of computing the royalities to which producing that the shall be allocated to the land covered by this lease and included in the unit just as though it is producing and not as production from a gas pofrom an oil pooled unit. In addition to the foregoir covered hereby to any cooperative or unit agreement. Commission or other lawful governmental suthout the terms of any such agreement or plan of operation of the commitment thereto, and the same may be reconstituted in the expiration of the commitment thereto, and the same may be reconstituted in the same may be reconstituted the rewrited as dry hole thereon within 6 additional well are prosecuted with no cessation of all and pooled therewith. If, after the expiration of the any cause, this lease shall not terminate if Lesses as such operations are prosecuted with no cessation of a such operations are prosecuted with no cessation.	tent, hereinafter stipulated, when in Lesse ig rules of the New Mexico Oil Conserva at may be produced from said premises. It 640 acres each plus a tolerance of 10% is a created may conform substantially in sition thereof as above provided as to oil it with the unit or units into which the lease shall not exhaust the rights of the Lesse shall not exhaust the rights of the Lesse sed premises are situated an instrument of completing an oil or gas well on the lease quantities has theretofore been completed gas from any part of the pooled unit which ecured before or after the execution of this this lease whether or not the well or well of well or well of whis lease whether or not the well or well of whis lease and included in said un allocation shall be on acreage basis—that is produced from the pooled unit which the lies hereunder shall be computed on the push production were from such land. The sled unit; and production from a gas well g. Lessee at its option is hereby given the int or plan of development and operation y. In such event, the royalty payable to I. in, which basis shall be the same by which an and shall be subject to the terms the shall record in the county in which the lear right is not being produced on said land, of days prior to the end of the primary term of this lease and after oil or immences operations for drilling or rewor of more than 60 consecutive days, and if they primary term of this lease and after oil or immences operations for drilling or rewor of more than 60 consecutive days, and if they primary term of this lease and after oil or immences operations for drilling or rewor of more than 60 consecutive days, and if they primary term of this lease and after oil or immences operations for drilling or rewor of more than 60 consecutive days, and if they	se's judgement it is necessary or advisa- tion Commission, or other lawful auticular to Commission, or other lawful auticular booled for oil hereunder shall no hereof, provided that should government any one or more strata and as to gas it is pooled or combined as to any other the hereunder to pool this lease or port describing and designating the pooled and premises, and the pooled unit may in it or upon which operations for the dri- dri includes all or a portion of the land as instrument or the instrument designal is be located on the premises covered by the payment of royalities on production for production and each of them, shall be the apprent of royalities on production for production and each of them, shall be to say, there shall be allocated to the se to mill be considered as production from the right and power from time to time to the and to any modifications thereof, will essor hereunder shall be computed as the production from a shall be computed as the production from time to time to the stage of the shall be computed as the production from a shall be computed as the production of shall be computed as the production of oil or gas ac tas is produced from said land, or from king within 60 days after the cessation they result in the production of oil or gas ac tas is produced from said land, or from king within 60 days after the cessation they result in the production of oil or gas ac	ble to do so in order properly to exploitly or when to do so would, in the ot substantially exceed 40 acres each stubstantially exceed 40 acres each mala authority having jurisdiction potal regulations. Lessee under the pin any one or more strata. The units restain or strata, and oil units need to strata the pin any one or more strata. The units restain or strata, and oil units need to strata the poled unit. Lessee muchide, but it is not required to inched ling of a well for oil or gas have it covered by this lease regardless of ting the pooled unit, shall be considery this lesse, and the entire acreage on from the pooled unit, as if the same entitled on production of oil and gas or either of them, produced from the acreage covered by this lease and included in the pooled we oil and gas, or either of them, so an idered production from the lesse or it he lesse or gas poiled unit from the lesse or the lesse or gas poiled unit from the lesse or the lesse or gas poiled unit from the lesse or the lesse or filed have been approved by the Ned paid on the basis of the oil or gas in State of New Mexico is compute peration shall be filed with the Nent describing such agreement or plants of the confidency of the production of the production of oil or gas is production, but shall remain of such production, but shall remain a feat, so long thereafter as oil or gas is production of such production, but shall remain the such production of such production, but shall remain the such production of such production, but shall remain the such production, but shall remain the production of such production, but shall remain the such production of such production, but shall remain the such production of such production, but shall remain the such production of such production o	one, or to develop and operate indigment of Lesses, promote a in area, and units pooled for excelle or permit the creation revisions hereof may pool or formed by pooling as to any i not conform as to area with a shall file for record in the shall file for record in the sy at its election exercise its is, land or leases upon which exestions been commenced, whether such operations for red as operations for drilling constituting such unit or units, a were included in this lease, a, or either of them, from the a pooled unit after deducting sinded in the pooled unit that unit bears to the total number allocated to the land covered or oil pooled unit from which fisch it is producing and not mation or mineral substance or Mexico Oil Conservation allocated to such knot under dend paid. This lease shall a Mexico Oil Conservation a of operation and reflecting secting operation and reflecting secting operation and reflecting is produced from said land, or from a thereof should cease from a in force and effect so long is produced from said land, or from a in force and effect so long is produced from said land.
or from land pooled therewith. Any pooled unit des the county in which the leased premises are situate paying quantities should be brought in on adjacent reasonably prudent operator would drill under the sa or portions of the above described premises and the 6. Lessee shall have the right at any time durin	at any time after the completion of a dr land and within 660 feet of and drainin me or similar circumstances. Lessee ma reby surrender this lease as to such portion	y hole or the cessation of production og the lease premises, or land pooled to y at any time execute and deliver to Les on or portions and be relieved or all ob	n said unit. In the event a well or w herewith. Lessee agrees to drill so sor or place of record a release or re sligations as to the acreage surrender	ells producing oil or gas in ch offset well or wells as a leases covering any portion red.
 Lessee shall have the right at any time durin all casing. When required by Lessor, Lessee will be without Lessor's consent. 	g or and the expiration of this reaso to re ury all pipe lines below ordinary plow d	epth, and no well shall be drilled with	in two hundred feet of any residence	s or barn now on said land
7. The rights of either party hereunder may be a of the land or royalties, however accomplished, shall thirty (30) days after Lessee shall have been furnish in the event of assignment hereof in whole or in parbreach. If six or more parties become entitled to redesignating an agent to receive payment for all.	operate to enlarge the obligations or dimi ed by registered U.S. mail at Lessee's pri- t liability for breach of any obligation he	inish the rights of Lessee; and no chang ncipal place of business with a certified treunder shall rest exclusively upon the	e or division in such ownership shal d copy of recorded instrument or ins e owner of this lease or of a portion	l be binding on Lesses until struments evidencing same, thereof who commits such
8. The breach by Lessee of any obligation aris grounds for cancellation hereof in whole or in part, writing of the facts relied upon as constituting a brea imposed by virtue of this instrument. After the disc but in discharging this obligation it shall in no event one well per 640 acres plus an acreage tolerance no	In the event Lessor considers that operat ch hereof, and Lessee, if in default, shall is every of oil or gas in paying quantities on by required to drill more than one well on	tions are not at any time being conduct have sixty days after receipt of such no a said premises, Lessee shall develop the er forty (40) acres of the area retained h	ted in compliance with this lease, L tice in which to commence the com he acreage retained hereunder as a n hereunder and capable of producing	essor shall notify Lesses in pliance with the obligations essonably prudent operator
 Lessor hereby warrants and agrees to defend and in event Lessee does so, it shall be subrogated to under the warranty in event of failure of title, it is ag Lessor shall be reduced proportionately. Should any same. 	such lien with the right to enforce same a reed that if Lessor owns an interest in the	and apply royalties accruing hereunder s oil or gas on, in or under said land les	toward satisfying same. Without it is than the entire fee simple estate, t	repairment of Lesson 1 right hen the royalties to be paid.
10. Should Lessee be prevented from complying therefrom by reason of scarcity of or inability to obtauthority, then while so prevented, Lessee's obligate shall be extended while and so long as Lessee is pretime while Lessee is no prevented shall not be countried.	uin or to use equipment or material, or by on to comply with such covenant shall be rented by any such cause from conductin	operation of force majeure, any Feder suspended, and Lessee shall not be li- g drilling or reworking operations on (ral or state law or any order, rule or s able in damages for failure to comp	regulation of governmental ly therewith; and this lease
IN WITNESS WHEREOF, this instrument is ex	ecuted on the date first above written.		• •	
T1 0 D				

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	general de la company de la co
of .	corporation
on behalf of said corporation.	corporation
My commission expires	
	Notary Public
INDIVIDUAL ACKNOWLEDGEMENT	The second secon
STATE OF	
County of} ss.	
This instrument was acknowledged before me this	
by Flo Scott Brown, dealing in her sole and separate proper	ty
My commission expires	
	Notary Public
	n.
99 N. Y. 10	and duly soffice. Clerk Deputy
,19 County, N.M.	M., and duly Page records of this office. County Clerk Deputy
	ords of H
Oil and Gas Lease FROM TO Co	ay ofo'clock
and G Lease TO TO Was filed	Xck Sordee
	o'clock.
	day of n Book
Na Na Oil and Gas Lease FROM TO TO TO TO Gounty, N.M. Cerm This instrument was filed for record on the	at day of or recorded in Book of the When
Dated No. Acres Tem This inst	at recorded of the By
	I H K G W



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

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

December 2, 1997

Mark L. Shidler, Inc. 911 Walker, Suite 565 San Jacinto Building Houston, Texas 77002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Get Bullack

Robert Bullock Landman

RB/ljf enclosure(s)

,	. FZ 351	693	332
M	US Postal Service Receipt for Cerl No Insurance Coverage I Do not use for Internation Sent to ark L. Shidler, In	Provided nal Mail (C.	•
S	ि Warrer, Suite कार्तकद्वाकात, Buildh ouston, Texas 7	ag	
	Postage	\$	
	Certified Fee		
	Special Delivery Fee		
	Restricted Delivery Fee		
199	Return Receipt Showing to Whom & Date Delivered		
April	Return Receipt Showing to Whom, Date, & Addressee's Address		
800	TOTAL Postage & Fees	\$	
PS Form 3800 , April 1995	Postmark or Date Fill 4 Com # 3	ox C	5 pa

SENDE: Compiste items 1 and/or 2 for additional services. Compiste items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article "The Return Receipt will show to whom the article was delivered and delivered. 3. Article Addressed to:		e does not e number, d the date	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.	selpt Service.	
RETURN ADDRESS completed	Mark L. Shidler, Inc. 911 Walker Suite 565 San Jacinto Building Houston, Texas 77002 1816 Laman Ste 500	4b. Service 1 Registere Express I Return Rec	Type Indicate the first of the	k you for using Return Rec	2
Is your RETU	5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X PS Form 3811, December 1994	and fee is	o's Address (Ohly if requested paid) AB/B Domestic Return Receipt	Thani	



HORITY FOR EXPENDITURE

AFE NO. AFE DATE

657,200

1,213,200

97-343-0 11/26/97

ATES PETROLEUM CORPORATION	HTUA
	AFE Type:
105 SOUTH FOURTH STREET	X New Dr

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEBUONE (EOE) 749-4474

TOTAL COSTS

COR	PORATION NEW DRILLING & RECOMP			
	AFE Type: Well Objective:	Well Type:	AFE STATUS:	
105 SOUTH FO	A INEW DINING	Development	X Original	Agriculture of
	MEXICO 88210 Recompletion X Gas	X Exploratory	Revised	
TELEPHONE (5	05) 748-1471 Injector		Final	· · · · · · · · · · · · · · · · · · ·
LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'	
COUNTY	Lea :	STATE	New Mexico	• • • •
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	1
FIELD	·	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME	Oil & Gas Division]
DISTRICT CODE	DISTRICT NAME	****		
BRANCH CODE	BRANCH NAME			
PROGNOSIS:				.]
INTANGIBLE DRILL	LING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees		1,200	1,200
920-110	Location, Right-of-Way	•••••••••••••••••••	15,000	15,000
920-120	Drilling, Footage	······································		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40	k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	·	15,000	15,000
920-150	Drilling Mud & Additives	***************************************	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	***************************************	11,600	11,600
920-170	Cementing - Surface Casing		24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's		10,000	10,000
920-190	Electric Logs & Tape Copies	***************************************	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	***************************************	24,500	24,500
920-210	Supervision & Overhead	*************************************	17,400	17,400
920-220	Contingency	***************************************		
920-230	Coring, Tools & Service			
920-240	Bits, Tool & Supplies Purchase	***************************************	50,000	50,000
920-350	Cementing - Production Casing	***************************************		36,500
920-410	Completion Unit - Swabbing	······································		10,000
920-420	Water for Completion	**************************************		8,000
920-430	Mud & Additives for Completion	***************************************		1,000
920-440	Cementing - Completion		•	0
920-450	Elec. Logs, Testing, Etc Completion			35,000
920-460	Tools & Equip. Rental, Etc Completion	***************************************		20,000
920-470	Stimulation for Completion one zone test only	***************************************		100,000
920-480	Supervision & O/H - Completion	***************************************		3,100
920-490	Additional LOC Charges - Completion	***************************************		1,200
920-510	Bits, Tools & Supplies - Completion	*********************************		1,800
920-500	Contingency for Completion			
	TOTAL INTANGIBLE DRILLING COSTS	••••••••••••••••••	591,100	807,700
TANGIBLE EQUIPM	IENT COSTS:		_	
930-010	Christmas Tree & Wellhead		2,000	26,000
930-020	Casing 11-3/4" @ 450'		7,600	7,600
	8-5/8" @ 4650'		56,500	56,500
	5-1/2" @ 12,600'			93,000
000 000	T 1.	·····		
	Tubing 2 7/8" @ 12400'	••••••		35,000
930-040	Packer & Special Equipment			8,000
	Pumping Equipment including \$20,000 for electricity	***********************************		116,000
	Storage Facilities			22,700
	Separation Equip., Flowlines, Misc.			25,000
940-040	Trucking & Construction Costs			15,700
	TOTAL TANGIBLE EQUIPMENT COSTS		66,100	405,500
	***************************************	,	······	

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

RB	Prepared By	AL SPRINGER	Operations Approval	
			OWNER	SHARE
	BY		DATE	
	BY		DATE	
: :	вү		DATE	



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

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

TREASURER

December 9, 1997

A.L. Cone Partnership
P.O. Box 3457, Briercroft #12
Lubbock, Texas 79452

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Pert Bullak

Robert Bullock Landman

à	US Postal Service Receipt for Ce No Insurance Coverage Do not use for Internation Sent to A.L. Cone Parti	e Provided. onal Mail (See reverse) nership Briercroft #12
	Postage	\$
	Certified Fee	
	Special Delivery Fee	
'n	Restricted Delivery Fee	
199	Return Receipt Showing to Whom & Date Delivered	
, Apr	Return Receipt Showing to Whom, Date, & Addressee's Address	
800	TOTAL Postage & Fees	\$
PS Form 3800 , April 1995	Postmark or Date Sixld AP	RB/ex
8	(bm #3	38/4

the reverse side?	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write 'Return Receipt Requested' on the mailpiece below the article. The Return Receipt will show to whom the article was delivered and delivered.	e does not e number.	I also wish to rectollowing services extra fee): 1. Address: 2. Restricte Consult postmas	s (for an ee's Address
ō pe	3. Article Addressed to:	4a. Article N		
ADDRESS completed	A.L. Cone Partnership P.O. Box 3457, Briercroft #12 Lubbock, Texas 79452	4b. Service Registere Express I	stered 💆 Cert ess Mail 🗍 Insu m Receipt for Merchandise 🗍 COD	
Is your RETUR	5. Received By: (Print Name) Lift Poly Performance 6. Signature (Addressee or Agent) X PS Form 3811, December 1994	8. Addressee and tee is	S Address (Only paid) A ARK Bomestic Reti	5% F



591,100

807,700

-		
	OUTH FOURT	
ARTESIA	A, NEWME	XIC088210
TELES	PHONE (505)	748-1471

			AFE NO.	97-343-0
	E5 AUTHORITY FOR EX	PENDITURE	AFE DATE	11/26/97
	TROLEUM RPORRTION NEW DRILLING & RECON	IPLETION	•	
105 SOUTH I	AFE Type: Well Objective:	Well Type: Development X Exploratory	AFE STATUS: X Original Revised Final	
LEACE MANGE				
LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH STATE	12,600' New Mexico	
COUNTY LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	
FIELD	3,300 FSL & 700 FVVL	HORIZON		
			MOTIOW	
DIVISION CODE	100 DIVISION NAME	Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		<u> </u>	
BRANCH CODE	BRANCH NAME			
PROGNOSIS:				
INTANGIBLE DRI	LLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees		1,200	1,200
920-110	Location, Right-of-Way		15,000	15,000
920-120	Drilling, Footage			
920-130	Drilling, Daywork 41 days @ \$7400/day + \$	40k mobilization	365,000	365,000
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920-180	Drill Stem Testing, OHT 2 DST's		10,000	10,000
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920-210	Supervision & Overhead		17,400	17,400
000 000				,

920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing]]	10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	• • •	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion	1 1	1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		

TOTAL INTANGIBLE DRILLING COSTS

rangible equi	PMENT COSTS:	·	
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
OTAL COSTS		657,200	1,213,200

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

Prepared B By	AL SPRINGER	Operations Approval	
		OWNER	SHARE
ВҮ		DATE	
ВУ		DATE	
ву	•	DATE	

A.L. Cone Partnership

4.	OIL AND	GAS LEASE	Hall-Poorbaugh Press, I Roswell, New Mex
THIS AGREEMENT made this	9th	day ofDecembe	•
A.L. Cone Partnershi COMPANY - 10%, ABO P Mexico Corporations,	ETROLEUM CORPORATION	PETROLEUM CORPORATION 10%, MYCO INDUSTRIES,	INC 10%, all New
1. Lessor in consideration ofTen	and no/100		Lessee, WITNESSETT
purpose of investigating, exploring, prospecting,	skilling and mining for and producing oil as imed by Lessor adjacent and contiguous ther	greements of Lessee herein contained, hereby grant nd gas, laying pipe lines, building roads, tanks, pow reto, to produce, save, take care of, treat, transport, at	ver stations, telephone lines and other structu nd own said products, and housing its employe
	Section 2: SW/4	ch, Range 35 East, NMPM SW/4	
production of oil or gas and without further paymen	its than the royalties herein provided, and no	ng or other development operations and/or to the dis twithstanding anything else herein contained to the c id land or land with which said land is pooled hereu	contrary, this lease shall be for a term of 1 ver
which the wells may be connected; Lessee may frequents; (b) on gas, including casinghead gas or of the market value at the well of 1/4 there is a gas well on this lease or on acreage poole is shut in and thereafter at annual intervals the sum this lease in paying quantities. Payment or tender	om time to time purchase any royalty oil in i ther gaseous substance, produced from said of the gas so sold or used, provided that or di therewith but gas is not being sold or used of \$1.00 per acre, and if such payment is ma of said shut-in gas royalty may be made by	d from said land, the same to be delivered at the we ts possession, paying the market price therefor previous land, and sold, or used off the premises or for the engas sold at the wells the royalty shall be $\frac{1}{2}/\frac{2}{4}$. Lessee may pay or tender as royalty, on or before de or tendered, this lease shall not terminate and it we check or draft of Lessee mailed or delivered to the part from Lessor's wells, for all operations hereunder,	ailing for the field where produced on the date xtraction of gasoline or other product therefror of the amount realized from such sale; whi into the days after the date on which said we intly be considered that gas is being produced fro parties entitled thereto on or before the date as
or leases in the immediate vicinity thereof to the ex- said leased premises in compliance with the spacir the conservation of oil and gas in and under and the gas hereunder shall not substantially exceed in are- of units larger than those specified, units thereafter combine acreage covered by this lease, or any por- stratum or strata need not conform in size or area- gas units. The pooling in one or more instances appropriate records of the county in which the lea pooling option after commencing operations for or a well capable of producing oil or gas in paying of Operations for drilling on or production of oil or drilling were commenced or such production was	tent, hereinafter stipulated, when in Lesse's g rules of the New Mexico Oil Conservation at may be produced from said premises. Un 1640 acres each plus a tolerance of 10% then created may conform substantially in size want ion thereof as above provided as to oil in an with the unit or units into which the lease is shall not exhaust the rights of the Lessee had premises are situated an instrument deso completing an oil or gas well on the leased properties as the quantities has theretofore been completed or tas from any part of the pooled unit which is ecured before or after the execution of this is ecured before or after the execution of this is	covered by this lease, or any portion thereof as to oil judgement it is necessary or advisable to do so in ord a Commission, or other lawful authority or when to dit pooled for oil hereunder shall not substantially eneof, provided that should governmental regulations, with those prescribed by governmental regulations, by one or more strata and as to gas in any one or more pooled or combined as to any other stratum or strate ereunder to pool this lease or portions thereof into ribing and designating the pooled acreage as a poor oremises, and the pooled unit may include, but it is not upon which operations for the drilling of a well for includes all or a portion of the land covered by this strument or the instrument designating the pooled use to located on the premises covered by this lease, and	der properly to explore, or to develop and operato so would, in the judgment of Lessee, promoteced 40 acres each in area, and units pooled fiving jurisdiction prescribe or permit the creatic Lessee under the provisions hereof may pool re strata. The units formed by pooling as to an a, and oil units need not conform as to area will other units. Lessee shall file for record in the left unit. Lessee may at its election exercise to trequired to include, land or lesses upon which call or gas have theretofore been commence lease regardless of whether such operations for fullifications for drillifing and the second considered as operations for drillifing.
as to oil and gas, or either of them, as herein provide for the purpose of computing the royalties to which pooled unit, there shall be allocated to the land cout that used for operations on the pooled units. Such a provide provide acres included in the pooled units. Royal by this lease and included in the unit just as though it is producing and not as production from a gas pofrom an oil pooled unit. In addition to the foregoin covered hereby to any cooperative or unit agreement commission or other lawful governmental authorite terms of any such agreement or plan of operation of expire during the life of such agreement or plan of operation.	ed, shall be treated for all purposes, except the owners of royalties and payments out of prered by this lease and included in said unit a allocation shall be on acreage basis—that is to produced from the pooled unit which the nuties hereunder shall be computed on the port of the production were from such land. The probled unit; and production from a gas well wing. Lessee at its option is hereby given the rient or plan of development and operation, a y. In such event, the royalty payable to Lessen, which basis shall be the same by which than and shall be subject to the terms thereo thall record in the county in which the leased	the payment of royalties on production from the poole oduction and each of them, shall be entitled on production and each of them, shall be entitled on production are portion of the oil and gas, or either of them is say, there shall be allocated to the acreage covered I imber of surface acres covered by this lease and inchition of such production, whether it be oil and gas, or roduction from an oil well will be considered production it be considered as production from the lease or gas ght and power from time to time to commit said lan and to any modifications thereof, which have been a sor hereunder shall be computed and paid on the base royalty due the United States or the State of New of and said agreement or plan of operation shall be of premises are situated, an instrument describing suc	ed unit, as if the same were included in this leas uction of oil and gas, or either of them, from it, a, produced from the pooled unit after deductir by this lease and included in the pooled unit the uded in the pooled unit bears to the total numb- relther of them, so allocated to the land covere tion from the lease or oil pooled unit from which pooled unit from which it is producing and not dor any part or formation or mineral substant approved by the New Mexico Oil Conservation fits of the oil or gas allocated to such land und Mexico is computed and paid. This lease sha if filed with the New Mexico Oil Conservation.
or shall have completed a dry hole thereon within 6 additional well are prosecuted with no cessation of land pooled therewith. If, after the expiration of the any cause, this lease shall not terminate if Lessee or as such operations are prosecuted with no cessation or from land pooled therewith. Any pooled unit det the county in which the leased premises are situate paying quantities should be brought in on adjacent reasonably prudent operator would drill under the st	O days prior to the end of the primary terms, nore than 60 consecutive days, and if they reprimary term of this lease and after oil or gas mmences operations for drilling or reworkir of more than 60 consecutive days, and if the ignated by Lessee in accordance with the tell at any time after the completion of a dry heland and within 660 feet of and draining time or similar circumstances. Lessee may at	from land pooled therewith, but Lessee is then engage the lease shall remain in force so long as operations sult in the production of oil or gas so long thereafter is produced from said land, or from land pooled then go within 60 days after the cessation of such product by result in the production of oil and gas, so long the trust hereof, may be dissolved by Lessee by instrume ole or the cessation of production on said unit. In the lease premises, or land pooled therewith. Lesse tany time execute and deliver to Lessor or place of roor portions and be relieved or all obligations as to the	on said well or for drilling or reworking of an as oil or gas is produced from said land, or fror ewith, the production thereof should cease fror ion, but shall remain in force and effect so lon reafter as oil or gas is produced from said land antifiled for record in the appropriate records one event a well or wells producing oil or gas is or agrees to drill such offset well or wells as eagrees to drill such offset well or wells as ecord a release or releases covering any portion
 Lessee shall have the right at any time during all casing. When required by Lessor, Lessee will be without Lessor's consent. 	g or after the expiration of this lease to remourly all pipe lines below ordinary plow dept	ove all property and fixtures placed by Lessee on sai th, and no well shall be drilled within two hundred	d land, including the right to draw and remov feet of any residence or barn now on said lan
7. The rights of either party hereunder may be of the land or royalties, however accomplished, shall thirty (30) days after Lessee shall have been furnish in the event of assignment hereof in whole or in pathreach. If six or more parties become entitled to a designating an agent to receive payment for all.	operate to enlarge the obligations or dimining ed by registered U.S. mail at Lessee's princi at liability for breach of any obligation heres	pal place of business with a certified copy of record under shall rest exclusively upon the owner of this k	such ownership shall be binding on Lessee unit ed instrument or instruments evidencing same ease or of a portion thereof who commits suc
8. The breach by Lessee of any obligation arisgrounds for cancellation hereof in whole or in part, writing of the facts relied upon as constituting a brest imposed by virtue of this instrument. After the discout in discharging this obligation it shall in no event one well per 640 acres plus an acreage tolerance no	In the event Lessor considers that operation ch hereof, and Lessee, if in default, shall hav overy of oil or gas in paying quantities on sa by required to drill more than one well per for	ve sixty days after receipt of such notice in which to a uid premises, Lessee shall develop the acreage retain orty (40) acres of the area retained hereunder and ca	se with this lease, Lessor shall notify Lessee is commence the compliance with the obligation sed hereunder as a reasonably prudent operato puble of producing oil in paying quantities and
 Lessor hereby warrants and agrees to defend and in event Lessee does so, it shall be subrogated to under the warranty in event of failure of title, it is ag Lessor shall be reduced proportionately. Should an same. 	such lien with the right to enforce same and reed that if Lessor owns an interest in the oi	il or gas on, in or under said land less than the entire	ng same. Without impairment of Lessee's right foe simple estate, then the royalties to be paid
10. Should Lessee be prevented from complying therefrom by reason of scarcity of or inability to obtauthority, then while so prevented, Lessee's obligational ball be extended while and so long as Lessee is presented shall not be counted.	ain or to use equipment or material, or by or on to comply with such covenant shall be su wented by any such cause from conducting or	spended, and Lessee shall not be liable in damages frilling or reworking operations on or from producir	r any order, rule or regulation of governmental for failure to comply therewith; and this lease
IN WITNESS WHEREOF, this instrument is ex	ecuted on the date first above written.		
			

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO, County of	} ss.							
This instrument was acknowledged before	j	1						
by								
								
My commission expires		· · · · · · · · · · · · · · · · · · ·			··			
					Nota	ry Public		
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STATE OF NEW MEXICO,	1						•	
County of	_ }ss.							
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by	·		· 	a	s		·	
							согр	orat
on behalf of said corporation.						•	:	
My commission expires		· 						
					Nota	ry Public		
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STATE OF TEXAS	` 1							
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105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

December 9, 1997

Tom W. Schnaubert, Life Estate with Remaindermen being Tommy G. Schnaubert Bobby J. Schnaubert, Marry A. Irwinsky and Ruth M. Dake as their sole and separate property c/o Mary A. Irwinsky 3912 8th Avenue Fort Worth, Texas 76110

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3
Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Remaindermen:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

stert bullock

Robert Bullock Landman

Z 351 693 348

	7 202 0					
F	US Postal Service Receipt for Certified Mail No Insurance Coverage Provided. Do not use for International Mail (See reverse)					
T	m W. Schnauber	t, Life Estate				
c/c	Piloter Nur Aper I TWINSK	У				
34	12 8th Avenue					
,	Postage	\$				
Ì	Certified Fee					
	Special Delivery Fee					
	Restricted Delivery Fee					
1995	Return Receipt Showing to Whom & Date Delivered					
April	Return Receipt Showing to Whom Date, & Addressee's Address	,				
300,	TOTAL Postage & Fees	\$				
33	Postmark or Date	of State				
P.S. Fo	Com#3	R6/46				
	April 1995	US Postal Service Receipt for Certi No Insurance Coverage P Do not use for Internation: Tom W. Schnauber C/DiMaryure Irwinsky 3 Pust Office, State, 2 Proceed Fort Worth, Texas Postage Certified Fee Special Delivery Fee Restricted Delivery Fee Restricted Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom Date, & Addressee's Address TOTAL Postage & Fees				

on the reverse side?	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your nawe and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article. The Return Receipt will show to whom the article was delivered and delivered.	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.	
ADDRESS completed	Tom W. Schnaubert, Life Estate c/o Mary A. Irwinsky 3912 8th Avenue Fort Worth, Texas 76110	4a. Article Number Z 351 493 348 4b. Service Type ☐ Registered	
Is your RETURN	5. Received By: (Print Name) 8. Addressee's Address (Only if requand fee is paid) 6. Signature: (Addressee or Agent) X PS Form 3811, December 1994 8. Addressee's Address (Only if requand fee is paid) 102595-97-8-0179 Domestic Return R		

•			
		AFE NO.	97-343-0
	5 AUTHORITY FOR EXPENDITURE	AFE DATE	11/26/97
W//X//// PE1	ROLEUM NEW DRILLING & RECOMPLETION	72 572	
	ROLEUM NEW DRILLING & RECOMPLETION		
	AFE Type: Well Objective: Well Type:	AFE STATUS:	
105 SOUTH FO	DURTH STREET X New Drilling X Oil Development	X Original	
ARTESIA, NEW	MEXICO 88210 Recompletion X Gas X Exploratory	Revised	
TELEPHONE (5		Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Field APK State Com. #3 PROJ'D DEPTH Lea I: STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		· · · · · · · · · · · · · · · · · · ·
PROGNOSIS:		· · · · · · · · · · · · · · · · · · ·	
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INTANGIBLE DRILL	ING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage	10,000	10,000
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170		24,000	24,000
920-180	Cementing - Surface Casing Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190		25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
	•		
920-230	Coring, Tools & Service	50,000	
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430 920-440	Mud & Additives for Completion Cementing - Completion		1,000
920 -44 0 920 -4 50	***************************************		35,000
920 -4 50 920-460	Elec. Logs, Testing, Etc Completion		20,000
920-470	Tools & Equip. Rental, Etc Completion Stimulation for Completion one zone test only		100,000
920-480	Stimulation for Completion one zone test only Supervision & O/H - Completion		3,100
920-490	***************************************		1,200
920-510	Additional LOC Charges - Completion Bits, Tools & Supplies - Completion		1,800
	***************************************		1,000
320-300	Contingency for Completion	<u></u> _	
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQUIPM	MENT COSTS:		 : - - -
	Christmas Tree & Wellhead	2,000	26,000
,	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000

PMENT COSTS:		
Christmas Tree & Wellhead	2,000	26,000
Casing 11-3/4" @ 450'	7,600	7,600
8-5/8" @ 4650'	56,500	56,500
5-1/2" @ 12,600'		93,000
Tubing 2 7/8" @ 12400'		35,000
Packer & Special Equipment		8,000
Pumping Equipment including \$20,000 for electricity		116,000
Storage Facilities		22,700
Separation Equip., Flowlines, Misc.		25,000
Trucking & Construction Costs		15,700
TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
	657,200	1,213,200
	Christmas Tree & Wellhead Casing 11-3/4" @ 450' 8-5/8" @ 4650' 5-1/2" @ 12,600' Tubing 2 7/8" @ 12400' Packer & Special Equipment Pumping Equipment including \$20,000 for electricity Storage Facilities Separation Equip., Flowlines, Misc. Trucking & Construction Costs TOTAL TANGIBLE EQUIPMENT COSTS	Christmas Tree & Wellhead 2,000 Casing 11-3/4" @ 450' 7,600 8-5/8" @ 4650' 56,500 5-1/2" @ 12,600' 1 Tubing 2 7/8" @ 12400' 1 Packer & Special Equipment 1 Pumping Equipment Including \$20,000 for electricity 1 Storage Facilities 1 Separation Equip., Flowlines, Misc. 1 Trucking & Construction Costs 1 TOTAL TANGIBLE EQUIPMENT COSTS 66,100

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

B By	AL SPRINGER	Approval	
r		OWNER	SHARE
ВҮ		DATE	
BY		DATE	
,			

Joan Garrison

(/		OIL AND GAS LE			Form 34 Hall-Poorbaugh Press, Inc
THIS AGREEMENT made this	9th		day of Dec	cember	Roswell, New Mexic
Lavena Howard, Joan property, LESSOR; a ABO PETROLEUM CORPO	and YATES PETROLEUM	1 CORPORATION	, each dealing - 70%, YATES	g in her sole a	and separate
LESSEE,	en and no/100		· · · · · · · · · · · · · · · · · · ·		Lessee, WITNESSETH:
1. Lessor in consideration of	d paid, of the royalties herein provided ecting, drilling and mining for and pro d or claimed by Lessor adjacent and co	i and of the agreements of l ducing oil and gas, laying intiguous thereto, to produce	Lessee herein contained, her pipe lines, building roads, to e, save, take care of, treat, tra	eby grants, leases and lets extants, power stations, telepho	clusively unto Lessee for the one lines and other structure s, and housing its employees
	Township 16 South, Section 2: SW/4SW	Range 35 Eas	st, NMPM		
Without reference to the commence production of oil or gas and without further from this date (called "primary term") and	payments than the royalties herein pro-	rided, and notwithstanding a	anything else herein containe	ed to the contrary, this lease sh	it or cessation at any time of all be for a term of 1 years
3. The royalties to be paid by Lessee a which the wells may be connected; Lessee purchase; (b) on gas, including casinghead the market value at the well of	may from time to time purchase any re gas or other gaseous substance, produ- of the gas so sold or used, pr te pooled therewith but gas is not being the sum of \$1.00 per acre, and if such put tender of said shut-in gas royalty may	oyalty oil in its possession, peed from said land, and sold ovided that on gas sold at the sold or used, Lessee may payment is made or tendered, be made by check or draft	paying the market price there l, or used off the premises or e wells the royalty shall be any or tender as royalty, on or this lease shall not terminate of Lessee mailed or delivere	efor prevailing for the field wifer the extraction of gasoline 1 / 4 of the amount re r before ninety (90) days after and it will be considered that at to the parties entitled there	here produced on the date of or other product therefrom, salized from such sale; while r the date on which said well t gas is being produced from to on or before the date said
4. Lessee, at its option, is hereby given or leases in the immediate vicinity thereof it said leased premises in compliance with the conservation of oil and gas in and under gas hereunder shall not substantially exceed of units larger than those specified, units the combine acreage covered by this lease, or a stratum or strata need not conform in size of gas units. The pooling in one or more insuppropriate records of the county in which pooling option after commencing operation a well capable of producing oil or gas in poperations for drilling on or production of drilling were commenced or such production or production of drilling were commenced or such production or production of oil and gas from land constitution of the purpose of computing the royalities to pooled unit, there shall be allocated to the lithat used for operations on the pooled units. pro rata portion of the oil and gas, or either of surface acres included in the unit just as it is producing and not as production from a first producing and not as production from a first producing and not as production from a covered hereby to any cooperative or unit a Commission or other lawful governmental at the terms of any such agreement or plan of not expire during the life of such agreeme Commission, or other lawful suthority, and the commitment thereto, and the same may 5. If at the expiration of the primary ter or shall have completed a dry hole thereon we additional well are prosecuted with no cessal land pooled therewith. If, after the expiration any cause, this lease shall not terminate if Leas such operations are prosecuted with no cessal land pooled therewith. Any pooled the county in which the leased premises are paying quantities should be brought in on a reasonably prudent operator would drill undor portions of the above described premises	othe extent, hereinafter stipulated, whe is spacing rules of the New Mexico Oil and that may be produced from said plan area 640 acres each plus a tolerance creater created may conform substant my portion thereof as above provided to race with the unit or units into which tances shall not exhaust the rights of the leased premises are situated an in a for or completing an oil or gas well onlying quantities has theretofore been oil or gas from any part of the pooled in was secured before or after the executered by this lease whether or not the was provided, shall be treated for all purpout on which owners of royalties and payment covered by this lease and included. Such allocation shall be on acreage but them, produced from the pooled unit. Royalties hereunder shall be comput hough such production were from such gas pooled unit; and production from oregolag. Leasee at its option is hereby previously. In such event, the royalty properation, which basis shall be the sam of or plan and shall be subject to the Lessee shall record in the county in whe recorded either before or after the compution of more than 60 consecutive days, not the primary term of this lease and a sessee commences operations for drilling station of more than 60 consecutive days, not the primary term of this lease and a situated at any time after the complete diacent land and within 660 feet of a cer the same or similar circumstances. I and thereby surrender this lease as to	n in Lessee's judgement it. Conservation Commission, remises. Units pooled for a conflict of the conflict of t	s necessary or advisable to de or other lawful authority or oil bereunder shall not substituted by governmental autoribed by governmental registrata and as to gas in any obined as to any other stratum soil this lease or portions the signating the pooled acreage he pooled unit may include, he portions for the drilling of a portion of the land covere e instrument designating the permises covered by this le oyalties on production from each of them, shall be entitled to of the oil and gas, or either the oil and gas, and the United States or the State ement or plan of operation situated, an instrument described the description of oil or gas so long the ometal land, or from land power and land, or from land power after the cessation of succession of oil or gas so long the oil and gas, as the dissolved by Lessee by atton of production on said land, or from land power and deliver to Lessor or of the relieved or all obligation de relieved or all obligation.	o so in order properly to explo when no do so would, in the ju mitally exceed 40 acres each thority having jurisdiction pre- ulations. Lessee under the pre- me or more strata. The units in n or strata, and oil units need treof into other units. Lessee as a pooled unit. Lessee may but it is not required to include a well for oil or gas have the d by this lease regardless of v pooled unit, shall be consider case, and the entire acreage or v pooled unit, shall be consider case, and the entire acreage or v pooled unit, shall be consider case, and the entire acreage or v pooled unit, shall be consider case, and the entire acreage or do no production of oil and gas, or of them, produced from the covered by this lesse and incl e and included in the pooled and gas, or either of them, so a d production from the lease or ase or gas pooled unit from w it said land or any part or form we been approved by the New on the basis of the oil or gas a se of New Mexico is computed in shall be filed with the New ribing such agreement or plan then engaged in drilling or rev perations on said well or for de hereafter as oil or gas is produ- pooled therewith, the production h production, but shall remain oo long thereafter as oil or gas i y instrument filed for record in unit. In the event a well or w th. Lessee agrees to drill suc place of record a release or rel ms as to the acreage surrender	re, or to develop and operate of the property of the creation of the creation ovisions hereof may pool or formed by pooling as to any not conform as to area with a shall file for record in the sy at its election exercise its, land or leases upon which the creations of the commenced. Whether such operations for drilling antituting such unit or units, a were included in this lease, a or either of them, from the pooled unit after deducting baded in the pooled unit that init bears to the total number of the conformation or mineral substance of the conformation or mineral substance of the conformation of the conformation of the conformation of the conformation of operation and reflecting the conformation of operation and reflecting operations thereon, in force and effect so long is produced from said land, or from a the repropriate records of ells producing oil or gas in the offset well or wells as a leases covering any portion red.
Lessee shall have the right at any timal casing. When required by Lessor, Lesse without Lessor's consent. 7. The rights of either party hereunder results.	e will bury all pipe lines below ording nay be assigned in whole or in part, an	ary plow depth, and no well d the provisions hereof shal	I shall be drilled within two I extend to their heirs, succe	hundred feet of any residence ssors and assigns but no chan	e or barn now on said land ge or division in ownership
of the land or royalties, however accomplish thirty (30) days after Lessee shall have been In the event of assignment hereof in whole of breach. If six or more parties become entit designating an agent to receive payment for	furnished by registered U.S. mail at L or in part liability for breach of any ob led to royalty hereunder, Lessee may	essee's principal place of be ligation hereunder shall res	usiness with a certified copy at exclusively upon the owne	of recorded instrument or ins or of this lease or of a portion	struments evidencing same. thereof who commits such
8. The breach by Lessee of any obligat grounds for cancellation hereof in whole or writing of the facts relied upon as constitutin imposed by virtue of this instrument. After to but in discharging this obligation it shall in no one well per 640 acres plus an acreage tolern	in part. In the event Lessor considers g a breach hereof, and Lessee, if in def the discovery of oil or gas in paying quo o event by required to drill more than	that operations are not at a ault, shall have sixty days a santities on said premises, I one well per forty (40) acres	ny time being conducted in o fter receipt of such notice in lessee shall develop the acre s of the area retained hereund	compliance with this lease, Le which to commence the comp age retained hereunder as a re der and capable of producing o	essor shall notify Lessee in pliance with the obligations easonably prudent operator
 Lessor hereby warrants and agrees to and in event Lessee does so, it shall be subro under the warranty in event of failure of title Lessor shall be reduced proportionately. She same. 	gated to such lien with the right to enfo , it is agreed that if Lessor owns an int	orce same and apply royalti- erest in the oil or gas on, in	es accruing hereunder toward or under said land less than	d satisfying same. Without in the entire fee simple estate, t	npairment of Lessee's right hen the royalties to be paid
10. Should Lessee be prevented from a therefrom by reason of scarcity of or inability authority, then while so prevented, Lessee's shall be extended while and so long as Lesse time while Lessee is so prevented shall not be IN WITNESS WHEREOF, this instrument.	y to obtain or to use equipment or mat obligation to comply with such coven, se is prevented by any such cause from e counted against Lessee, anything in	erial, or by operation of for ant shall be suspended, and conducting drilling or rew this lease to the contrary no	ce majeure, any Federal or s Lessee shall not be liable in orking operations on or fron	tate law or any order, rule or s damages for failure to compl	regulation of governmental ly therewith; and this lease
	ent is executed ou the date just above.	waiten.			
Lavena Howard	Less	or			

Reita Schnaubert

Lessor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF County of	ss.
This instrument was acknowledged before m	e this
by Lavena Howard, dealing in	
My commission expires	
My commission expires	Notary Public
	•
	INDIVIDUAL ACKNOWLEDGEMENT
STATE OF	
County of	_ } ss.
This instrument was acknowledged before	me this
byJoan Garrison, dealing in	her sole and separate property
My commission expires	
•	Notary Public
	INDIVIDUAL ACKNOWLEDGEMENT
STATE OF	
County of	ss.
1	
This instrument was acknowledged before	ne this
byReita Schnaubert, dealin	g in her sole and separate property
My commission expires	
wy commission expires	Notary Public
n n n	
	d for record on the ", 19 d for record on the ", 19 M, and duly ", Page Records of this office. County Clerk Deputy return to
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Gas e	
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105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210 TELEPHONE (505) 748-1471

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

TREASURER

December 10, 1997

Bristol Resources Corporation 6655 S. Lewis, Suite 200 Tulsa, Oklahoma 74136

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Sleet Bullock

Robert Bullock Landman

Z 351 6	93 355
US Postal Service Receipt for Cer No Insurance Coverage Do not use for Internatio	Provided.
Bristol Resource 6655 S. Lewis, S. Fallsag, Old alpha	Suite 200
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date Fill APA	34th 38/01
(Im # 3	20/01

 Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that card to you. Attach this form to the front of the mailpiece, or on the back if spermit. Write 'Return Receipt Requested' on the mailpiece below the ar The Return Receipt will show to whom the article was delivered delivered. 	e and address on the reverse of this form so that we can return this not the front of the mailpiece, or on the back if space does not except Requested* on the mailpiece below the article number.			
3. Article Addressed to:	4a. Article N	Consult postmaster for fee.		
Bristol Resources Corporation 6655 S. Lewis, Suite 200 Tulsa, Oklahoma 74136	2 35 db. Service ☐ Registere ☐ Express ☐ Return Ref	Type ed A Certifled Mail Insured ceipt for Merchandise COD ellivery DEC 15 1997		
5. Received By: (Print Name) 6. Signature: (Addressee or Agent)	8. Addressed and fee is	e's Address (<i>Only if requested</i>		

					* * * *
27/				AFE NO.	97-343-0
MALANATI	E 5 AUTHO	RITY FOR EXP	ENDITURE	AFE DATE	11/26/97
W//W///PE	TOM CIM	/ DRILLING & RECOMP		,	
COL	RPORHT ION AFE Type:	Well Objective:	Well Type:	AFE STATUS:	
105 SOUTH F	OURTH STREET X New Drilling		Development	X Original	
ARTESIA, NEV	VMEXICO88210 Recompletion		X Exploratory	Revised	
TELEPHONE (505) 748-1471	Injector	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Final	·
LEASE NAME	Field APK State Com. #3		PROJ'D DEPTH	12,600'	
COUNTY	Lea		STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL		LOCATION	Section 2-16S-35E	T
FIELD			HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME		Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		On a Cas Division		
BRANCH CODE	BRANCH NAME				
PROGNOSIS:			<u> </u>	-	
					
INTANGIBLE DRIL	LING COSTS:			DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees			1,200	1,200
920-110	Location, Right-of-Way	***************************************	·	15,000	15,000
920-120	Drilling, Footage				
920-130	Drilling, Daywork 41 day	s @ \$7400/day + \$40	k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	15,000	15,000
920-150	Drilling Mud & Additives		.,,.,,,	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	***************************************		11,600	11,600
920-170	0	***************************************		24,000	24,000
920-180	Drill Stem Testing, OHT 2	DST's		10,000	10,000
920-190	Electric Logs & Tape Copies	***************************************	***************************************	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	9	**********************************	24,500	24,500
020 240	Supervision 9 Overhead	474,200,000,000,000,000,000,000	*************************************	47 400	47.400

920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700

TANGIBLE EQUIPMENT COSTS:

I VIAOIDEE EGOIS	ME141 00010.		
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200

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

Prepared By	AL SPRINGER	Operations Approval	
<u></u>	(OWNER	SHARE
ВУ		DATE	
BY		DATE	
BY		DATE	



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

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

December 10, 1997

R.G. Barton, Sr. and O. Barton Rev. Trust Roy G. Barton, Jr. Trustee P.O. Box 978 Hobbs, New Mexico 88241-0978

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Mr. Barton:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Róbert Bullock Landman

RB/ljf

enclosure(s)

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

, F	.েল:'Barton, Sr. and O. Barton			
F	Chéet de Nuisser			
F	oy G. Barton Jr Post Office, State & ZIP Co O. Box 978	Trustee		
F				
F	phys, New Mexi	cg 88241-0978		
	Certified Fee			
	Special Delivery Fee			
2	Restricted Delivery Fee			
199	Return Receipt Showing to Whom & Date Delivered			
Apri	Return Receipt Showing to Whom, Date, & Addressee's Address			
80	TOTAL Postage & Fees	\$		
E E	Postmark or Date	ex spt.		
PS Form 3800 , April 1995	Com #3	RB/4		

EComplete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that v card to you. Attach this form to the front of the mailpiece, or on the back if spapermit.	ace does not	1. Addressee's Address
Write "Return Receipt Requested" on the mailpiece below the artise The Return Receipt will show to whom the article was delivered a delivered.	icle number. and the date	2. A Restricted Delivery Consult postmaster for fee.
3. Article Addressed to:	4a. Article N	
R.G. Barton, Sr. and O. Barton Rev. Trust Roy G. Barton, Jr., Trustee P.O. Box 978 Hobbs, New Mexico 88241-0978	4b. Service Register Express Return Re 7. Date of D	Mail Certified Mail Insured COD Elivery
5. Received By: (Print Name) 6. Signature: (Addressee or Agent) 7	and fee is	e's Address (Only if requested spaid) By Spaid Domestic Return Receipt



AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE 97-343-0 11/26/97

NEW DRILLING & RECOMPLETION

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

TOTAL COSTS

Е Туре:	Well Objective:	Well Type:	
New Drilling	X Oil	Developme	
Recompletion	X Gas	X Exploratory	

AFE STATUS: lopment X

Original Revised

2-16S-35E

657,200

1,213,200

Final

			Tinjector.	J	· · · · · · ·
LEASE NAME	Field AF	K State Com. #3	***	PROJ'D DEPTH	12,600'
COUNTY	Lea			STATE	New Mexico
LEGAL DESC.	3,300' F	SL & 760' FWL		LOCATION	Section 2-16
FIELD				HORIZON	Morrow
DIVISION CODE	100	DIVISION NAME		Oil & Gas Division	
DISTRICT CODE		DISTRICT NAME			
BRANCH CODE	:	BRANCH NAME			
PROGNOSIS:					

920-100 Staking, Permit & Legal Fees 920-110 Location, Right-of-Way 920-120 Drilling, Footage 920-130 Drilling, Daywork 41 days @ \$7 920-140 Drilling Water, Fasline Rental 920-150 Drilling Mud & Additives 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead 920-220 Contingency	1,200 15,000 15,000 7400/day + \$40k mobilization 365,000 15,000 32,000 11,600 24,000 5 10,000 25,400 24,500 17,400	15,000 365,000 15,000 32,000 11,600 24,000 10,000 25,400
920-120 Drilling, Footage 920-130 Drilling, Daywork 41 days @ \$7 920-140 Drilling Water, Fasline Rental 920-150 Drilling Mud & Additives 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	7400/day + \$40k mobilization 365,000 15,000 32,000 11,600 24,000 5 10,000 25,400 24,500	365,000 0 15,000 0 32,000 0 11,600 0 24,000 0 10,000
920-130 Drilling, Daywork 41 days @ \$7. 920-140 Drilling Water, Fasline Rental 920-150 Drilling Mud & Additives 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	15,000 32,000 11,600 24,000 5 10,000 25,400 24,500	15,000 32,000 11,600 24,000 0 10,000 0 25,400
920-140 Drilling Water, Fasline Rental 920-150 Drilling Mud & Additives 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	15,000 32,000 11,600 24,000 5 10,000 25,400 24,500	15,000 32,000 11,600 24,000 0 10,000 0 25,400
920-140 Drilling Water, Fasline Rental 920-150 Drilling Mud & Additives 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	15,000 32,000 11,600 24,000 5 10,000 25,400 24,500	32,000 11,600 24,000 10,000 25,400
920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	11,600 24,000 5 10,000 25,400 24,500	11,600 24,000 10,000 25,400
920-170 Cementing - Surface Casing 920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	24,000 s 10,000 25,400 24,500	24,000 10,000 25,400
920-180 Drill Stem Testing, OHT 2 DST's 920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	\$ 10,000 25,400 24,500	10,000 25,400
920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	25,400 24,500	25,400
920-190 Electric Logs & Tape Copies 920-200 Tools & Equip. Rntl., Trkg. & Welding 920-210 Supervision & Overhead	25,400 24,500	
920-210 Supervision & Overhead	**************************************	24,500
***************************************	17.400	
920-220 Contingency		17,400
920-230 Coring, Tools & Service		T
920-240 Bits, Tool & Supplies Purchase	50,000	50,000
920-350 Cementing - Production Casing		36,500
920-410 Completion Unit - Swabbing		10,000
920-420 Water for Completion		8,000
920-430 Mud & Additives for Completion		1,000
920-440 Cementing - Completion		
920-450 Elec. Logs, Testing, Etc Completion		35,000
920-460 Tools & Equip. Rental, Etc Completion		20,000
920-470 Stimulation for Completion one z	zone test only	100,000
920-480 Supervision & O/H - Completion		3,100
920-490 Additional LOC Charges - Completion		1,200
920-510 Bits, Tools & Supplies - Completion		1,800
920-500 Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700

TANGIBLE EQUIPMENT COSTS: 930-010 Christmas Tree & Wellhead 2,000 26,000 930-020 7,600 Casing 11-3/4" @ 450' 7,600 8-5/8" @ 4650' 56,500 56,500 5-1/2" @ 12,600 93,000 930-030 Tubing 2 7/8" @ 12400' 35,000 930-040 Packer & Special Equipment 8,000 **Pumping Equipment** 940-010 including \$20,000 for electricity 116,000 22,700 940-020 **Storage Facilities** 940-030 Separation Equip., Flowlines, Misc. 25,000 940-040 **Trucking & Construction Costs** 15,700 TOTAL TANGIBLE EQUIPMENT COSTS 66,100 405,500

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

Prepared By	AL SPRINGER	Operations Approval	
	C	WNER	SHARE
ВУ		DATE	
ВУ		DATE	
ВУ		DATE	

MARTIN YATES, III FRANK W. YATES 1936 - 1986

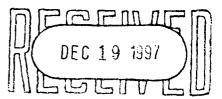


105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

December 10, 1997

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



R.G. Barton, Sr. and O. Barton Rev. Trust Roy G. Barton, Jr. Trustee P.O. Box 978 Hobbs, New Mexico 88241-0978

CERTIFIED MAIL RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Mr. Barton:

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Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours.

YATES PETROLEUM CORPORATION

Róbert Bullock Landman

RB/lif

micron them are

Mease farecard unione.



AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE	NO.
AFE	DATE

97-343-0

105 SOUTH FOURTH STREET
ARTESIA. NEW MEXICO 68210
TELEMONIO (BAR) TARILLAY

Ų

AF	Е Тура:	We	Well Objective:		
X	New Drilling	X	OH		
С	Recompletion	X	Gas		

Well Type:

Development

X Exploratory

AFE STATUS:

X Original
Revised

EASE NAME	Field API	State Com. #3	PROJ'D DEPTH	12,800'
ייי איטס:	Lea :		STATE	New Mexico
EGAL DESC.	3,300° FS	L & 760' FWL	LOCATION	Section 2-16S-35E
IELD [<u>' </u>	HORIZON	Morrow
IVISION CODE	100	DIVISION NAME	Oil & Gas Divisi	on
ISTRICT CODE		DISTRICT NAME		
RANCH CODE		BRANCH NAME		
ROGNOSIS				

INTANGIBLE DRILLING COSTS: DRY HOLE COMP'D WELL 920-100 Staking, Permit & Legal Fees 1,200 1,200 920-110 Location, Right-of-Way 15,000 920-120 Drilling, Footage 920-130 Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization 365,000 365,000 Drilling Water, Fastine Rental 920-140 15,000 15,000 920-150 Drilling Mud & Additives 32,000 32.000 920-160 Mud Logging Unit, Sample Bags 11,600 11,600 24,000 920-170 Cementing - Surface Casing 24,000 920-180 Drift Stem Testing, OHT 10,000 2 DST's 10,000 920-190 Electric Logs & Tape Copies 25,400 25,400 Tools & Equip. Rntl., Trkg. & Welding 920-200 24,500 24,500 920-210 Supervision & Overhead 17,400 17,400 920-220 Contingency 920-230 Coring, Tools & Service 920-240 Bits, Tool & Supplies Purchase 50,000 50,000 920-350 Cementing - Production Casing 36,500 920-410 Completion Unit - Swabbing 10,000 920-420 Water for Completion 8,000 920-430 Mud & Additives for Completion 1.000 920-440 Cementing - Completion ٥ 920-450 35,000 Elec. Logs, Testing, Etc. - Completion 920-460 Tools & Equip. Rental, Etc. - Completion 20,000 one zone test only 920-470 Stimulation for Completion 100,000 920-480 3,100 Supervision & O/H - Completion Additional LOC Charges - Completion 920-490 1 200 920-510 Bits, Tools & Supplies - Completion 1,800 920-500 Contingency for Completion 591,100 807,700 TOTAL INTANGIBLE DRILLING COSTS TANGIBLE EQUIPMENT COSTS: 930-010 Christmas Tree & Wellhead 2,000 28,000 930-020 7,600 11-3/4" @ 450' 7.600 B-5/8" @ 4650' 56,500 56.500 5-1/2" @ 12,600 93,000 2 7/8" @ 12400" 930-030 Tubing 35,000 Packer & Special Equipment 930-040 8,000 940-010 Pumping Equipment including \$20,000 for electricity 116,000 940-020 Storage Facilities 22,700 940-039 Separation Equip., Flowlines, Misc. 25,000 940-040 15,700 Trucking & Construction Costs TOTAL TANGIBLE EQUIPMENT COSTS 405,500 66,100 TOTAL COSTS 657.200 1,213,200

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

Prepared By	AL SPRINGER	Operations Approval	
	~	OWNER	SHARE
By In	MBarta G	T- DATE 12/16/97	
ВУ		DATE	
ВУ		DATE	
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105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
THARMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE V. TE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

December 9, 1997

Katherine Adeline Cone Keck 1801 Avenue of the Stars, Suite 446 Los Angeles, CA 90067

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Keck:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

vert Bullack

Robert Bullock

Landman

, }	Z 351. US Postal Service Receipt for Ce No Insurance Coverag Do not use for Internati Sent to Katherine Adeliu FORT NAME. of the	ertified e Provided onal Mail ne Con	Mail 1. (See reverse)
	Postage Certified Fee	\$	
	Special Delivery Fee		
pril 1995	Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom.		
3800, A	TOTAL Boots	\$	
PS Form 3800 , April 1995	July 490 and 43 Re	3/8	u

SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that card to you.	we can return this	I also wish to receive the following services (for an extra fee):	
Attach this form to the front of the mailpiece, or on the back if sp permit.		1. Addressee's Address	Service
Write "Return Receipt Requested" on the mailpiece below the an The Return Receipt will show to whom the article was delivered		2. Restricted Delivery	
delivered.	and the date	Consult postmaster for fee.	₩
3. Article Addressed to:	4a. Article N	umber	<u> </u>
Katherine Adeline Cone Keck	4b. Service ☐ Registere	• •	d Het
1801 Ave. of the Stars, Suite 446 Los Angeles, CA 90067		ceipt for Merchandise COD	or using
	7. Date of De	<u>〜ーし</u>	you f
Received By: (Print Name) Signatule: (Addressee of Agent)	and fee is	e's Address (Only if requested paid) APK SACC BB/4 BB/4	Thank
PS Form 3811 , December 1994	102595-97-B-0179	Domestic Return Receip	nt }



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

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

December 9, 1997

Katherine Adeline Cone Keck P.O. Box 10321 Lubbock, Texas 79404

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RETURN RECEIPT REQUESTED

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YATES PETROLEUM CORPORATION

Hert Sullak

Robert Bullock Landman

US Postal Ser Receipt No Insurance Do not use to Katherin	Coverage Internated Address Ad	ertifage Pronational	ied ovided Mail	Mail See revers	se)	
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OOR TOTAL PORTING ROLL POSTMARK	**************************************	. <i>A</i> .	PK	Star RB/4	3	

SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write **Tetum Receipt Requested** on the mailpiece below the article The Return Receipt will show to whom the article was delivered and delivered.	e does not	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
3. Article Addressed to: Katherine Adeline Cone Keck P.O. Box 10321 /80/ Ave. of the State Lubbock, Texas 79404	4b. Service 1 Registere Express	51 693 349 Type ed Certified
Los Angeles, CA. 90067 Suite 446 5. Received By: (Print Name)	7. Date of De	elivery e's Address (Only if requested
6. Signature: (Addressee or Agent) X PS Form 3811, December 1994	2595-97-8-0179	#3 RB/L/ Domestic Return Receipt



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AFE NO.

97-343-0

W////PE	TOM FIIM	AFE DATE [11/26/9
	RPORATION	AFE STATUS:	•
105 South I	AFE Type: Well Objective: Well Type: FOURTH STREET Y New Drilling Y Oil Development		
	A INSW Diffing A Off Development	X Original	
	W MEXICO 88210 Recompletion X Gas X Exploratory (505) 748-1471 Injector	Revised Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea STATE	New Mexico	·
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE		· · · · · · · · · · · · · · · · · · ·	
BRANCH CODE	BRANCH NAME		
PROGNOSIS: [
NTANGIBLE DRI		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,20
920-110	Location, Right-of-Way	15,000	15,00
920-120	Drilling, Footage		000
920-130 920-140	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140 920-150	Drilling Water, Fasline Rental Drilling Mud & Additives	15,000 32,000	15,000
920-160	Mud Logging Unit, Sample Bags	11,600	32,000 11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-170	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-180	Electric Logs & Tape Copies	25,400	25,400
920-200	Electric Logs & Tape Copies Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		(
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
ANGIBLE EQUIP	PMENT COSTS:		
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-030	Packer & Special Equipment		8,000
	· · · · · · · · · · · · · · · · · · ·		
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
OTAL COSTS		657,200	1,213,200
APPROVAL OF	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT A FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED A		GOODS
repared	Operations CDD INCED		
By AL	SPRINGER Approval OWNER	SHAR	
-	OWNER	J. J	
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DATE

DATE

(One YEAR PAID UP LEASE)

Form 345 Hall-Poorbaugh Press, Inc. Roswell, New Mexico

Lasson

OIL AND GAS LEASE 9th December 19 97 between THIS AGREEMENT made this day of Katherine Adeline Cone Keck, LESSOR; and YATES PETROLEUM CORPORATION - 70%, YATES DRILLING COMPANY - 10%, ABO PETROLEUM CORPORATION - 10%, MYGO INDUSTRIES, INC. -10%, all New Mexico Corporations, LESSEE, Lessee, WITNESSETH: Ten and no/100-----1. Lessor in consideration of (\$\frac{10.00}{\text{purpose}}\) 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, County, Lea the following described land in <u>New Mexico</u> Township 16 South, Range 35 East, NMPM Section 2: SW/4SW/4 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 1 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, 1/4 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 _ 1/4 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. Lesse, 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 property to explore, or to develop and operate said leased premises in compliance with the specing rules of the New Mexico Oil Conservation Commission. Oromission of oil and gas in and under and that may be produced from said premises. Units pooled for collection of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental authority baring 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 bereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more trains and as to gas in any one or more strains. The units formed by pooling as to any straum or strains 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 strain, and oil units need not conform as to area with again units. The pooling in one or more instances thall 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 appropriator records of the county in which the lessed premises are situated an instrument describing and designating the production for units. Lessee shall file for record in the appropriator exercise in the county in which the lessed premises are situated and the production of oil or gas in any one or more instances. The production after the production of oil or gas from any part of the pooled units which the summary of the production o 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 terms, 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 overlag any portion or portions of the above described premises and thereby surrender this lease as t 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 by 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 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 lesse 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.

Katherine Adeline Cone Keck

Lessor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,	1						
County of	} ss,						
This instrument was acknowledged be	fore me this		 -		·	,	
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			Dated No Acre	Term This in	at second	of theByBy	
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105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210 TELEPHONE (505) 748-1471

S. P. YATES
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RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY

TREASURER

December 9, 1997

Ms. Marilyn Cone Trustee for D.C. Cone Trust P.O. Box 64244 Lubbock, Texas 79464

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

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If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

durt Bullak

Robert Bullock Landman

1	IS Postal Service Receipt for Cert to Insurance Coverage F to not use for Internation Sent to arilyn Cone Tiste Union D.C. C	Provided. al Mail (See reverse) one Trust	
4	Postage	\$	
	Certified Fee		
	Special Delivery Fee		
	Restricted Delivery Fee		
1995	Return Receipt Showing to Whom & Date Delivered		
April	Return Receipt Showing to Whom, Date, & Addressee's Address		
300,	TOTAL Postage & Fees	\$	
PS Form 3800 , April 1995	Postmark or Date Listed 1P Com # 3	1 State	
ğ	J	15/B	l

Complete items 3, 4a, and Print your name and add card to you. Attach this form to the free permit. Write "Return Receipt Re	■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date		I also wish to refollowing service extra fee): 1. Address 2. Restrict Consult postma:	es (for an see's Address ed Delivery
3. Article Addressed to	to:	4a. Article N	umber	
Marilyn Cone Trustee for D.		Z 3	51 693	342
Marilyn Cone		4b. Service		
Trustee for D.	C. Cone Trust	☐ Registere	ed	☑ Certified ☐
P.O. Box 642	44	☐ Express I	Mail	Insured
P.O. Box 642 Lubbock, Tex		☐ Return Rec	ceipt for Merchandis	e 🗆 COD 🚆
de la		7. Date of De	elivery .	, ,
5. Beceived By: (Prin	t Name)	8. Addressee	s's Address (Only	if requested =
1ein	a show	and fee is	paid)	CAN E
6. Signature: (Addres	see or Agent)	Fill	dia	ارىكىر
X JEAN	Lichwer	Comi	to Re	3/4/
PS Form 3811, Dec	ember 1994 10	2595-97-B-0179	Domestic Ref	turn Receipt

DC TRUST MARILYN CONE, TRUSTEE

P.O. Box 93355 Lubbock, Texas 79413 (806) 795-8827

December 18, 1997

DEC 22 1997

Yates Petroleum ATTN: Robert Bullock 105 South Fourth Street Artesia, New Mexico 88210

RE:

Field APK State Com #3 Lea County, New Mexico

Enclosed is a copy of an AFE and Lease we recently received covering the captioned property.

Please supply this office with the following information:

What is the proration unit? What is our interest?

Thank you.

Yours truly,

Cheryll R. Ross

encl. /crr



AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE

97-343-0 11/26/97

		RODERTION NEW DRILLING & RECOMPLETION		
105.6		AFE Type: Well Objective: Well Type:	AFE STATUS:	
		VMEXICO 88210 X New Drilling X Oil Development	X Original	
		(Necompletion A cas A Experator)	Revised	
	•	Injector		
LEASE NAM	ΛE	Field APK State Com. #3 PROJ'D DEPTH	12,600'	,
COUNTY		Lea 1 STATE	New Mexico	
LEGAL DES	SC.	3,300' FSL & 760' FWL LOCATION HORIZON	Section 2-16S-35E Morrow	
DIVISION C		100 DIVISION NAME Oil & Gas Divisio	on	
DISTRICT C		DISTRICT NAME	· · · · · · · · · · · · · · · · · · ·	
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INTANGIBLE	E DRILL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100		Staking, Permit & Legal Fees	1,200	1,200
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920-410		Completion Unit - Swabbing		10,000
920-420		Water for Completion		8,000
920-430		Mud & Additives for Completion		1,000
920-440		Cementing - Completion		0
920-450 920-460		Elec. Logs, Testing, Etc Completion Tools & Equip. Rental, Etc Completion		35,000 20,000
920-470		Stimulation for Completion one zone test only		100,000
920-480		Supervision & O/H - Completion		3,100
920-490		Additional LOC Charges - Completion		1,200
920-510		Bits, Tools & Supplies - Completion		1,800
920-500		Contingency for Completion		
		TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE E	QUIPM	MENT COSTS:		
930-010		Christmas Tree & Wellhead	2,000	26,000
930-020		Casing 11-3/4" @ 450'	7,600	7,600
		8-5/8" @ 4650'	56,500	56,500
		5-1/2" @ 12,600'		93,000
930-030		Tuking 27/9" @ 42400"		35,000
930-030		Tubing 2 7/8" @ 12400' Packer & Special Equipment		8,000
950-040				
940-010		Pumping Equipment including \$20,000 for electricity		116,000
940-020		Storage Facilities		22,700
940-030		Separation Equip., Flowlines, Misc.		25,000
940-040		Trucking & Construction Costs		15,700
	•	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COST	TS		657,200	1,213,200
APPROVA	L OF TH	HIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOIN FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STAT		GOODS
Prepared		Operations		
By	AL SI	PRINGER Approval		

3 BY AL SPRINGER	Approvai	· · · · · · · · · · · · · · · · · · ·
OWN	ER	SHARE
ву	DATE	
BY	DATE	
BY	DATE	

(One YEAR PAID UP LEASE) OIL AND GAS LEASE

Form 345
Hall-Poorbaugh Press, Inc.
Roswell, New Mexico

THIS AGREEMENT made this	9th	day of	December	19 <u>97</u> between
YATES DRILLING	rustee for D.C. Cone Trus COMPANY - 10%, ABO PETROI Corporations, LESSEE,			JSTRIES, INC 102
1. Lessor in consideration of	Ten and no/100		~	Lessee, WITNESSETH:
(\$ 10.00) in purpose of investigating, exploring, putereon and on, over and across lands	n hand paid, of the royalties herein provided and of a rospecting, drilling and mining for and producing o owned or claimed by Lessor adjacent and contiguous	oil and gas, laving pipe lines, build	ling roads, tanks, power stations, cof, treat, transport, and own said;	telephone lines and other emphase
the following described land in	Lea	County,	New Mexico	, to-wit:
		outh, Range 35 E	ast, NMPM	

- 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 1 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, 1/4 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; (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 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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. Lesse, 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 lesses in the immediate vicinity thereof to the extent, hereinafter signistated, when in Lesses is judgement it is necessary or advisable to do so in order property to explore, or to develop and operate asid leased premises in compliance with the spending rules of the New Mexico Oil Conservation, or other lawful authority or when no do so would, in this judgement of Lesses, 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 substandially exceed 40 acres each plus a tolerance of 10% thereof, provided that should governmental substantially exceed 40 acres each in area. 400 acres each plus a tolerance of 10% thereof, provided that should governmental substantially cannot be a provided as to oil 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 combine acreage covered by this lease, or any portion thereof as above provided as to oil 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 a propriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee many at its election exercise it to 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 many at its election exercise in the appropriate and the strate of the county in which the lease of premises are situated on instrument describing and designating the poo
- 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 terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any ladditional 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 covering any portion or portions of the above described premises and thereby surrender this lease as
- 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 lesse 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 by 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 lieu upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lieu with the right to enforce same and apply royaldes 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
- 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

Marilyn Cone, Trustee for D.C. Cone	



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

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

December 9, 1997

Jack McClendon, Adelline Z. Cone, and S.E. Cone, Jr., Successor Trustees under Trust "B" created UWLT of S.E. Cone FBO S.E. Cone, Jr. P.O. Box 10321 Lubbock, Texas 79404

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Trustees:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

best Bullak

Robert Bullock Landman

Z 351 693 344 US Postal Service Receipt for Certified Mail No Insurance Coverage Provided.

Do not use for International Mail (See reverse) ្រឹងីCK McClendon, Adelline Z. Cone and Sympecone, Jr. P.O. Box 10321 rubbock, Texas 39404 Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered

Return Receipt Showing to Whom & Addressee's Address Return Receipt Showing to Whom, Date, & Addressee's Address PS Form **3800**, TOTAL Postage & Fees Postmark or Date

on the reverse side?	SENDER: , Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if spac permit. Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered an delivered.	e does not e number. d the date	I also wish to rece following services extra fee): 1. Addresse 2. Restricted Consult postmaste	(for an e's Address I Delivery	seipt Service.	-31
N ADDRESS completed	Jack McClendon, Adelline Z. Cone and S.E. Cone, Jr. c/o S.E. Cone, Jr. P.O. Box 10321 Lubbock, Texas 79404	4b. Service 1 Registere Express I	I 693344 Type ad Mail ceipt for Merchandise	Certified Insured COD	you for using Return Rec	R
IS your HELVE	5. Received By: (Print Name) 6.: PS 1	8. Addresse	S Address Only if	Receipt	Thank	



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT

PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY

DENNIS G. KINSEY TREASURER

December 9, 1997

Hack: McClendon; Adelline: Zx. Gone; x and Sx. Excensivity; Successorx Trustees under Trust 18 repated HAM: Trust Sx. Excens FBQ S.E. Cone, Jr. P.O. Box 10321

Lubbock, Texas 79404

change per Robert Bullock 12/9/97

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com #3

Township 16 South, Range 35 East, NMPM Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

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If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

obert Bullak

Robert Bullock Landman



AFE NO.

97-343-0

8////	AUTHORITY FOR EXPENDITURE	AFE DATE	11/26/97
	TROLEUM NEW DRILLING & RECOMPLETION	•	
LU	AFE Type: Well Objective: Well Type:	AFE STATUS:	
105 SOUTH 1	FOURTH STREET X New Drilling X Oil Development	X Original	
ARTESIA, NE	WMEXICO88210 Recompletion X Gas X Exploratory	Revised	
TELEPHONE	(505) 748-1471 Injector	Final	
		, اسما محمد المحمد	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea 1 STATE	New Mexico	•
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE			
BRANCH CODE	BRANCH NAME		*****
_			
PROGNOSIS:			
NTANGIBLE DRI		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency -		.,,,,,
920-230	Coring, Tools & Service		<u>. </u>
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip, Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
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ANGIBLE EQUIP			
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940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
	(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
OTAL COSTS	•	657,200	1,213,200

Operations Prepared

Ву	AL SPRINGER	Approval	
		OWNER	SHARE
BY	19 Jane	DATE 12/2/97	L
		,	
BY		DATE	
ВҮ		DATE	
		\	

Adelline Z. Cone

(One YEAR PAID UP LEASE)

Form 345 Press, Inc. w Mexico

•	OIL AND GAS	LEASE		Hall-Poorbaugh Press, Inc. Roswell, New Mexico
THIS AGREEMENT made this	9th	day of	December	
Jack McClendon, Adelline created ULWT of S.E. Con COMPANY - 10%, ABO PETRO Mexico Corporations, LES 1. Lessor in consideration of Ten and	e, LESSOR; and YATES P LEUM CORPORATION - 10%	, Jr., Succentroleum Colon, MYCO INDU	essor Trustees u RPORATION - 70%, STRIES, INC 1	nder Trust "B" YATES DRILLING 0%, all New
	royalties herein provided and of the agreement			
purpose of investigating, exploring, prospecting, drilling thereon and on, over and across lands owned or claimed b	and mining for and producing oil and gas, la	ving pipe lipes, building	roads, tanks, power stations, tel	enhane lines and other structures
the following described land in	Lea	County,	New Mexico	aucis, and nousing its employees,, to-wit:
	Township 16 South,	Range 35 Eas	st. NMPM	
	Section 2: SW/4SW/	4		
			•	
Without reference to the commencement, prosecu production of oil or gas and without further payments than from this date (called "primary term") and as long therea.	the royalties herein provided, and notwithstane fter as oil or gas is produced from said land or	ling anything else herein land with which said lar	contained to the contrary, this leand is pooled hereunder.	se shall be for a term of 1 years
3. The royalties to be paid by Lessee are: (a) on oil, which the wells may be connected; Lessee may from time purchase; (b) on gas, including casinghead gas or other gathe market value at the well of	e to time purchase any royalty oil in its possess aseous substance, produced from said land, and be gas so sold or used, provided that on gas sold with but gas is not being sold or used, Lessee re 0 per acre, and if such payment is made or tend shut-in gas royalty may be made by check or	ion, paying the market p I sold, or used off the pre at the wells the royalty si may pay or tender as roya ered, this lease shall not draft of Lessee mailed o	rice therefor prevailing for the fie mises or for the extraction of gas hall be 1/4 of the amou alty, on or before ninety (90) days terminate and it will be considere to delivered to the parties entitled it	Id where produced on the date of oline or other product therefrom, and realized from such sale; while after the date on which said well d that gas is being produced from thereto on or before the date said
4. Lessee, at its option, is hereby given the right and por leases in the immediate vicinity thereof to the extent, he said leased premises in compliance with the spacing rules the conservation of oil and gas in and under and that may gas hereunder shall not substantially exceed in area 640 ac of units larger than those specified, units thereafter create combine acreage covered by this lease, or any portion the stratum or strata need not conform in size or area with the gas units. The pooling in one or more instances shall no appropriate records of the county in which the leased prepooling option after commencing operations for or compile a well capable of producing oil or gas in paying quantition Operations for drilling on or production of oil or gas from drilling were commenced or such production was secured on or production of oil and gas from land covered by this leas to oil and gas, or either of them, as herein provided, shall so to oil and gas, or either of them, as herein provided, shall refuse the purpose of computing the royalties to which owner pooled unit, there shall be allocated to the land covered by that used for operations on the pooled units. Such allocating or surface acres included in the pooled units. Such allocating or surface acres included in the unit just as though such provided in the unit just as though such provided in the unit just as though such provided producing and not as production from a gas pooled un from an oil pooled unit. In addition to the foregoing, Less covered hereby to any cooperative or unit agreement or production, which here of the producing and here of such agreement or plan and Commission, or other lawful governmental authority. In such expire during the life of such agreement or plan and Commission, or other lawful governmental authority. In such expire during the life of such agreement or plan and Commission, or other lawful authority, and Lessee shall recommitment thereto, and the same may be recorded in land pooled therewith. If, after the expiration of the pr	reinafter stipulated, when in Lessee's judgement of the New Mexico Oil Conservation Commis be produced from said premises. Units pooled tres each plus a tolerance of 10% thereof, provid may conform substantially in size with those reof as above provided as to oil in any one or it of unit or units into which the lease is pooled or to exhaust the rights of the Lessee hereunder mises are situated an instrument describing an eting an oil or gas well on the leased premises, a set has theretofore been completed or upon when any part of the pooled unit which includes a before or after the execution of this instrument case whether or not the well or wells be located to treated for all purposes, except the payments of foryalties and payments out of production or this lease and included in said unit a pro rata pon shall be on acreage basis—that is to say, there end from the pooled unit which the number of a centuder shall be computed on the portion of sucoduction were from such land. 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Lessee under the in any one or more strata. The is restratum or strata, and oil units in the substantial subst	explore, or to develop and operate the judgment of Lessee, promote such in area, and units pooled for a prescribe or permit the creation are provisions hereof may pool or aits formed by pooling as to any need not conform as to area with easee shall file for record in the semay at its election exercise its clude, land or lesses upon which we theretofore been commenced. I will be the operations for drilling pe constituting such unit or units, same were included in this lesse. I gas, or either of them, from the nother been condended in the pooled unit that ed unit bears to the total number so allocated to the land covered use or oil pooled unit from which m which it is producing and not formation or mineral substance. New Mexico Oil Conservation gas allocated to such land under puted and paid. This lesse shall New Mexico Oil Conservation plan of operation and reflecting or reworking operations thereon, for drilling or reworking of any roduced from said land, or from uction thereof should cease from main in force and effect so long gas is produced from said land, or from uction thereof should cease from main in force and effect so long gas is produced from said land, and in the appropriate records of
paying quantities should be brought in on adjacent land a reasonably prudent operator would drill under the same or or portions of the above described premises and thereby su 6. Lessee shall have the right at any time during or aft	similar circumstances. Lessee may at any time irrender this lease as to such portion or portion ter the expiration of this lease to remove all pro-	execute and deliver to L is and be relieved or all o operty and fixtures place	essor or place of record a release obligations as to the acreage surre d by Lessee on said land, includin	or releases covering any portion indered. In the right to draw and remove
all casing. When required by Lessor, Lessee will bury all without Lessor's consent.				
7. The rights of either party hereunder may be assigne of the land or royalities, however accomplished, shall operat thirty (30) days after Lessee shall have been furnished by n in the event of assignment hereof in whole or in part liabil breach. If six or more parties become entitled to royalty lessignating an agent to receive payment for all.	te to enlarge the obligations or diminish the right egistered U.S. mail at Lessee's principal place lity for breach of any obligation hereunder sha	its of Lessee; and no char of business with a certifi Il rest exclusively upon t	nge or division in such ownership ied copy of recorded instrument o the owner of this lease or of a por	shall be binding on Lessee until or instruments evidencing same, tion thereof who commits such
8. The breach by Lessee of any obligation arising her grounds for cancellation hereof in whole or in part. In the writing of the facts relied upon as constituting a breach here imposed by virtue of this instrument. After the discovery of but in discharging this obligation it shall in no event by requone well per 640 acres plus an acreage tolerance not to exceed.	event Lessor considers that operations are not event and Lessee, if in default, shall have sixty of of oil or gas in paying quantities on said premis uired to drill more than one well per forty (40).	at any time being condu ys after receipt of such r les, Lessee shall develop acres of the area retained	acted in compliance with this leas notice in which to commence the o the acreage retained hereunder a thereunder and capable of produc	e, Lessor shall notify Lessee in compliance with the obligations is a reasonably prudent operator cing oil in paying quantities and
 Lessor hereby warrants and agrees to defend the title and in event Lessee does so, it shall be subrogated to such is under the warranty in event of failure of title, it is agreed th Lessor shall be reduced proportionately. Should any one of same. 	ien with the right to enforce same and apply ro ut if Lessor owns an interest in the oil or gas o	yalties accruing hereund n, in or under said land l	er toward satisfying same. Witho less than the entire fee simple ests	ut impairment of Lessee's right ute, then the royalties to be paid
10. Should Lessee be prevented from complying with therefrom by reason of scarcity of or inability to obtain or to authority, then while so prevented, Lessee's obligation to conshall be extended while and so long as Lessee is prevented time while Lessee is so prevented shall not be counted again. IN WITNESS WHEREOP, this instrument is executed.	o use equipment or material, or by operation o omply with such covenant shall be suspended, by any such cause from conducting drilling or inst Lessee, anything in this lease to the contra	f force majeure, any Fed and Lessee shall not be reworking operations of	leral or state law or any order, rule liable in damages for failure to co	or regulation of governmental comply therewith; and this lease
11 WILLIAMS WHEREOF, uns instrument is executed	on the case mat above whiteh.			
Jack McClendon	Lessor			

Lessor

S.E. Cone, Jr.

Lessor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF County of	} ss.
This instrument was acknowledged t	before me this
•	cessor Trustee under Trust "B" created ULWT of
S.E. Cone	
My commission expires	
Try commission expires	Notary Public
•	•
	INDIVIDUAL ACKNOWLEDGEMENT
STATE OF	
County of	} ss.
•	
This instrument was acknowledged	i before me this
byAdelline Z. Cone, S	Successor Trustee under Trust "B" created ULWT of
S.E. Cone	
My commission expires	
	Notary Public
•	
	INDIVIDUAL ACKNOWLEDGEMENT
STATE OF	} ss.
County or)
This instrument was acknowledged	before me this
by S.E. Cone, Jr. Suc	cessor Trustee under Trust "B" created
ULWT of S.E. Cone	
My commission expires	
	Notary Public
	County, N.M. Tecord on the ", 19 M., and duly Page ds of this office. County Clerk Deputy to
Producers 88 Rev. (5 Year Lease) 5-96 No. Oil and Gas Lease FROM	TO ,19 ument was filed for record on the ay of, 19 o'clock, 19 o'clock, Page, 19 Book, Page, Deputy County Clerk, Deputy When recorded return to
Producers 88 Re	m m his instrahis instrahis instrahis
и и.	Da D D D D D D D D D D D D D D D D D D



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

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

TREASURER

February 19, 1998

Mesa Operating Limited Partnership P.O. Box 2009, 301 S. Polk Amarillo, TX 79189-2009

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Fields APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

vert Bullack

Robert Bullock Landman

RB/ljf enclosure(s)

PORTUGE STATE	Limited Partnershi 301 S. Polk 189-2009
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing t Whom & Date Delivered	to
Return Receipt Showing t Whom & Date Delivered Return Receipt Showing to Who Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date	nom,
·	
TOTAL Postage & Fees	\$

on the reverse side?	SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4a, and 4b. "Print your name and address on the reverse of this form so that w card to you. "Attach this form to the front of the mailpiece, or on the back if spar permit. "Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered and delivered.	e does not le number. nd the date	l also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
IN ADDRESS completed	3. Article Addressed to: Mesa Operating Limited Partnership P.O. Box 2009, 301 S. Polk Amarillo, TX 79189-2009	4b. Service Registere	Type ed # Certified # Se
ls your RETUR	5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X PS Form 3811/ December 1994	and fee is	ed May State F



AFE NO.

97-343-0

ATE	AUTHORITY FOR EXPENDITURE	AFE DATE	11/26/97		
PET	ROLEUM NEW DRILLING & RECOMPLETION	,	```		
LUI	AFE Type: Well Objective: Well Type: A	FE STATUS:	•		
105 South F	DURTH STREET X New Drilling X Oil Development	_			
ARTESIA, NEW	MEXICO88210 Recompletion X Gas X Exploratory	Revised			
TELEPHONE (505) 748-1471 Injector	Final			
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH 12	2,600'	· · · · · · · · · · · · · · · · · · ·		
COUNTY		ew Mexico			
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION S	ection 2-16S-35E	1		
FIELD	HORIZON M	orrow			
DIVISION CODE	100 DIVISION NAME Oil & Gas Division				
DISTRICT CODE	DISTRICT NAME				
BRANCH CODE	BRANCH NAME				
PROGNOSIS:			· · · · · · · · · · · · · · · · · · ·		
L					
INTANGIBLE DRIL	·	DRY HOLE	COMP'D WELL		
920-100 920-110	Staking, Permit & Legal Fees Location, Right-of-Way	1,200	1,200		
920-120	Drilling, Footage	15,000	15,000		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000		
920-140	Drilling Water, Fasline Rental	15,000	15,000		
920-150	Drilling Mud & Additives	32,000	32,000		
920-160	Mud Logging Unit, Sample Bags	11,600	11,600		
920-170	Cementing - Surface Casing	24,000	24,000		
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000		
920-190	Electric Logs & Tape Copies	25,400	25,400		
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500		
920-210	Supervision & Overhead	17,400	17,400		
920-220	Contingency -				
920-230	Coring, Tools & Service				
920-240	Bits, Tool & Supplies Purchase	50,000	50,000		
920-350	Cementing - Production Casing	.	36,500		
920-410	Completion Unit - Swabbing		10,000		
920-420 920-430	Water for Completion Mud & Additives for Completion		8,000		
920-440	Cementing - Completion		1,000 0		
920-450	Elec. Logs, Testing, Etc Completion		35,000		
920-460	Tools & Equip. Rental, Etc Completion	· · · · · · · · · · · · · · · · · · ·	20,000		
920-470	Stimulation for Completion one zone test only	·	100,000		
920-480	Supervision & O/H - Completion		3,100		
920-490	Additional LOC Charges - Completion		1,200		
920-510	Bits, Tools & Supplies - Completion		1,800		
920-500	Contingency for Completion	1			
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700		
TANGIBLE EQUIP	MENT COSTS:				
930-010	Christmas Tree & Wellhead	2,000	26,000		
930-020	Casing 11-3/4" @ 450'	7,600	7,600		
•	8-5/8" @ 4650'	56,500	56,500		
	5-1/2" @ 12,600'		93,000		
		ļ			
930-030	Tubing 2 7/8" @ 12400'	-	35,000		
930-040	Packer & Special Equipment		8,000		
940-010	Pumping Equipment including \$20,000 for electricity		116,000		
940-020	Storage Facilities		22,700		
940-030	Separation Equip., Flowlines, Misc.	<u> </u>	25,000		
940-040	Trucking & Construction Costs		15,700		
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500		
TOTAL COSTS		657,200	1,213,200		
APPROVAL OF T	APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.				
Prepared	Operations				
By ALS	PRINGER Approval	······································			
	OWNER	SHAR	Ε		
		L			

В Ву	AL SPRINGER	Approval	
		OWNER	SHARE
ВҮ		DATE	
ВУ		DATE	
ВУ		DATE	



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

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

December 2, 1997

UMC Petroleum Corporation 410 17th Street, Suite 1400 Denver, Colorado 80202 Attention: Laura B. Smith

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: F

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

+ Bullack

Robert Bullock Landman

RB/ljf enclosure(s)

°Z 351 693 330

	Descipt for Cartified Mail			
	Receipt for Certified Mail			
	No Insurance Coverage Provided.			
	Do not use for Internation			
	Sent to UMC Petroleum (Corporation		
	P101174th Street,	Suite 1400		
	PENNEL SEPTONECE	80202		
- 4	Attention: Laura	B-SIIIIII		
	Postage	\$		
	Certified Fee			
	Special Delivery Fee			
	Restricted Delivery Fee			
1995	Return Receipt Showing to Whom & Date Delivered			
April	Return Receipt Showing to Whom, Date, & Addressee's Address			
800,	TOTAL Postage & Fees	\$		
PS Form 3800 , April 1995	Postmark or Date Lister A	IPK State		
PS Fo	Fild A Com#3	78/4 78/4		

on the reverse side?	■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailplece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailplece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to rece following services extra fee): 1.	(for an e's Address
IN ADDRESS completed	3. Article Addressed to: UMC Petroleum Corporation 410 17th Street, Suite 1400 Denver, Colorado 80202 Attention: Laura B. Smith	4b. Service 1 Registere Express I	1 693 33 Type od	☑ Certified ☐ Insured ☐
Is your BETUBN	Received By: (Print Name) Signaturer (Addressee or Agent) X	8. Addresses	s's Address (Only if	requested the FRB/L/



AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

•	AFE	NO.
	AFE	DAT

AFE STATUS:

97-343-0 11/26/97

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

٩F	Е Туре:	We	ll C
X	New Drilling	X	0
	Recompletion	X	G
			Ιn
on	n. #3	 	_

Well Type:		
Development		
X	Exploratory	

X	Original	
	Revised	_
	Final	
12,	600'	

LEASE NAME	Field AP	State Com. #3	 PROJ'D DEPTH	12,600'		
COUNTY	Lea		STATE	New Mexico	,	
LEGAL DESC.	3,300' FS	L & 760' FWL	LOCATION	Section 2-16S	-35E	
FIELD			 HORIZON	Morrow		
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division			
DISTRICT CODE		DISTRICT NAME	 		,	
BRANCH CODE		BRANCH NAME	 			
PROGNOSIS:			 	· .		
INTANGIBLE DRILL	ING COSTS:			DRY HOL	E COMP'D V	A/ELI

· -	VILE.ING CCG16.	DRY HOLE	COMPD WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920 -110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920 -130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service	,	
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing	********	10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	-	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
OTAL COSTS		657,200	1,213,200

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

Prepared B By	AL SPRINGER	Operations Approval	
		OWNER	SHARE
ВУ		DATE	
BY		DATE	
ВУ		DATE	



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

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

December 10, 1997

Five States 1995-D, Ltd. 4925 Greenville Avenue #1220 Dallas, Texas 75206

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

bert Bullick

Robert Bullock Landman

RB/ljf enclosure(s)

Z 351 693 357

US Postal Service
Receipt for Certified Mail

No Insurance Coverage Provided. Do not use for International Mail (See reverse) Sent to States 1995-D, Ltd. Sent to States 1995-D,

on the reverse side?	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article. The Return Receipt will show to whom the article was delivered and delivered.	ce does not le number.	I also wish to receive the following services (for an extra fee): 1. Addressee's Address 2. Restricted Delivery Consult postmaster for fee.
eted	3. Article Addressed to:	4a. Article N	umber 51 693357
DHESS compl	Five States 1995-D, Ltd. 4925 Greenville Avenue #1220 Dallas, Texas 75206	4b. Service Registere Express I Return Rec	Type od IV Certified Mail Insured ceipt for Merchandise I COD
HNAL		7. Date of De	3/97
	5. Received By: (Print Name)	8. Addresses and fee is	
s your	6. Signature: (Addressee or Agent) X (N) S(N)	Com	#3 RB/4
_	PS Form 3811 , December 1994	2595-97-B-0179	Domestic Return Receipt

Thank you for using Return Receipt Service.



AFE NO.

(////////PE	TROLEUM NEW DRILLING & RECOMPLETION	AFE DATE	11/26/97
		AFE STATUS:	
105 South	FOURTH STREET AFE Type: Well Objective: Well Type: X New Drilling X Oil Development	X Original	
	WMEXICO88210 Recompletion X Gas X Exploratory	Revised	
TELEPHONE	(505) 748-1471 Injector	Final	
LEASE NAME	Field APK State Com. #3 PROJ'D DEPTH	12,600'	
COUNTY	Lea STATE	New Mexico	X 2
LEGAL DESC.	3,300' FSL & 760' FWL LOCATION	Section 2-16S-35E	
FIELD	HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE			
BRANCH CODE	BRANCH NAME	······································	
PROGNOSIS: [
FROGINOSIS.			· · · · · ·
INTANGIBLE DR	ILLING COSTS:	DRYHOLE	COMPIDANCIA
920-100	Staking, Permit & Legal Fees	DRY HOLE	COMP D WELL 1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling Footage		,
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization Drilling Water Faciling Pental	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
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920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200 920-210	Tools & Equip. Rntl., Trkg. & Welding Supervision & Overhead	24,500	24,500
920-210	Contingency -	17,400	17,400
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410 920-420	Completion Unit - Swabbing Water for Completion		10,000
920-430	Mud & Additives for Completion		8,000
920-440	Cementing - Completion		1,000
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700
TANGIBLE EQUI	PMENT COSTS:	······································	
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
	·		
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity	T T	116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS	***************************************	657,200	1,213,200
1017.200010		007,200	1,210,200
APPROVAL OF	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACF		GOODS
Prepared AL	SPRINGER Operations Approval	· · · · · · · · · · · · · · · · · · ·	
i		CUAD	
	OWNER	SHAR	
BY	DATE	L	
	UAIC		

DATE

DATE



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

> DENNIS G. KINSEY TREASURER

S. P. YATES

December 10, 1997

Five States 1995-B, Ltd. 4925 Greenville Avenue #1220 Dallas, Texas 75206

CERTIFIED MAIL RETURN RECEIPT REQUESTED

RE:

Field APK State Com. #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

obert Bullak

Robert Bullock Landman

RB/ljf enclosure(s)

Z 351 693 356

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Five States 1995-B, Ltd. #925 Greenville Avenue #1220 Pallas, Jakes 75206							
Postage	\$						
Certified Fee							
Special Delivery Fee							
Restricted Delivery Fee							
Return Receipt Showing to Whom & Date Delivered							
Return Receipt Showing to Whom, Date, & Addressee's Address							
TOTAL Postage & Fees	\$						
Postmark or Date Fixell APK State Com #3 Dalas							
Postmark or Date Form #3	BB/4						

on the reverse side?	Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you. Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article. The Return Receipt will show to whom the article was delivered and delivered.		ices (for an essee's Address cted Delivery	
	3. Article Addressed to:	4a. Article N	umber	
completed		2 35	1 693	356
Ę	Eine Otaton 1005 D. Ltd	4b. Service	_ 	
	Five States 1995-B, Ltd.	☐ Registere	ed	Certified
	4925 Greenville Avenue #1220	☐ Express t	Mail	☐ Insured
ADDRESS	· Dallas, Texas 75206	☐ Retum Red	ceipt for Merchand	fise 🗆 COD
ᆿ		7. Date of D	elivery 1	
7		12/1	5/97	
RETURN	5. Received By: (Print Name)		e's Address (On	ly if requested
끮	·	and fee is	paid)	Spa
your	6. Signature: (Addressee or Agent)	Sind	1 -1	
8 y	\times \bigcirc $\land \land \land$	(m	~3	RB/4/
	PS Form 3811 , December 1994	2595-97-B-0179	Domestic R	eturn Réceipt

Thank you for using Return Receipt Service.



AUTHORITY FOR EXPENDITURE

AFE NO.

97-343-0 11/26/97

NEW DRILLING & RECOMPLETION

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

AFE Type:	Well Objective:	Well Type:	AFE STATUS:
X New Drilling	X Oil	Development	X Original
Recompletion	X Gas	X Exploratory	Revised
	Injector		Final
Com. #3		PROJ'D DEPTH	12,600'
		STATE	New Mexico
' FWI		LOCATION	Section 2-16S-35E

LEASE NAME	Field APK	CState Com. #3	PROJ'D DEPTH	12,600'	
COUNTY	Lea		STATE	New Mexico	
LEGAL DESC.	3,300' FSI	_ & 760' FWL	LOCATION	Section 2-16S-35E	
FIELD			HORIZON	Morrow	
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division	n	
DISTRICT CODE		DISTRICT NAME			_
BRANCH CODE		BRANCH NAME			$\overline{}$
BRANCH CODE		BRANCH NAME			

PROGNOSIS: INTANGIBLE DRILLING COSTS: **DRY HOLE** COMP'D WELL 920-100 Staking, Permit & Legal Fees 1,200 1,200 920-110 Location, Right-of-Way 15,000 15,000 920-120 Drilling, Footage 920-130 Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization 365,000 365,000 Drilling Water, Fasline Rental 920-140 15,000 15,000 920-150 **Drilling Mud & Additives** 32,000 32,000 920-160 Mud Logging Unit, Sample Bags 11,600 11,600 920-170 Cementing - Surface Casing 24,000 24,000 920-180 Drill Stem Testing, OHT 2 DST's 10,000 10,000 920-190 Electric Logs & Tape Copies 25,400 25,400 920-200 Tools & Equip. Rntl., Trkg. & Welding 24,500 24,500 920-210 Supervision & Overhead 17,400 17,400 Contingency 920-220 920-230 Coring, Tools & Service 50,000 920-240 Bits, Tool & Supplies Purchase 50,000 920-350 Cementing - Production Casing 36,500 920-410 Completion Unit - Swabbing 10,000 920-420 Water for Completion 8,000 920-430 Mud & Additives for Completion 1,000 920-440 Cementing - Completion 0 920-450 Elec. Logs, Testing, Etc. - Completion 35,000 920-460 Tools & Equip. Rental, Etc. - Completion 20,000 920-470 Stimulation for Completion one zone test only 100,000 920-480 Supervision & O/H - Completion 3,100 920-490 Additional LOC Charges - Completion 1,200 920-510 Bits, Tools & Supplies - Completion 1,800 920-500 Contingency for Completion **TOTAL INTANGIBLE DRILLING COSTS** Г 591,100 807,700

	TOTAL INTANCIBLE DIVILLING COOTS	331,100	007,700
TANGIBLE EQUI	PMENT COSTS:		
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200

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

RB	Prepared By	AL SPRINGER_	Operations Approval		
			OWNER		SHARE
	ву		DATE		
	ву		DATE		
	BY		DATE		



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

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

February 11, 1998

Ms. Marjorie Cone Kastman P.O. Box 5930 Lubbock, Texas 79408

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Kastman:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock Landman

RB/ljf enclosures

Z 351 690 868 US Postal Service

No Insurance Coverage Provided. Do not use for International Mail (See reverse) Sent to Ms. Marjorie Cone Kastman P. Steet & No. 18930 Libboock State X 25 co. 19408						
-	Postage	\$				
	Certified Fee					
	Special Delivery Fee					
	Restricted Delivery Fee					
1995	Return Receipt Showing to Whom & Date Delivered					
April	Return Receipt Showing to Whom Date, & Addressee's Address	,				
00	TOTAL Postage & Fees	\$				
PS Form 3800 , April 1995	Postmark or Date Field H	23/4				

SENDER: *Complete items 1 and/or 2 for additional services. *Complete items 3, 4a, and 4b. *Print your name and address on the reverse of this form so that very card to you. *Attach this form to the front of the mailpiece, or on the back if spermit. *Write *Ratum Receipt Requested* on the mailpiece below the artise *The Retum Receipt will show to whom the article was delivered adelivered.	ace does not icle number.	I also wish to refollowing service extra fee): 1. Address 2. Restrict	ces (for an see's Address cted Delivery
3. Article Addressed to: Marjorie Cone Kastman	☐ Express Mail ☐ Insu		☐ Certified ☐ Insured
5. Received By: (Print Name) 6. Signature: (Addressee or Agent)	and fee is	ed ADR	SXC
PS Form 3811 , December 1994	102595-97-B-0179	Domestic Re	eturn Receipt

e side	SENDER: Completé items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we card to you.		I also wish to red following service extra fee):	
the revers	 Attach this form to the front of the mailpiece, or on the back if space permit. Write "Return Receipt Requested" on the mailpiece below the article The Return Receipt will show to whom the article was delivered at delivered. 	e number.	1.	ed Delivery
5	3. Article Addressed to: '	4a. Article N		
e te		2.	351 690	868
IN ADDRESS completed	Ms. Marjorie Cone Kastman P.O. Box 5930 Lubbock, Texas 79408	4b. Service Registere Express Chetum Re 7. Dene of De	ed Mail ceipt for Merchandise	☑ Certific ☐ Insure ☐ COD
RETURN	5. Received By: (Print Name)	8 Addresse Sind fee is	e's Address (Only paid)	if requested
your	6. Signature: (Addressee or Agent)	Com	#3 R	3/4



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

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

December 9, 1997

Ms. Marjorie Cone Kastman c/o S.E. Cone, Jr. P.O. Box 10321 Lubbock, Texas 79404

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL Lea County, New Mexico

_ . . .

Dear Ms. Cone:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Hert Bullet

Robert Bullock Landman

RB/ljf enclosures



AUTHORITY FOR EXPENDITURE

AFE NO.
AFE DATE

97-343-0 11/26/97

NEW DRILLING & RECOMPLETION

105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

920-500

Contingency for Completion

AF	Е Туре:	We	Il Objective:	We	Well Type:	
X	New Drilling	X	Oil	7	Developm	
Г	Recompletion	X	Gas	X	Explorato	
_		′	Injector	1 —		

	AFE STATUS:	
nent	X Original	
ry	Revised	
	Final	

TELEPHONE (505) 748-1471	njector	Final	
LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'	
COUNTY	Lea	STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E	
FIELD		HORIZON	Morrow	
DIVISION CODE	100 DIVISION NAME	Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME			
BRANCH CODE	BRANCH NAME			
PROGNOSIS:				
NTANGIBLE DRIL	LING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees		1,200	1,200
920-110	Location, Right-of-Way	***************************************	15,000	15,000
920-120	Drilling, Footage	***************************************	***************************************	
920-130	Drilling, Daywork 41 days @ \$7400/6	day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental		15,000	15,000
000 450	Partition and April 10 And 122	***************************************		

920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920 -210	Supervision & Overhead	17,400	17,400
920-220	Contingency -		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	. 0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion	· .	20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800

TOTAL INTANGIBLE DRILLING COSTS 591,100 807,700

TANGIBLE EQUIPMENT COSTS:

930-010 Christmas Tree & Wellhead 26,000 2,000 930-020 11-3/4" @ 450" 7,600 7,600 Casing 8-5/8" @ 4650 56,500 56,500 5-1/2" @ 12,600' 93,000 930-030 Tubing 2 7/8" @ 12400' 35,000 Packer & Special Equipment 930-040 8,000 940-010 **Pumping Equipment** including \$20,000 for electricity 116,000 22,700 940-020 **Storage Facilities** 940-030 Separation Equip., Flowlines, Misc. 25,000 940-040 **Trucking & Construction Costs** 15,700 TOTAL TANGIBLE EQUIPMENT COSTS 66,100 405,500 657,200 1,213,200 TOTAL COSTS

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

S By	AL SPRINGER	A	proval	 	
		OWNER		 SHA	RE
ВУ		DATE			
BY		DATE			. •
BY 1		DATE			

KASTMAN OIL COMPANY MARJORIE CONE KĄSTMAN

P.O. Box 5930 • 1640 Broadway
Lubbock, Texas 79408-5930

RETURN RECEIPT REQUESTED

129 E2E 262 d

CERTIFIED

89,5.U 866, 833 M 833 M

138613-06 1005196E

YATES PETROLEUM CORP.
105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

FEB

BB210-2122 03



AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE NO. AFE DATE

AFE STATUS:

97-343-0 11/26/97

1,200

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

Staking, Permit & Legal Fees

920-100

AFE Type:		Well Objective:	١
\overline{x}	New Drilling	X Oil	Γ

Recompletion

Well Type: Development X Gas X Exploratory Injector

X	Original	
	Revised	
	Final	

1,200

LEASE NAME	Field APK State Com. #3		PROJ'D DEPTH	12,600'	
COUNTY	Lea	11	STATE	New Mexico	
LEGAL DESC.	3,300' FSL & 760' FWL		LOCATION	Section 2-16S-35E	
FIELD		,	HORIZON	Morrow	
DIVISION CODE DISTRICT CODE BRANCH CODE	100	DIVISION NAME DISTRICT NAME BRANCH NAME	Oil & Gas Division		
PROGNOSIS:					
INTANGIBLE DRILL	ING COSTS:			DRY HOLE	COMBIO WELL

920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency -		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion	•	0
920-450	Elec. Logs, Testing, Etc Completion		35,000
920-460	Tools & Equip. Rental, Etc Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion	""	3,100
920-490	Additional LOC Charges - Completion	""	1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	591,100	807,700

TANGIBLE EQUIPMENT COSTS:

R

930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
	TOTAL TANGIBLE EQUIPMENT COSTS	66,100	405,500
TOTAL COSTS		657,200	1,213,200

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

Prepared By	AL SPRINGER	Operations Approval	
		OWNER	SHARE
вү 🦙	Jayarii Gne Xestman	u date g-13-98	
вү		DATE	
ВҮ		DATE	



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

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON

SECRETARY
DENNIS G. KINSEY
TREASURER

December 9, 1997

Ms. Marjorie Cone Kastman c/o S.E. Cone, Jr. P.O. Box 10321 Lubbock, Texas 79404

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Field APK State Com #3

Township 16 South, Range 35 East, NMPM

Section 2: 3300' FSL and 760' FWL

Lea County, New Mexico

Dear Ms. Cone:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1)

Z 351 693 343

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Marjorie Cone Kastman doste de la come de l Francis A Saricode ubbock, Texas 79404 \$ Postage Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom Date, & Addressee's Address **TOTAL** Postage & Fees Postmark or Date Form; -AIK State it regarding either of the above offers, please call me at 505-748-

Very truly yours,

YATES PETROLEUM CORPORATION

But Bullak

Robert Bullock

Marjorie Cone Kastman

Lessor

(One YEAR PAID UP LEASE)

	OILAN	ID GAS LEASE		Hall-Poorbaugh Press, Ir Roswell, New Mexi				
THIS AGREEMENT made the	9th	day of	December	19 97 between				
	Kastman, LESSOR; and YATES ABO PETROLEUM CORPORATION tions, LESSEE,	PETROLEUM CORPOR		ATES DRILLING - 10%, all New				
Lessor in consideration of	Ten and no/100			Lessee, WITNESSETH:				
(\$ 10.00 purpose of investigating, exploring	in hand paid, of the royalties herein provided and of the prospecting, drilling and mining for and producing of is owned or claimed by Lessor adjacent and contiguous to	e agreements of Lessee herein cont l and gas, laying pipe lines, buildin thereto, to produce, save, take care o	ained, hereby grants, leases a	nd lets exclusively unto Lessee for the s, telephone lines and other structures d products, and housing its employees				
	Township 16 Section 2:	South, Range 35 SW/4SW/4	East, NMPM					
production of oil or gas and without	nmencement, prosecution or cessation at any time of dr further payments than the royalties berein provided, and ") and as long thereafter as oil or gas is produced from	notwithstanding anything else here	in contained to the contrary, th	evelopment or cessation at any time of its lease shall be for a term of its years				
which the wells may be connected; purchase; (b) on gas, including casi the market value at the well of there is a gas well on this lease or or is shut in and thereafter at annual inthis lease in paying quantities. Pay	Lessee are: (a) on oil, $\sqrt{1/4}$ of that produced and states may from time to time purchase any royalty oil in the state of the gas or other gaseous substance, produced from a $1/4$ of the gas so sold or used, provided the acreage pooled therewith but gas is not being sold or uservals the sum of \$1.00 per acre, and if such payment is ment or tender of said shut-in gas royalty may be made see use of oil, gas, coal and water from said land, except	in its possession, paying the market said land, and sold, or used off the p it on gas sold at the wells the royalty sed, Lessee may pay or tender as ro made or tendered, this lease shall no by check or draft of Lessee mailed	price therefor prevailing for tremises or for the extraction of shall be 1 / 4 of the yalty, on or before ninety (90) at terminate and it will be consor of delivered to the parties ent	he field where produced on the date of of gasoline or other product therefrom, amount realized from such sale; while days after the date on which said well idered that gas is being produced from titled thereto on or before the date said				
or leases in the immediate vicinity it said leased premises in compliance the conservation of oil and gas in an gas hereunder shall not substantially of units larger than those specified, combine acreage covered by this lestratum or strata need not conforming as units. The pooling in one or in appropriate records of the county in pooling option after commencing of a well capable of producing oil or Operations for drilling on or production for drilling were commenced or such pronout or production of oil and gas from as to oil and gas, or either of them, a For the purpose of computing the ropooled unit, there shall be allocated that used for operations on the poole pro rata portion of the oil and gas, or of surface acres included in the unit it is producing and not as production from an oil pooled unit. In addition covered hereby to any cooperative commission or other lawful govern the terms of any such agreement or not expire during the life of such a Commission, or other lawful authorithe commitment thereto, and the sar of shall have completed a dry hole the additional well are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecuted with a land pooled therewith. If, after the eany cause, this lease shall not termin as such operations are prosecu	y given the right and power to pool or combine the acresereof to the extent, hereinafter stipulated, when in Lesse with the spacing rules of the New Mexico Oil Conservated under and that may be produced from said premises, exceed in area 640 acres each plus a tolerance of 10% to units thereafter created may conform substantially in sites, or any portion thereof as above provided as to cil in size or area with the unit or units into which the lease ore instances shall not exhaust the rights of the Lesse which the leased premises are situated an instrument of the creations for or completing an oil or gas well on the lease as in paying quantities has theretofore been completed tion of oil or gas from any part of the pooled unit which oduction was secured before or after the execution of this land covered by this lease whether or not the well or well a herein provided, shall be treated for all purposes, exceptivative to which owners of royaldies and payments out or to the land covered by this lease and included in said und units. Such allocation shall be on acreage basis—that i either of them, produced from the pooled unit which the dunit. Royalties hereunder shall be computed on the just as though such production were from such land. The from a gas pooled unit; and production from a gas well to the foregoing, Lessee at its option is hereby given the x unit agreement or plan of development and operation mental authority. In such event, the royalty payable to be an of operation, which basis shall be the same by whit greement or plan and shall be subject to the terms the ty, and Lessee shall record in the county in which the lease may be recorded either before or after the completion of the primary term of the consecutive days, and if the primary term of the county in which the lease may be recorded either before or after the completion of the primary term of this lease and after oil or set if Lessee commences operations for drilling or rewoth no cessation of more than 60 consecutive days, and if the primary term of	se's judgement it is necessary or advision Commission, or other lawful au Units pooled for oil hereunder shall hereof, provided that should govern a my one or more strain and as to gi is pooled or combined as to any ot e hereunder to pool this lease or plescribing and designating the pooled premises, and the pooled unit may it or upon which operations for the chincludes all or a portion of the less instrument or the instrument designs be located on the premises covered to the payment of royalties on product production and each of them, shall lit a pro rata portion of the oil and gis to say, there shall be allocated to the number of surface acres covered by portion of such production, whether e production from an oil well will be a limber of surface acres covered by the my my my modifications thereof, and to any modifications thereof, essor hereunder shall be computed the royalty due the United States are of and said agreement or plan of ased premises are situated, an instrument of wells. 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reasonably prudent operator would do or portions of the above described profile. 6. Lessee shall have the right at all casing. When required by Lesso	in on adjacent land and within 660 feet of and draining the same or similar circumstances. Lessee materises and thereby surrender this lease as to such portion any time during or after the expiration of this lease to ref., Lessee will bury all pipe lines below ordinary plow of	y at any time execute and deliver to on or portions and be relieved or al emove all property and fixtures place	Lessor or place of record a rel dobligations as to the acreage and by Lessee on said land, in	lease or releases covering any portion surrendered. cluding the right to draw and remove				
of the land or royalties, however according to thirty (30) days after Lessee shall have the event of assignment benefin	cunder may be assigned in whole or in part, and the proving lished, shall operate to enlarge the obligations or dim we been furnished by registered U.S. mail at Lessee's province or in part liability for breach of any obligation has entitled to royalty hereunder, Lessee may withhold then for all.	inish the rights of Lessee; and no ch incipal place of business with a cert ereunder shall rest exclusively upor	ange or division in such owne ified copy of recorded instrum the owner of this lease or of	rship shall be binding on Lessee until nent or instruments evidencing same. I a portion thereof who commits such				
8. The breach by Lessee of any grounds for cancellation hereof in w writing of the facts relied upon accommon imposed by virtue of this instrument but in discharging this obligation it a	obligation arising hereunder shall not work a forfeitun hole or in part. In the event Lessor considers that oper- ustituting a breach hereof, and Lessee, if in default, shall After the discovery of oil or gas in paying quantities o hall in no event by required to drill more than one well p ge tolerance not to exceed 10% of 640 acres of the area	tions are not at any time being con- have sixty days after receipt of such a said premises, Lessee shall develor er forty (40) acres of the area retain	ducted in compliance with thin notice in which to commence to the acreage retained hereunder and capable of p	is lease, Lessor shall notify Lessee in e the compliance with the obligations nder as a reasonably prudent operator producing oil in paying quantities and				
and in event Lessee does so, it shall be	grees to defend the title to said land and agrees that Less a subrogated to such lien with the right to enforce same of title, it is agreed that if Lessor owns an interest in the ely. Should any one or more of the parties named as Le	and apply royalties accruing hereur e oil or gas on, in or under said land	ider toward satisfying same. ` i less than the entire fee simp	Without impairment of Lessee's right le estate, then the royalties to be paid				
therefrom by reason of scarcity of or authority, then while so prevented, L shall be extended while and so long a time while Lessee is so prevented shall	from complying with any express or implied covenant inability to obtain or to use equipment or material, or bessee's obligation to comply with such covenant shall be Lessee is prevented by any such cause from conductiall not be counted against Lessee, anything in this lease	y operation of force majeure, any F e suspended, and Lessee shall not b ng drilling or reworking operations	ederal or state law or any orde se liable in damages for failur	et, rule or regulation of governmental to comply therewith; and this lease				
IN WITNESS WHEREOF, this i	nstrument is executed on the date first above written.			-				

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,)						
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105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

March 27, 1998

TO: Working Interest Owners

<u>CERTIFIED MAIL</u> Return Receipt Requested

RE:

Field APK St. Com. #3

Township 16 South, Range 35 East Section 2: Lots 11, 12, 13, 14, SW/4

Lea County, New Mexico

Gentlemen:

Please find enclosed our Operating Agreement for the drilling of the captioned well.

There is a producing Wolfcamp well located on lot 12 therefore we could not pool those rights, from surface to 11,000' into the 320 acres for the drilling of the Field APK St. Com. #3 well. Exhibit "A" to the Operating Agreement shows how we have handled this with a Shallow & Deep Unit.

Please note that we have provided a cost Allocation Formula on Page 14 A of the Operating Agreement should this well not be completed in the Deep Unit between depths of 11,000' to 12,375'.

Please sign and return the extra signature page to the Operating Agreement, alone with the Authority for Expenditure previously provided you and your check to cover your share of the dry hole costs.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

obet Bullock

Robert Bullock Landman

RB/dc

F N DE	S Postal Service Receipt for Certicolor of Insurance Coverage Properties for International Roy G. Barton J. Street Barton, Sr. & C. Post Office State, 2718 Cod. Hobbs, N.M. 88	r., Trustee of R.	
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	Special Delivery Fee		
	Restricted Delivery Fee		
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April	Return Receipt Showing to Whom Date, & Addressee's Address	,	
300	TOTAL Postage & Fees	\$	ĺ
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DS Form 3800, April 1995			
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	r Agent) Le le le	5. Received By: (Print Name)			Hobbs, NM 88241	P.O. Box 978	Barton, Sr. & O. Barton Rever	Roy G. Barton Jr., Trustee of F	3. Article Addressed to:	delivered.	Write "Return Receipt Requested" on the mailplece below the article number. The Bestim Receipt will show to whom the extide was delivered and the date.	 earth to you. example this form to the front of the malipiece, or on the back if space does not not be found. 	SENDER: Complete items 1 and/or 2 for additional services
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FS Form 38 (1, December 1984)	X	5. Received By: (Print Name)		.	Attn: Mr. Ed. Watts	Tulsa, OK 74136	6655 S. Lewis, Shife 200	Briefol Decomposition	3 Article Addressed	The Return Receipt will show to whom the article was delivered and the date delivered.	permit. Wittle Flaturn Barceira Bornard Polymers 19 19 19 19 19 19 19 19 19 19 19 19 19	"Print your name and address on the reverse of this form so that we can return this card to you. Wattach this form to the female the female to you.	Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b.	SENDER:
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	5. Received By: (Print Name)	3. Article Addressed to: S. E. Cone, Jr. P.O. Box 10321 Lubbock, TX 79404	SCORDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we can return this card to you. Attach this form to the front of the malipiece, or on the back if space does not emit. Write 'Return Receipt Requested' on the malipiece below the article number. delivered.
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US Postal Service Receipt for Certified Mail No Insurance Coverage Provided. Do not use for International Mail (See reverse) Sent Mark L. Shidler, Inc. Street LANNAUKER, Suite 565 San Jacinto Building Post Office, State A ZIP Code Postage Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom, Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date

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PS Form 3811 . December 1994	6. Signature: (Addressee or Agent) X. // // // // // // // // // // // // //	5. Received By: (Print Name)		Houston, Texas 77002	San Jacinto Building	911 Walker, Suite 565	Mark L. Shidler, Inc.		3. Article Addressed to:	delivered.	 Write "Refurn Receipt Requested" on the mailplece below the article number. The Berlum Receipt will show to whom the article was delivered and the data 	Attach this form to the front of the malipiece, or on the back if space does not norm?	SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4s, and 4b. "Print your name and address on the reverse of this form so that we can return this card to you.
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	6. Signay/d: (Addressee or Agent) X QUA	5. Received By: (Print Name)		Midland, TX 79701	1211 W. Texas	Ameristate Exploration L.L.C.	Ameristate Oil & Gas, Inc.		3. Article Addressed to:	delivered.	•Write 'Return Receipt Requested' on the malipiece below the article number. •The Return Receipt will show to whom the article was delivered and the date	Attach this form to the front of the malipiece, or on the back if space does not permit	SCNUCH: Complete items 1 and/or 2 for additional services. Complete items 3, 4s, and 4b. Print your name and address on the reverse of this form so that we can return this card to you.	
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,	6. Signature: (Addressee or Agent) X. A. M. A. C. W. W. W.	5. Received By: (Print Name) A. Marce Willeld		Lubbock, TX 79464	P.O. Box 64244	DC Cone Trust	Marilyn Cone Trustee	3. Article Addressed to:	■ The Return Receipt will show to whom the article was delivered and the date delivered.	Write "Return Receipt Requested" on the mailpiece below the article number.	#Attach this form to the front of the malipiece, or on the back if space does not	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4s, and 4b, Print your name and address on the reverse of this form so that we can return this card to your.
102595-97-B-0179 Domestic Return Receipt	Field APKSt Cont 3	and fee is paid)	7. Date of Delivery (C) (SEC EX)X	☐ Return Receipt for Werchandise ☐ COD	Registered	4b. Service Type	2443 810 286		0	pumber. 2 Restricted Delivery	e does not 1. [Addressee's Address 3	I also wish to receive the following services (for an extra fee):

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Is your RETURN	ADDRESS completed on th	6 LGAGLES SIGE:
5. Received By: (Print Name) 6. Signature: (Addressee or Agent) X PS Form 38 11. December 1994	3. Article Addressed to: One P.O. Box 1629 Lovington, NM 88260	SENDER: «Complete items 1 and/or 2 for additional services. «Complete items 3, 4a, and 4b. «Complete items 3, 4a, and 4b. » Pirk your name and address on the reverse of this form so that we can return this expect you. «Attach this form to the front of the mailplece, or on the back if space does not attach this form to the front of the mailplece below the article number. «Write 'Return Receipt Requested' on the mailplece below the article number. «Write 'Return Receipt Requested' on the mailplece was delivered and the date
Field APHS+ Conv#3 102595-97-B-0179 Domestic Return Receipt	cle Number L 43 810 391 Al Certified gegins of Delivery B of Delivery	an return this does not the date the da

US Postal Service

Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Servementh G. Cone
Steel & Minist 1310
Midland, TX 79702

Post Office, State, & ZIP Code

Postage

Certified Fee

Special Delivery Fee

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Return Receipt Showing to Whom, Date, & Addressee's Address

TOTAL Postage & Fees

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PS Form 3811 , December 1994	6. Signature (Addressee or Agent)	5. Received By: (Print Name)		فن	Midland, TX 79702	P.O. Box 11310	3. Article Addressed to:	The Return Receipt will show to whom the anual was conversed and the delivered.	write "Return Receipt Requested" on the malipiece below the article number	card to you. Attach this form to the front of the mailpiece, or on the back if space does not	SENDER: «Complete items 1 and/or 2 for additional services. «Complete items 3, 4s, and 4b. »Print your name and address on the reverse of this form so that we can return this	
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PS Form 3811/ December 1994 102	6. Sighadura: (Addrassee of Again) W	5. Received By: (Print Name)	<i>Y</i>		Los Ángeles, CA 90067	1801 AVO of the Stars, Suite 446	Katherine Const Keck	3. Article Addressed to:	delivered.	 Write "Return Receipt Requested" on the malipiece below the article number. The Beturn Receipt will show to whom the article was delivered and the date. 	 Attach this form to the front of the mailpiece, or on the back if space does not narm? 	Complete items 1 and/or 2 for additional services. Complete items 3, 4s, and 4b. Print your name and addless on the reverse of this form so that we can return this card in your.	71
102595-97-B-0179	Field APKSt. Con#3	8. Addressee's Address (Only if requested and fee is paid)	7. Date of Delivery	☐ Return Receipt for Merchandise ☐ COD	☐ Registered	4b. Service Type	810 295	4a. Article Number	Consult postmaster for fee.	2. Restricted Delivery	1. Addressee's Address	I also wish to receive the following services (for an extra fee):	

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ls	your RE	TURN	I ADDR	ESS	compl	eted or	Ue tevelse side i		
PS Form 3811, December 1994	6. Signature Addressee or Agent) X	5. Received By: (Print Name)	**	i	Midland, TX 79702	Addressed to	SENDER: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we can return this card to you. Attach this form to the front of the mailpiece, or on the back if space does not permit. Write 'Heium Receipt Requested' on the mailpiece below the article number. Write 'Return Receipt will show to whom the article was delivered and the date delivered.		Z US Posta Recei No Insura Do not us Sent to Fuel StreP Au Post Office Postage Certified Fo
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PS Form 3811 , December 1994	6. Signatura: (Addressee of Agent) X D L L L M	5. Received By: (Print Name)	Flo Brown	muand, 10, 1942)	8610 Miami Ave.	Flo Scott Brown	C. Tibero Tavil bosed to.	3 Article Addressed to:	delivered.	Write "Return Receipt Requested" on the mailpiece below the article number	=Attach this form to the front of the mailpiece, or on the back if space does not	SCINDED: Complete items 1 and/or 2 for additional services. Complete items 3, 4a, and 4b. Print your name and address on the reverse of this form so that we can return this	
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PS Form 3811 , December 1994	(Addressee or Agent)	5. Received By: (Print Name)	Roso Leenvisk!	76117 Worth, TX 76117	4404 Odessa Ave.	c/o Mary Invinsey	ochizanoeri		3. Article Addressed to:	ING HOUTH HOCOLD WILL SHOW TO WINDIN USE SUICE WES CONVENED OF CONC. CONTROL OF CO	while 'Return Receipt Requested" on the maliplece below the article number.	Attach this form to the front of the malipiece, or on the back if space does not	Complete items 3, 4s, and 4b. Print your name and address on the reverse of this form so that we can return this Print your name and address on the reverse of this form so that we can return this	SENDER:
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US Postal Service Receipt for Certified Mail
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Peri Office State 17 78 78 717 \$ Postage Certified Fee Special Delivery Fee Restricted Delivery Fee PS Form 3800, April 1995 Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom, Date, & Addressee's Address TOTAL Postage & Fees \$ Postmark or Date

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Fit. Worth, TX 76117 teurT nositied historie Lavena Howard Trustee No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to Receipt for Certified Mail

US Postal Service TOO OTO EAH Z

PS FORMER HIS BEAM WOLVE TO THE TOTAL OF THE PROPERTY OF THE P	6. Signature: (Addressee of Agent) CO	5. Received By: (Print Name)		Ft. Worth, TX 76117	Joan Garrison Trust	Lavena Howard Trustee	3. Article Addressed to:	delivered.	Write "Return Receipt Requested" on the malipiece below the article number. The Bellum Receipt will show to whom the article was delivered and the date	 Attach this form to the front of the mailpiece, or on the back if space does not name. 	SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4a, and 4b: "Print your name and address on the reverse of this form so that we can return this carri to your.
2595-97-8-0179 Don	Field APK	8. Addressee's Ad and fee is paid)	7. Date of Delivery	☐ Express Mail ☐ Return Receipt fo	☐ Registered	4b. Service Type	4a. Article Number				
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Is your RETURN ADDRESS completed on the reverse side?

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No Insurance Coverage Provided.
Do not use for International Mail (See reverse) Sent to
Constance Cobb Keen Strep94 Suppe94th Street \$ Postage Certified Fee Special Delivery Fee Restricted Delivery Fee PS Form 3800, April 1995 Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom Date, & Addressee's Address TOTAL Postage & Fees \$ Postmark or Date

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ls your	<u>return a</u>	DDRES	S com	pieted ·	on the reve	erse side?
6. Signature: (Addressee or Agent) X PS Form 3611, December 1994		Midland, TX	415 w. wall St	1. Article Addressed to:	Attach this form to the front of the mailpiece, or on the back if space does not permit. Write "Return Receipt Requested" on the mailpiece below the article number. The Return Receipt will show to whom the article was delivered and the data delivered.	SENDER: "Complete items 1 and/or 2 for additional services. "Complete items 3, 4s, and 4b. "Print your name and address on the reverse of this form so that we can return this card to you.
Fic of MP Stor #5 102595-97-B-0179 Domestic Return Receipt	8. Addressee's Address (Only if requested kand fee is paid)	☐ Return Receipt for Merchandise ☐ COD use 17. Date of Delivery		4a. Article Number 2. 4443 810 500 E	• number. • number. • Consult postmaster for fee. • Delivery • Delivery	I also wish to receive the following services (for an extra fee):

edEx. USA Airbill

9T66054424 Marie

The transfer of the transfer o	actual loss in a limity minimer. Incl. injurio trecover iron us for any loss and other forms value of the package, loss of sales, interest, portin, attorney's flees, costs, and other forms of demage, whether direct, incidental, consequential, or special, and is limited to the greater of SIXD or the declared value but channel exceed actual documented loss. The maximum declared walue for any feetile, latter and FeGEV Pals, SIXD. Tederal Express nay, upon your request, and with some limitations, refund all transportation charges paid.	arrives conditions, Updared value, and unit of utability — by using this Autos, qui agree to the savice conditions in our current Servee 6 (bild or U.S.) iovernment Service 6uide. Both are available on reputs: SEE BACK OF SENDER'S COPY OF THIS ABRILL FOR INVENIMATION AND ADDITIONAL TERMS. Ye will not be responsible for any claim in excess 6100 per package whether he result of loss, damage, or delay, non-delivery, misdelivery, or misinformation,
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Special Handling		2 Your Internal Billing Reference Information (Optional) (First 24 characters will appear on invoice)
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NEW FedEx First Overnight (Earliest next business morning defor (Higher rates apply)	Phone (505) 748-1471	Wender's Robert Bullock
42 Express Package S. EdEx Priority Overnight Next business morning)	Sender's FedEx Account Number 1205—7980—0	1 From (please print) ate 4-1-98 Sender's FedEx Account N
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the result of loss, claimage or delay, non-delinery, misdelinery, or mismormation, linear your requires contribute details. Service Guide for further details. $\begin{array}{ll} \text{Questions?} \\ \text{Call 1-800-Go-FedEx} \text{ (1-800-463-3339)} \end{array} \qquad \begin{array}{ll} \text{The World} \\ \text{The World} \\ \text{Service Guide for further details.} \end{array}$

Sender's Copy

SERVICE INCASSESSED AND ASSESSED ASSESSED	tring a valua higher than \$100 per shipment, you pay an additional charge. See SERVICE IS, DECLARED YALUE AND LIMIT OF LIABILITY section for further information.	ig a value higher than \$100 per ship DECLARED VALUE AND LIMIT OF
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Exp. Date		
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*FedEx Letter Rate not available. Minimum charge: One pound FedEx 2Day rate.	o select locations)	V FedEx First Overnight set next business morning delivery to select locations) or rates apply)
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Delivery commitment may be later in some areas.	ICB Packages under 150 lbs.	press Package Service

1 2 3		RTIGLE XVI. CELLANEOUS
4 5 6	This agreement shall be binding upon and s respective heirs, devisees, legal representative	shall inure to the benefit of the parties hereto and to their ves, successors and assigns.
7 8 9	This instrument may be executed in any a an original for all purposes.	number of counterparts, each of which shall be considered
10 11 12	IN WITNESS WHEREOF, this agreement s	shall be effective as ofday of,
13 14 15	<u>O</u> :	PERATOR
16 17		YATES PETROLEUM CORPORATION
18 19		Ву:
20	NON-	OPERATORS
21 22	YATES DRILLING COMPANY	ABO PETROLEUM CORPORATION
23 24 25	Ву:	Ву:
26 27 28	MYCO INDUSTRIES, INC.	UMC PETROLEUM CORPORATION
29	Ву:	Ву:
30 31 32 33	ROY. G. BARTON JR. TRUSTEE OF R.G. BARTON REVOCABLE TRUST	ON,. MARK L. SHIDLER, INC.
34 35	By:	Ву:
36 37 38 39	BRISTOL RESOURCES CORPORATION	FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD.
40 41	By:	Ву:
42 43 44	A.L. CONE PARTNERSHIP	FUEL PRODUCTS, INC.
45 46	Ву:	Ву:
47 48 49	AMERISTATE OIL & GAS, INC. AMERISTATE EXPLORATION L.L.C.	MARILYN CONE TRUSTEE FOR D.C. CONE TRUST
50 51 52	Ву:	Ву:
53 54 55 56	S.E. CONE, JR.	KATHERINE CONE KECK
57 58 59 60	MARJORIE CONE KASTMAN	CLIFFORD CONE

JOHN F. HERBIG, JR.

61 62

KENNETH G. CONE

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

NON-OPERATORS

AMERIND OIL COMPANY LTD.	HEIRS OF TOM W. SCHNAUBERT
Ву:	Ву:
HEIRS OF LUCRETIA E. CONLON	
Ву:	
FLO SCOTT BROWN	DAN FIELD
CONSTANCE COBB KEEN	JOAN GARRISON TRUST

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

STATE OF NEW MEXICO)		
COUNTY OF EDDY	: §)		
	ent was acknowledged before me this		_, 1998 by
CORPORATION, a New Mexic	,o corporation, on behalf of said corpo	for YATES PETROLEUM pration.	
My commission expires:	•		
	· · · · · · · · · · · · · · · · · · ·	Notary Public	
STATE OF NEW MEXICO)		
COUNTY OF EDDY	:§)		
The foregoing instrume	ent was acknowledged before me this	day of	
1998, by Peyton Yates, Attorney	-in-Fact for Yates Drilling Company, k Yates, Jr., Attorney-in-Fact for My	John Yates, Jr., Attorney-in-Fact	
My commission expires:		Notary Public	
		Notary Fublic	
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The foregoing instrume	nt was acknowledged before me this		
My commission expires:			
• '		Notary Public	



except when authorized in writing by the American Association of Petrolomic Laborasis

OPERATING AGREEMENT

DATED

November 26, 1997,

OPERATOR_	Yates	Petroleum	Corporation
CONTRACT	AREA	Township	16 South, Range 35 East, NMPM
		Section 2	2: Lots 11, 12, 13, 14, SW/4
COUNTY OF	R Pankish k C)F <u>Le</u>	ea STATE OF New Mexico

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OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico corporation, 105 S. 4th St., Artesia, N.M. hereinafter designs

, hereinafter designated and

referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

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WITNESSETH:

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WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

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NOW, THEREFORE, it is agreed as follows:

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ARTICLE I. **DEFINITIONS**

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As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

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ARTICLE II. **EXHIBITS**

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The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- 🛛 A. Exhibit "A", shall include the following information: 51
 - (1) Identification of lands subject to agreement,
 - (2) Restrictions, if any, as to depths or formations,
 - (3) Percentages or fractional interests of parties to this agreement,
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
 - (5) Addresses of parties for notice purposes.
 - ☐ B. Exhibit "B", Form of Lease.
- X C. Exhibit "C", Accounting Procedure. 58
- X D. Exhibit "D", Insurance. 59
- X E. Exhibit "E", Gas Balancing Agreement. 60
- [X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities. 61

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If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III. INTERESTS OF PARTIES

A. Oil and Gas Interests:

 If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

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Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

- (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and
- (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and
- (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and
- (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.
- 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:
- (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and
- (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
- 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

YATES PETROLEUM CORPORATION, 105 South 4th St., Artesia, N.M. 88210

Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement dusthall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the <u>lst</u> day of <u>August</u>, 1998, Operator shall commence the drilling of a well for oil and gas at the following location:

 Township 16 South, Range 35 East, NMPM Section 2: 3300' FSL and 760' FWL Lea County, New Mexico

 and shall thereafter continue the drilling of the well with due diligence to test the Morrow formation at 12,375.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

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B. Subsequent Operations:

- 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.
- 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 200 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C. and

200 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

 Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

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Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event any party hereto is not at any time taking or marketing its share of gas production and Operator is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such party's share of gas production, or in the event any party has contracted to sell its share of gas produced from the contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and incorporated herein shall automatically become effective.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

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1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2, hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning parties, shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as the number of the cost of plugging and abandoning. quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval of intervals of the or includes formation or formations then open to production. If the interest of the abandoning party parties an an oil and gas interest, such party shall execute and deliver to the non-abandoning party line oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

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ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

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A. Liability of Parties:

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The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners. It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

B. Liens and Payment Defaults:

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Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's including reasonable attorney fees in the event of suit to collect any delinquency, share of oil and/or gas until the amount owed by such Non-Operator/plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

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C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month, party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

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D. Limitation of Expenditures:

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1. <u>Drill or Deepen:</u> Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

- Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

- Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.
- 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 1/8 of 8/8ths

due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit A, such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well of the shut-ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so, notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

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Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well; thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of under the party, the assigned interest shall

 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

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Each party who participates in the purchase of a renewal lease shall be given an assignment/of its proportionate interest therein by the acquiring party.

 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. The provisions of this Article VIII-B shall only apply to leases, or portions of leases, located within the Unit Area.

C. Acreage or Cash Contributions:

D. Subsequently Created Interest:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

 2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

G. Preferential Right to Purchase:

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Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE IX. INTERNAL REVENUE CODE ELECTION

 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X. CLAIMS AND LAWSUITS

ARTICLE XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and interest.

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Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 180 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 120 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV. OTHER PROVISIONS

- A. Not included.
- B. Not included.
- C. Not included.

D. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they have been expense attributable to the non-participating parties in the proportion that they have the expense attributable to the non-participating parties in the proportion that they have been expense attributable to the the participating parties in the non-participating parties' interest.

- E. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser. It is expressly agreed if prior written consent is given to a party selling to themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell at the same or higher price. at the same or higher price.
- F. Prior to commencement of any well drilled under this agreement, each non-operator must tender to the operator its share of dry hole cost, as set out on Authority for Expenditure proposing such well.
- This Operating Agreement shall supercede that certain Operating Agreement dated January 2, 1985 known as the Townsend Operating Agreement - Mesa Petroleum Co., Operator.

G. ARTICLE XV. OTHER PROVISIONS

Cost Allocation Formula

The entire cost of drilling the well will be initially borne by the working interest owners of the Deep Unit with no right to be reimbursed by the working interest owners of the shallow unit, unless the well is to be completed in the Shallow Unit in which case the working interest owners of the shallow unit will reimburse the working interest owners of the Deep Unit in accordance with the following formula:

All Pre-casing Point Costs which can be isolated to the Shallow Unit or the Deep Unit, (e.g., logging, testing, coring, fishing, etc.) will be paid for by the participating owners of those particular zones. All other Pre-casing Point Costs ("remaining costs") shall be borne by various participating owners, according to their respective participating interests in the units involved as follows:

Participants in >1 x Footage to base of Shallow Unit x REMAINING COSTS the Shallow Unit 2 TOTAL DEPTH

plus: 100% x Footage from base of Shallow x REMAINING COSTS

Unit to Total Depth

TOTAL DEPTH

Should a dual completion attempt be made in both the Deep Unit and the Shallow Unit, all completion costs that can be isolated to the Deep or Shallow Units shall be paid for by the participating owners of those units. All other costs, with the exception of casing and tubing shall be paid for equally by the participants in Shallow Unit and the Participants in the Deep Unit. All casing and tubing shall be paid for as follows:

Average costs of casing and tubing from the surface to the base of the Shallow Unit:

Participants in the Shallow Unit - 1/2; Participants in the Deep Unit - 1/2.

Average costs of casing and tubing from the Base of the Shallow Unit to total depth: Participants in the Deep Unit - 100%.

 ▶	ARTICLE XVI. MISCELLANEOUS
This agreement shall be binding upon ar respective heirs, devisees, legal representations	nd shall inure to the benefit of the parties hereto and to tatives, successors and assigns.
This instrument may be executed in an original for all purposes.	ny number of counterparts, each of which shall be conside
	nt shall be effective as ofday of
9	
	<u>OPERATOR</u>
	YATES PETROLEUM CORPORATION
	Ву:
<u>NO</u>	N-OPERATORS
YATES DRILLING COMPANY	ABO PETROLEUM CORPORATION
Ву:	Ву:
MYCO INDUSTRIES, INC.	UMC PETROLEUM CORPORATION
Ву:	Ву:
ROY. G. BARTON JR. TRUSTEE OF R.G. BASR. & O. BARTON REVOCABLE TRUST By:	By:
SR. & O. BARTON REVOCABLE TRUST	
SR. & O. BARTON REVOCABLE TRUST By:	By:FIVE STATES 1995 - B, LTD.
SR. & O. BARTON REVOCABLE TRUST By: BRISTOL RESOURCES CORPORATION	By: FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD.
SR. & O. BARTON REVOCABLE TRUST By: BRISTOL RESOURCES CORPORATION By:	By: FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD. By:
SR. & O. BARTON REVOCABLE TRUST By: BRISTOL RESOURCES CORPORATION By: A.L. CONE PARTNERSHIP	By: FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD. By: FUEL PRODUCTS, INC.
SR. & O. BARTON REVOCABLE TRUST By: BRISTOL RESOURCES CORPORATION By: A.L. CONE PARTNERSHIP By: AMERISTATE OIL & GAS, INC.	By: FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD. By: FUEL PRODUCTS, INC. By: MARILYN CONE TRUSTEE FOR
BRISTOL RESOURCES CORPORATION By: A.L. CONE PARTNERSHIP By: AMERISTATE OIL & GAS, INC. AMERISTATE EXPLORATION L.L.C.	By: FIVE STATES 1995 - B, LTD. FIVE STATES 1995 - D, LTD. By: FUEL PRODUCTS, INC. By: MARILYN CONE TRUSTEE FOR D.C. CONE TRUST

KENNETH G. CONE

JOHN F. HERBIG, JR.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

NON-OPERATORS

AMERIND OIL COMPANY LTD.	HEIRS OF TOM W. SCHNAUBERT
By:	Ву:
HEIRS OF LUCRETIA E. CONLON	
Ву:	
FLO SCOTT BROWN	DAN FIELD
CONSTANCE COBB KEEN	JOAN GARRISON TRUST

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

STATE OF NEW MEXICO)		
COUNTY OF EDDY	: §)		
The foregoing instrume	ent was acknowledged before me this	day of	_, 1998 by
CORPORATION, a New Mexic	,	ration.	
My commission expires:			
		Notary Public	
STATE OF NEW MEXICO)		
COUNTY OF EDDY) : §)		
1998, by Peyton Yates, Attorney	nt was acknowledged before me this -in-Fact for Yates Drilling Company, k Yates, Jr., Attorney-in-Fact for My orporation.	John Yates, Jr., Attorney-in-Fact	
My commission expires:		Notary Public	
STATE OF) :§		
COUNT OF) 		
	nt was acknowledged before me this 98 by		
forsaid corporation.	98 by, a	corporation, on b	ehalf of
•			
My commission expires:		Notary Public	
STATE OF			
COUNT OF	:§)		
	nt was acknowledged before me this 98 by		
My commission expires:			
		Notary Public	
STATE OF) ;		
COUNT OF			
The foregoing instrume, 19	nt was acknowledged before me this 98 by	day of	
My commission expires:			

Notary Public

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND OCEAN ENERGY, INC., "NON-OPERATOR".

EXHIBIT "A"

I. CONTRACT LANDS:

Township 16 South, Range 35 East, NMPM Section 2: Lots 11, 12, 13, 14, SW/4 Lea County, New Mexico

II. DEPTH RESTRICTION:

Shallow Unit - From surface to 11,000'

Deep Unit - From 11,000' below the surface to 100' below total depth drilled in the initial test well.

III. PERCENTAGE INTERESTS OF PARTIES UNDER THE AGREEMENT:

Shallow Unit - Lot 13

Ocean Energy, Inc.

Yates Petroleum Corporation	70.00%
Yates Drilling Company	10.00%
Abo Petroleum Corporation	10.00%
Myco Industries, Inc.	<u>10,00%</u>
	100.00

<u>Deep Unit</u> - Lots 11, 12, 13, 14, SW/4

Five States 1995-B Ltd.	5.4026%
Five States 1995-D Ltd.	5.4026%
Mark L. Shidler, Inc.	.2732%
Bristol Resources Corp.	3,0371%
A.L. Cone Partnership	.4150%
S.E. Cone, Jr.	.1491%
Katherine Cone Keck	.1445%
Roy G. Barton, Jr., Trustee	.1383%
Marjorie Cone Kastman	.0615%
Clifford Cone	.0369%
Kenneth G. Cone	.0369%
Amerind Oil Company Ltd.	7.1810%
Ameristate Oil & Gas Inc.	.0072%
Fuel Products, Inc.	.0072%
John F. Herbig, Jr.	.0072%
Flo Scott Brown	.0868%
Dan Field	1.5625%
Marilyn Cone, Trustee DC Cone Trust	.1563%
Constance Cobb Keen	.0130%
Heirs of Tom W. Schnaubert	.0065%
Laverna Howard Trustee,	
Joan Garrison Trust	.0065%
Heirs of Lucretia E. Conlon	.3906%
Yates Petroleum Corporation, et al	37.9775%

37.5000%

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND OCEAN ENERGY, INC., "NON-OPERATOR".

IV. LEASES SUBJECT TO THIS AGREEMENT:

State of New Mexico VA-604

Held by Production

Lessee: Yates Petroleum Corporation, et al

Covering: Township 16 South, Range 35 East, NMPM

Section 2: Lots 11, 13, NW/4SW/4

Lea County, New Mexico

State of New Mexico E-7720

Held by Production

Lessee: Ocean Energy, Inc.

Covering: Township 16 South, Range 35 East, NMPM

Section 2: Lot 14, E/2SW/4 Lea County, New Mexico

3. State of New Mexico E-3003

Held by Production

Lessee: Five States 1995-B & D, Ltd., et al

Covering: Township 16 South, Range 35 East, NMPM

Section 2: Lot 12 Lea County, New Mexico rights from 11,000' to 12,375'

4. Lessor: Mike Field

Lessee: Amerind Oil Company Ltd.

Date: June 15, 1994 as extended December 24, 1997

Term: Four years, as extended Mineral Int. 1/8 mineral interest

Recorded: Book 502, Page 340, as extended Book 846, Page 338

Lessor: Charles R. Jones, separate property, et al

Lessee: Amerind Oil Company, Ltd.

Date: May 16, 1995 Term: Three years

Mineral Int. 1/16 mineral interest Recorded: Book 517, Page 147

6. Lessor: Owen W. McWhorter, Jr., separate property

Lessee: Amerind Oil Company, Ltd.

Date: June 14, 1994 Term: Five years

Mineral Int. 1/960 mineral interest Recorded: Book 502, Page 332

7. Lessor: H.D. White, separate property Lessee: Amerind Oil Company, Ltd.

Date: June 2, 1994 Term: Five years

Mineral Int. 1/144 mineral interest Recorded: Book 502, Page 336

8. Lessor: Elova L. Miller, separate property
Lessee: Amerind Oil Company, Ltd.

Date: June 16, 1994 Term: Five years

Mineral Int. 1/288 mineral interest Recorded: Book 502, Page 348

9. Lessor: Nova Jean Marley

Lessee: Amerind Oil Company, Ltd.

Date: June 17, 1994 Term: Five years

Mineral Int. 1/1152 mineral interest Recorded: Book 502, Page 350 10. Lessor: Mary Ann Gathings

Lessee: Amerind Oil Company, Ltd.

Date: June 27, 1994 Term: Five years

Mineral Int. 1/144 mineral interest Recorded: Book 502, Page 352

11. Lessor: Rita D. Schenck, Klein Bank & Rowdy Schenck, Co-Trustees of Trust B under

the Kirby D. Schenck & Rita D. Schenck Revocable Trust

Lessee: Amerind Oil Company, Ltd

Date: May 1, 1995 Term: Three years

Mineral Int. 3/32 mineral interest Recorded: Book 518, Page 371

12. Lessor: Rita D. Schenck, William C. Schenck & Western Commerce Bank,

Co-Trustees of Trust A-2

Lessee: Amerind Oil Company, Ltd.

Date: May 1, 1995 Term: Three years

Mineral Int. 3/32 mineral interest Recorded: Book 518, Page 376

13. Lessor: Weigl Family Living Trust dated 9-25-97

Lessee: Amerind Oil Company, Ltd.

Date: June 2, 1994 Term: Five years

Mineral Int. 1/144 mineral interest Recorded: Book 502, Page 334

14. Lessor: Emory Isenberg, separate property
Lessee: Amerind Oil Company, Ltd.

Date: July 5, 1994

Term: Three years, with option to renew for two years

Mineral Int. 1/48 mineral interest Recorded: Book 503, Page 188

15. Lessor: Charels R. Wiggins

Lessee: Amerind Oil Company, Ltd.

Date: July 5, 1994

Term: Three years, with option to renew for two years

Mineral Int. 1/48 mineral interest Recorded: Book 503, Page 821

16. Lessor: Mary Scott Gould

Lessee: Amerind Oil Company, Ltd.

Date: May 11, 1995 Term: Three years

Mineral Int. 1/144 mineral interest Recorded: Book 516, Page 148

17. Lessor: Tom R. Cone

Lessee: Amerind Oil Company, Ltd.

Date: May 16, 1995 Term: Three years

Mineral Int. 1/80 mineral interest Recorded: Book 516, Page 483

18. Lessor: William H. Griswold
Lessee: Amerind Oil Company, Ltd.

Date: May 24, 1995 Term: Three years

Mineral Int. 1/80 mineral interest Recorded: Book 517, Page 391

19. Lessor: Elaine B. Flint Grandchildren's Trust Benefit

Melissa Kay Griswold

Lessee: Amerind Oil Company, Ltd.

Date: May 24, 1995 Term: Three years

Mineral Int. 1/80 mineral interest Recorded: Book 517, Page 393 20. Lessor: David D. Griswold

Lessee: Amerind Oil Company, Ltd.

Date: May 24, 1995
Term: Three years
Mineral Int. 1/80 mineral interest
Recorded: Book 517, Page 395

21. Lessor: Elaine B. Flint Grandchilren's Trust Benefit

Eloise F. Griswold Trust 8-21-71

Lessee: Amerind Oil Company, Ltd.

Date: May 24, 1995
Term: Three years
Mineral Int. 1/40 mineral interest
Recorded: Book 517, Page 397

22. Lessor: Cathie C. McCown, separate property

Lessee: Amerind Oil Company, Ltd.

Date: May 16, 1995 Term: Three years

Mineral Int. 1/80 mineral interest Recorded: Book 518, Page 367

23. Lessor: Marion S. Bennett, Ind. Exec. and sole beneficiary under the will of

Nell C. Shelton

Lessee: Amerind Oil Company, Ltd.

Date: May 20, 1995 Term: Three years

Mineral Int. 1/640 mineral interest Recorded: Book 518, Page 369

24. Lessor: Hurwitz Living Trust dated 9-27-91

Lessee: Amerind Oil Company, Ltd.

Date: August 17, 1994 Term: Five years

Mineral Int. 1/48 mineral interest Recorded: Book 505, Page 410

25. Lessor: Lawrance C. Dotson, Ind. Exec. Estate of Mary Joe Dotson

Lessee: Amerind Oil Company, Ltd.

Date: July 5, 1994 Term: Five years

Mineral Int. 1/144 mineral interest Recorded: Book 510, Page 665

26. Lessor: Carl A. Schellinger, et ux

Lessee: Ameristate Oil & Gas, Inc. (1/3), Fuel Products, Inc. (1/3) and

John F. Herbig, Jr. (1/3)

Date: May 23, 1996 Term: Two years

Mineral Int. 1/576 mineral interest Recorded: Book 733, Page 254

27. Lessor: Roy G. Barton and Opal Barton, Revocable Trust dated 1-28-82

Lessee: Ameristate Exploration, L.L.C.

Date: May 23, 1996 Term: Two years Mineral Int. 3/64

Recorded: Book 733, Page 257

28. Lessor: S.E. Cone, Jr.

Lessee: Amerind Oil Company, Ltd.

Date: February 4, 1997 as extended December 22, 1997

Term: Two years, as extended Mineral Int. 97/1920 mienral interest

Recorded: Book 781, Page 92 as extended Book 846, Page 336

29. Lessor: Madlyn Dotson Lansford, separate property

Lessee: Amerind Oil Company, Ltd.

Date: March 27, 1997
Term: Three years

Mineral Int. 1/144 mineral interest Recorded: Book 792, Page 422

30. Lessor: Harry H. Jung

Lessee: Amerind Oil Company, Ltd

Date: March 27, 1997 Term: Three years

Mineral Int. 1/1152 mineral interest Recorded: Book 799, Page 604

31. Lessor: Clara C. Carmichael Living Trust dated 4-19-93

Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%,

Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%

Date: February 12, 1998

Term: One year

Mineral Int. 1/288 mineral interest Recorded: Book 862, Page 14

32. Lessor: Carlton J. Carmichael, Jr., Trustee under the Last Will and Testament of

Carlton J. Carmichael

Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%

Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%

Date: March 5, 1998 Term: One year

Mineral Int. 1/288 mineral interest Recorded: Book 863, Page 174

33. Lessor: W. Chris Barnhill, et ux

Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%,

Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%

Date: February 12, 1998

Term: One year

Mineral Int. 1/32 mineral interest Recorded: Book 861, Page 337

34. Lessor: Mary Carolyn Johnston

Lessee:
Date:
Term:
Mineral Int.
Recorded:

35. Lessor: Charles M. Fuchtman

Lessee:
Date:
Term:
Mineral Int.
Recorded:

*Note: The legal description for leases No. 4-33 is:

Township 16 South, Range 35 East

Section 2: SW/4SW/4 Lea County, New Mexico

V. ADDRESSES OF THE PARTIES:

Ocean Energy, Inc. 410 17th Street, Suite 1400 Denver, Colorado 80202

Mark L. Shidler, Inc. 911 Walker, Suite 565 San Jacinto Building Houston, Texas 77002

Five States 1995 - B, Ltd. Five States 1995 - D, Ltd. 4925 Greenville Ave. #1220 Dallas, Texas 75206 Attn: Ms. Ann McConville

S. E. Cone, Jr. P.O. Box 10321 Lubbock, TX 79404

Katherine Cone Keck 1801 Ave. of the Stars, Suite 446 Los Angeles, CA 90067

Roy G. Barton Jr., Trustee of R.G. Barton, Sr. & O. Barton Revocable Trust P.O. Box 978 Hobbs, NM 88241

Clifford Cone P.O. Box 1629 Lovington, NM 88260

Fuel Products, Inc. P.O. Box 3098 Midland, TX 79702

Marilyn Cone Trustee DC Cone Trust P.O. Box 64244 Lubbock, TX 79464

Lavena Howard Trustee Joan Garrison Trust 5221 Ira Ft. Worth, TX 76117

Heirs of Lucretia E. Conlon c/o Charles M. Fuchtman P.O. Box 10109 Huntsville, AL 35801 Ameristate Oil & Gas, Inc. Ameristate Exploration L.L.C. 1211 W. Texas Midland, TX 79701

Bristol Resources Corporation 6655 S. Lewis, Suite 200 Tulsa, OK 74136 Attn: Mr. Ed. Watts

A. L. Cone Partnership P.O. Box 3457, Briercroft #12 Lubbock, TX 79452

John F. Herbig, Jr. Suite 280, One Marienfeld Place Midland, TX 79701

Amerind Oil Company, Ltd. 415 W. Wall St. Midland, TX 79701

Marjorie Cone Kastman P.O. Box 5930 Lubbock, TX 79408

Kenneth G. Cone P.O. Box 11310 Midland, TX 79702

Flo Scott Brown 8610 Miami Ave. Midland, TX 79423

Heirs of Tom W. Schnaubert c/o Mary Irwinsey 4404 Odessa Ave. Ft. Worth, TX 76117

Constance Cobb Keen 4915-D 94th Street Lubbock, TX 79424

Recommended by the Council of Petroleum Accountants Societies of Neeth America



EXHIBIT "C"

Attached to and made a part of that certain operating agreement dated November 26, 1997, between Yates Petroleum Corporation, "OPERATOR" and UMC Petroleum Corporation, Amerind Oil Company Ltd. and Mark L. Shidler, Inc., "NON-OPERATORS".

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.



II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of First Level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:
 -) Fixed Rate Basis, Paragraph 1A, or
 - () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.
- A. Overhead Fixed Rate Basis
 - (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5,400.00
Producing Well Rate \$ 540.00

- (2) Application of Overhead Fixed Rate Basis shall be as follows:
 - (a) Drilling Well Rate
 - [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
 - [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days
 - [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.
 - (b) Producing Well Rates
 - [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:
 - (a) Development

Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$25,000.00 :

- A. 5 % of total costs if such costs are more than \$25,000.00 but less than \$100,000.00; plus
- B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

- (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
- (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or



(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "D"

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:

 Bodily Injury \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:

 Bodily Injury \$250,000.00 each person.

 \$500,000.00 each occurrence.

Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

- owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.
- 2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.
- 3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

- 5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.
- If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.
- 7. Notwithstanding the provisions of ¶6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.
- 8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.
- 9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contractcing officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-I) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001.