

May 3, 2002

### CERTIFIED MAIL/RRR

Robert J. Bullock, Sr., Trustee f b o  
Robert J. Bullock, Jr.  
C/O Carter Castell  
245 South Seguin  
New Braunfels, Texas 78139-5124

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Dear Mineral Owner:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, competing, stimulation and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the E/2 NE/4 of said Section 25 in 2.8571 net mineral acres, or 3.5714%, for a N/2 unit participation of 0.8928%.

A proposed form of our Operating Agreement is enclosed for your review and consideration.

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement

Robert J. Bullock, Sr., Trustee  
May 3, 2002  
Page Two

The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to enter into an oil and gas covering your mineral interest we would be happy to discuss such a transaction with you.

If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**



Dennis J. Hopkins, CPL  
Land Manager

**AGREED AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2002,  
for participation in the Well for the 0.8928% ownership vested in Robert J. Bullock,  
Sr., Trustee.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

# TMBR/Sharp



Drilling, Inc.

Drawer 10970  
Midland, Texas 79702-7970  
915.699.5050

July 1, 2002

Rick Montgomery  
Cotton Bledsoe Tighe & Dawson P.C.  
P. O. Box 2776  
Midland, Texas 79702-2776

Re: Robert J. Bullock, Sr., Trustee  
Blue Fin "25 No. 1 Well Proposal  
Lea County, New Mexico

Rick:

Our well proposal letter was sent to the above trustee, as trustee *f/b/o* Robert J. Bullock, Jr. in care of Carter Casteel. The return receipt was signed for May 7, 2002.

Mr. Casteel has sent a letter stating that he has been unable to locate Mr. Bullock. This was the only address of record on Mr. Bullock. A copy of Mr. Casteel's letter is enclosed for your reference. Based on this, when we do receive approval for the North-Half unit, the Bullock interest will be deemed to have been force-pooled and subject to such order.

This is being provided for your file and information. If there are any questions regarding it, please let me know.

Yours truly,

Dennis J. Hopkins

Enclosure

CASTEEL & CASTEEL, P.L.L.C.  
ATTORNEYS AND COUNSELORS AT LAW  
254 EAST MILL STREET  
NEW BRAUNFELS, TEXAS 78130-5118

TEL. (830)608-1611 FAX (830)608-0449

rec'd 07/01/02

ARTER CASTEEL

BARRON CASTEEL

June 27, 2002

Denise J. Hopkins  
TMBR/Sharp Drilling Corp.  
Drawer 10970  
Midland, Texas 79702-7970

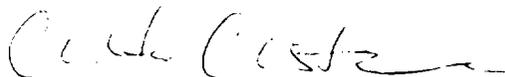
Re: Robert J. Bullock, Sr.. Trustee f/b/o  
Robert J. Bullock, Jr.  
Well Proposal - Blue Fin "25" No. 1(the "well")  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Dear Ms. Hopkins:

This letter is to advise your office that I am unable to locate Mr. Bullock with regards to the above mentioned matter.

Should you have any further questions please feel free to contact my office.

Sincerely,

  
CARTER CASTEEL

cc: Our File

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

7002 0460 0002 0073 5332

NEW BRAUNFELS, TX 78130

|   |                |   |
|---|----------------|---|
| Postage   | \$ 3.10        | UNIT ID: 0708<br><br>Postmark Here<br>Clerk: KHGFOG<br>05/04/02 |
| Certified Fee                                     | 2.10           |   |
| Return Receipt Fee<br>(Endorsement Required)      | 1.50           |   |
| Restricted Delivery Fee<br>(Endorsement Required) |                |   |
| <b>Total Postage &amp; Fees</b>                   | <b>\$ 6.70</b> |   |

**Sent To** Robert J. Bullock, Sr.  
 Street, Apt. No., or PO Box No. 245 South Seguin  
 City, State, ZIP+4 New Braunfels, TX 78139-5124

PS Form 3800, January 2001 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**ROBERT J. BULLOCK, SR.**  
**c/o CARTER CASTELL**  
**245 SOUTH SEGUIN**  
**NEW BRAUNFELS, TX 78139-5124**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  
*Jennifer Gonzalez*  Agent  Addressee

B. Received by (Printed Name) *Jennifer Gonzalez* C. Date of Delivery *5-7-02*

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number (Transfer from service label) **7002 0460 0002 0073 5332**

**EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.

**A. Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less  
  
Lea County, New Mexico

**B. Restrictions as to depth:**

None

**C. Parties subject to this Agreement and their respective percentages of interest:**

|                                 |                   |
|---------------------------------|-------------------|
| TMBR/Sharp Drilling, Inc.       | 99.10716%         |
| Robert J. Bullock, Sr., Trustee | 0.89284%          |
| <b>Total:</b>                   | <u>100.00000%</u> |

**D. Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970  
Telephone: (915) 699-5050  
Facsimile: (916) 699-5085

Robert J. Bullock, Sr., Trustee  
f/b/o Robert J. Bullock, Jr.  
c/o Carter Castell  
245 South Seguin  
New Braunfels, Texas 78139  
Telephone:  
Facsimile:

1 8. Other provisions

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who has prepared and circulated this form for execution, represents and warrants that the form was printed from and is in the exception stated below, identical to the VAPL Form 610RS 1989 Model Form Recording Supplement to Operating Agreement and Financing Statement as published in computerized form as Form On A Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles, have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of April 2002.

ATTEST OR WITNESS: OPERATOR  
\_\_\_\_\_  
UMBR Sharp Drilling, Inc.  
By: \_\_\_\_\_  
Title: Jeffery D. Phillips, President  
Date: \_\_\_\_\_  
Address: P O Box 10970, Midland, Texas 79702-7970

ATTEST OR WITNESS: NON-OPERATORS  
\_\_\_\_\_  
By: \_\_\_\_\_  
Title: Robert J. Bullock, Sr., Trustee  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

ATTEST OR WITNESS:  
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By: \_\_\_\_\_  
Title: \_\_\_\_\_  
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Address: \_\_\_\_\_

ATTEST OR WITNESS:  
\_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

**EXHIBIT "A"**

**Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.**

**Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less

Lea County, New Mexico

**Parties subject to this Agreement and their respective percentages of interest:**

|   |                   |
|---|-------------------|
| TMBR/Sharp Drilling, Inc.                                       | 99.10716%         |
| Robert J. Bullock, Sr., Trustee<br>f/b/o Robert J. Bullock, Jr. | 0.89284%          |
| <b>Total:</b>   | <u>100.00000%</u> |

**Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970

Robert J. Bullock, Sr., Trustee  
f/b/o Robert J. Bullock, Jr.  
c/o Carter Castell  
245 South Seguin  
New Braunfels, Texas 78139

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ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April, (year) 2002

~~\_\_\_\_\_ who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles \_\_\_\_\_, have been made to the form.~~

OPERATOR

TMBR/SHARP DRILLING, INC.

By: \_\_\_\_\_  
Jeffrey D. Phillips, President

NON-OPERATORS

By: \_\_\_\_\_  
Printed Name: Robert J. Bullock, Sr., Trustee  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)**

7002 0460 0002 0073 5325

OKLAHOMA CITY, OK 73154

|   |                |   |
|---|----------------|---|
| Postage   | \$ 3.50        | UNIT ID: 0708<br><br>Postmark Here<br>Clerk: KHGFOG<br><br>05/04/02 |
| Certified Fee                                     | 2.10           |   |
| Return Receipt Fee<br>(Endorsement Required)      | 1.50           |   |
| Restricted Delivery Fee<br>(Endorsement Required) |                |   |
| <b>Total Postage &amp; Fees</b>                   | <b>\$ 7.10</b> |   |

**Sent To**  
 Chesapeake Energy Corp.  
 Street, Apt. No.;  
 or PO Box No. P. O. BOX 18496  
 City, State, ZIP+4  
 Oklahoma City, OK 73154-0496

PS Form 3800, January 2001 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**CHESAPEAKE ENERGY CORP.  
P. O. BOX 18496  
OKLAHOMA CITY, OK 73154-0496**

2. Article Number  
(Transfer from service label)

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature **BRIAN IMES**  
 Agent  
 Addressee

B. Received by (Printed Name) *Brian Imes* C. Date of Delivery

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

7002 0460 0002 0073 5325

# Chesapeake

Land Department

May 22, 2002

**VIA UNITED PARCEL SERVICE**

Mr. Dennis Hopkins  
TMBR/Sharp Drilling, Inc.  
4607 West Industrial  
Midland, TX 79703

Re: Blue Fin "25" No. 1  
Section 25-16S-35E  
Lea County, New Mexico

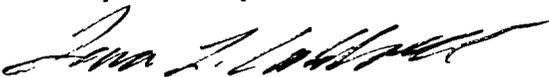
Dear Mr. Hopkins:

Enclosed please find company check number 294983 in the amount of \$6,389.00 representing prepayment of Chesapeake's portion of the costs to casing point for the drilling of the captioned well. Also enclosed are the executed AFE, the executed JOA signature pages and two modified JOA pages. Please initial the modified JOA pages and return copies to Lynda Townsend.

If you have any questions, please call me at (405) 879-9374.

Sincerely,

**Chesapeake Exploration Limited Partnership**



Sara L. Caldwell  
Land Tech

Enclosure

S:\NM-TXPAN\Letters\SLC\TMBR Sharp-Hopkins-20020522.doc

**TMBR/ Sharp Drilling, INC.**  
**AUTHORIZATION FOR EXPENDITURE**

AFE Number # 1 23-Apr-02

Company Name: [ ] State: New Mexico Country/Parish: Lea Location: 913' FNL & 924' FWL - Sec. 25, T16S, R.35E

| Account Code                           | INTANGIBLE DESCRIPTION                   | COST TO CASING POINT | COMPLETION COST  | TOTAL WELL COST    |
|--|--|----------------------|------------------|--------------------|
| 1                                      | Surveys, Permits, Bonds                  | 1,200                |                  | 1,200              |
| 2                                      | Roads Location/Damages                   | 30,000               |                  | 30,000             |
| 3                                      | Mob demo                                 | 27,000               |                  | 27,000             |
| 4                                      | Drilling Contract-                       |                      |                  |                    |
| 5                                      | Daywork 50days At \$8520/day             | 400,440              | 25,560           | 426,000            |
| 6                                      | Footage                                  |                      |                  |                    |
| 7                                      | Completion Limit: 15 days At \$ 2000/day |                      | 30,000           | 30,000             |
| 8                                      | Mud/Chemicals                            | 35,000               |                  | 35,000             |
| 9                                      | Water                                    | 18,000               | 3,000            | 21,000             |
| 10                                     | Cement/Cementing Services                | 20,000               | 36,000           | 56,000             |
| 11                                     | Fuel/Electricity/Generator/lights        | 28,200               | 1,800            | 30,000             |
| 12                                     | Bits                                     | 65,000               |                  | 65,000             |
| 13                                     | Reamers/ stabilizers                     | 15,000               |                  | 15,000             |
| 14                                     | Service Equipment                        | 2,000                | 5,000            | 7,000              |
| 15                                     | Equipment rentals                        | 10,000               | 35,000           | 45,000             |
| 16                                     | Wire line Unit                           |                      |                  |                    |
| 17                                     | Mud Logging/Paleo/Bioassay               | 18,000               |                  | 18,000             |
| 18                                     | Open Hole Logging                        | 25,000               | 25,000           | 50,000             |
| 19                                     | Drill Stem Testing and coring            | 20,000               |                  | 20,000             |
| 20                                     | Tubular Inspection/Testing               | 3,000                | 1,500            | 4,500              |
| 21                                     | Transportation (land)                    | 3,000                | 2,000            | 5,000              |
| 22                                     | Equipment inspection/testing             | 2,500                | 2,000            | 4,500              |
| 23                                     | Casing Crews/Tongs                       | 4,500                | 5,000            | 9,500              |
| 24                                     | Drilling Overhead                        | 6,500                | 1,500            | 8,000              |
| 25                                     | Supervision                              | 2,750                | 5,500            | 8,250              |
| 26                                     | Cased Hole Logging & Perf                |                      | 5,500            | 5,500              |
| 27                                     | Stimulation                              |                      | 100,000          | 100,000            |
| 28                                     | Production Testing                       |                      | 10,000           | 10,000             |
| 29                                     | Completion Fluids                        |                      | 2,500            | 2,500              |
| 30                                     | Fishing Tools, Supervisor                | 5,000                |                  | 5,000              |
| 31                                     | Contract labor                           | 2,500                | 3,000            | 5,500              |
| 32                                     | Insurance                                | 8,756                | 2,919            | 11,675             |
| 33                                     | Plug and Abandon                         | 15,000               |                  | 15,000             |
| 34                                     | Contingency (7%)                         | 53,784               | 21,195           | \$74,979           |
| <b>TOTAL INTANGIBLE ESTIMATED COST</b> |  | <b>\$822,130</b>     | <b>\$323,974</b> | <b>\$1,146,104</b> |

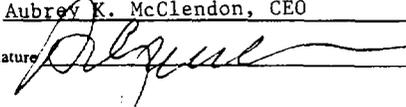
| TANGIBLE DESCRIPTION                 |   |                  |                  |                    |
|--------------------------------------|---|------------------|------------------|--------------------|
| 35                                   | Conductor                                   |                  |                  |                    |
| 36                                   | 500' of 13 3/8" 54.5 @ 15.50/FT             | 7,750            |                  | 7,750              |
| 37                                   | 5000' of 9 5/8" 40# @ 13.00/FT              | 65,000           |                  | 65,000             |
| 38                                   | Intermediate Csg                            |                  |                  |                    |
| 39                                   | Intermediate Csg                            |                  |                  |                    |
| 40                                   | 12,500' of 7" 26# @ 11.50/FT                |                  | 143,750          | 143,750            |
| 41                                   | 1500' of 4 1/2" 11.60# @ 5.75/ft.           |                  | 8,625            | 8,625              |
| 42                                   | 13800' of 2 7/8" 8.50# @ 3.20/FT            |                  | 44,160           | 44,160             |
| 43                                   | Tubing                                      |                  |                  |                    |
| 44                                   | Tubing                                      |                  |                  |                    |
| 45                                   | Wellhead Equipment                          | 4,200            | 9,000            | 13,200             |
| 46                                   | Float Equipment                             | 4,000            | 7,000            | 11,000             |
| 47                                   | Liner Equipment                             |                  | 12,000           | 12,000             |
| 48                                   | Pumping Unit / Base / Engine                |                  |                  |                    |
| 49                                   | Sucker rods, Polished Rods                  |                  |                  |                    |
| 50                                   | Producing Equipment, Tank Battery, Flowline |                  | 60,000           | 60,000             |
| 51                                   | Flowlines, Vavies, Fittings/Connections     |                  | 8,000            | 8,000              |
| 52                                   | Packers & Other Subsurface Tools            |                  | 6,500            | 6,500              |
| 53                                   | Compressor                                  |                  |                  |                    |
| 54                                   | Miscellaneous Sale Items                    |                  | 5,000            | 5,000              |
| 55                                   | Contingency (7%)                            | 5,667            | 21,282           | 26,949             |
| <b>TOTAL TANGIBLE ESTIMATED COST</b> |   | <b>\$86,617</b>  | <b>\$325,317</b> | <b>\$411,934</b>   |
| <b>TOTAL AFE ESTIMATED COST</b>      |   | <b>\$908,747</b> | <b>\$649,291</b> | <b>\$1,558,038</b> |

**APPROVAL AND ACCEPTANCE**

Participant Chesapeake Operating, Inc.

W.I. 0.7031%

Title Aubrey K. McClendon, CEO

Signature: 

Date May 15, 2002

IT IS RECOGNIZED THAT AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN THE HEREIN SET OUT.

I Wish to be covered by TMBR/Sharp's blow out insurance.

I DO NOT Wish to be covered by TMBR/Sharp's blow out insurance.

# TMBR/Sharp



Drawer 10970  
Midland, Texas 79702-7970  
• 5-699-5050

May 3, 2002

## CERTIFIED MAIL/RRR

Chesapeake Energy Corp.  
P. O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Gentlemen:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, completing, stimulation and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the W/2 NE/4 of said Section 25 in 2.2500 net mineral acres, or 2.8125%, for a N/2 unit participation of 0.7031%.

The leases owned by you and the associated ownership rights are set forth in greater detail on Exhibit “A”, attached hereto. A proposed form of Operating Agreement is enclosed for your consideration.

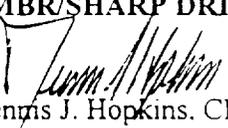
Chesapeake Energy Corp.  
May 3, 2002  
Page Two

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement. The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to farmout or enter into a term assignment of your leasehold interest we would be happy to discuss such a trade with you.

If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**

  
Dennis J. Hopkins, CPL  
Land Manager

AGREED AND ACCEPTED THIS 15th DAY OF May, 2002.  
for participation in the Well for the 0.7031% ownership vested in Chesapeake ~~Energy Corp.~~  
Operating, Inc.

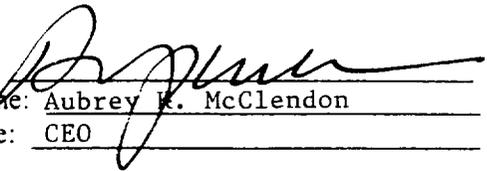
By:   
Name: Aubrey K. McClendon  
Title: CEO

EXHIBIT "A"

Attached to that certain Well Proposal Letter Agreement dated May 3, 2002 between TMBR/Sharp Drilling, Inc. and Chesapeake Energy Corp. as to lands located in the N/2 of Section 25-16S-35E, N.M.P.M., Lea County, New Mexico.

Lease Dated: November 11, 1998  
Recorded: Book 920, Page 128  
Extension: Book 1107, Page 481  
Lessor: Carl A. Schellinger et ux  
Lessee: Chalfant Properties, Inc.  
Legal Description: Township 16 South, Range 35 East, N.M.P.M.  
Section 25: W/2 NE/4

**ARTICLE VIII**  
**continued**

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be  
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions  
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-  
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
6 consideration shall not be deemed a contribution as contemplated in this Article VIII C.

7  
8  
9 **~~D. Maintenance of Uniform Interests:~~**

10 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~  
11 ~~party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,~~  
12 ~~equipment and production units such disposition covers either~~ H

- 13  
14  
15 1. ~~the entire interest of the party in all leases and equipment and production; or~~  
16  
17 2. ~~an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18  
19 ~~Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement~~  
20 ~~and shall be made without prejudice to the right of the other parties.~~

21  
22 ~~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~~  
23 ~~require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings, for~~  
24 ~~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~~  
25 ~~party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter~~  
26 ~~into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract~~  
27 ~~Area and they shall have the right to receive, separately, payment of the same proceeds thereof.~~

28  
29 **E. Waiver of Rights to Partition:**

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 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  
33 interest therein.

34  
35 **F. Preferential Right to Purchase:**

36  
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
40 ~~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~~  
41 ~~on the same terms and conditions the interest which the other party proposes to sell, and if this optional right is exercised, the purchas-~~  
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
45 ~~pany, or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**

49  
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April, year 2002

~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception noted below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in booklet form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles ~~\_\_\_\_\_~~, have been made to the form.~~

OPERATOR

**TMBR/SHARP DRILLING, INC.**

By: \_\_\_\_\_  
*Jeffrey D. Phillips, President*

NON-OPERATORS

**YATES PETROLEUM CORPORATION**

**YATES DRILLING COMPANY**

\_\_\_\_\_  
Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

**MYCO INDUSTRIES, INC.**

**ABO PETROLEUM CORP**

\_\_\_\_\_  
Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

~~CHESAPEAKE ENERGY CORP.~~  
Chesapeake Exploration Limited Partnership

  
\_\_\_\_\_  
Printed Name: Henry J. Hood  
Printed Title: Senior Vice President-Land and

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

Legal of Chesapeake Operating, Inc.,  
General Partner of Chesapeake Exploration  
Limited Partnership

STATE OF TEXAS        §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

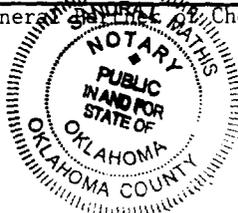
STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF OKLAHOMA       §  
COUNTY OF OKLAHOMA   §

This instrument was acknowledged before me on the 21<sup>st</sup> day of May, 2002 by Henry J. Hood, Senior Vice President - Land and Legal of Chesapeake Operating, Inc., General Manager of Chesapeake Exploration Limited Partnership.



\_\_\_\_\_  
Notary Public, State of Oklahoma  
Printed Name: Sandra L. Mathis  
Commission Expires: May 5, 2006  
Commission Number: 02007791

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Exploration Limited  
~~Chesapeake Energy Corp.~~ Partnership

By: \_\_\_\_\_

<sup>Type or Print Name</sup>  
Title: Henry J. Hood, Senior Vice President -

~~Date:~~ Land and Legal of Chesapeake Operating,  
~~Address:~~ Inc., General Partner of Chesapeake  
Exploration Limited Partnership

Date: May 21, 2002

Address: P.O. Box 18496  
Oklahoma City, OK 73154-0496

STATE OF TEXAS §  
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by

\_\_\_\_\_ of \_\_\_\_\_, a  
\_\_\_\_\_ corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by

\_\_\_\_\_ of \_\_\_\_\_, a  
\_\_\_\_\_ corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF OKLAHOMA §  
COUNTY OF OKLAHOMA §

This instrument was acknowledged before me on the 21<sup>st</sup> day of May, 2002 by Henry J. Hood, Senior Vice President - Land and Legal of Chesapeake Operating, Inc., General Partner of Chesapeake Exploration Limited Partnership.



Notary Public, State of Oklahoma  
Printed Name: Sandra L. Mathis  
Commission Expires: May 5, 2006  
Commission Number: 02007791

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN  
OPERATING AGREEMENT DATED APRIL 20, 2002,  
BY TMBR/SHARP DRILLING, INC., OPERATOR.

1. Operator shall procure and maintain, at all times while conducting operations under this Agreement, the following insurance coverages with limits not less than those specified below:

|    |   |  |
|----|---|--|
| A. | Worker's Compensation<br>Employer's Liability   | Statutory<br>\$100,000 each accident                 |
| B. | Comprehensive General Liability<br>including:<br>(a) property damage and bodily<br>injury liability including,<br>but not limited to, losses<br>resulting from explosion,<br>collapse, underground damage;<br>and<br>(b) contractual liability assumed<br>under this Agreement. | \$1,000,000<br>Combined single limit                 |
| C. | Comprehensive Automobile Liability<br>covering owned, non-owned and hired<br>vehicles.  | \$1,000,000<br>Combined single limit                 |
| D. | Umbrella Liability<br>in excess of A (except Worker's<br>Compensation), B and C above   | \$20,000,000<br>Combined single unit                 |
| E. | Cost of Well Control and Operator's<br>Extra Expense, including Care,<br>Custody, and Control Coverage  | \$5,000,000 OEE and<br>Well Control<br>\$250,000 CCC |

2. The insurance described in 1. above shall be carried at the joint expense of the parties hereto and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit "C" to this Agreement.

3. Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules, and regulations and carry such insurance as Operator may deem necessary, unless a Non-Operator provides evidence that it will provide its own coverage. 

4. Operator shall not be liable to Non-Operator for loss suffered because of insufficiency of the insurance procured and maintained for the Joint Account nor shall Operator be liable to Non-Operator for any loss occurring by reason of Operator's inability to procure or maintain the insurance provided for herein, and if at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance, Operator shall promptly so notify Non-Operator in writing.

5. In the event of loss not covered by the insurance provided for herein, such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement.

6. Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, that such party shall obtain waivers by the insurer of all right of subrogation in favor of the other parties.

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

7002 0460 0002 0073 5288

ARTESIA, NM 88210

|   |                |
|---|----------------|
| Postage   | \$ 3.50        |
| Certified Fee                                     | 2.10           |
| Return Receipt Fee<br>(Endorsement Required)      | 1.50           |
| Restricted Delivery Fee<br>(Endorsement Required) |                |
| <b>Total Postage &amp; Fees</b>                   | <b>\$ 7.10</b> |

UNIT ID: 0708

Postmark Here  
 Clerk: KHGFOG  
 05/04/02

Sent To  
 Yates Petroleum Corp etal  
 Street, Apt. No.;  
 or PO Box No. 105 South 4th Street  
 City, State, ZIP+ 4  
 Artesia, NM 88210

PS Form 3800, January 2001 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**YATES PETROLEUM CORP ETAL**  
**105 SOUTH 4<sup>TH</sup> STREET**  
**ARTESIA, NM 88210**

2. Article Number  
 (Transfer from service label) **7002 0460 0002 0073 5288**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
 Addressee

B. Received by (Printed Name) **MAY 10 2002** Delivery

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes



105 South Fourth Street  
Artesia, NM 88210

June 21, 2002

TMBR/Sharp Drilling, Inc.  
Drawer 10970  
Midland, TX 79702-7970

**RE: Blue Fin "25" No. 1  
1913' FNL & 924' FWL  
Sec 25, T16S-R35E  
Lea County, New Mexico**

Gentlemen:

Please find enclosed your AFE and JOA signature pages to the captioned well which have been fully executed by Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc.

Thank you.

Very truly yours,

**YATES PETROLEUM CORPORATION**

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB:bn  
enclosure(s)

# TMBR/Sharp



Drawer 10970  
Midland, Texas 79702-7970  
15-699-5050

May 3, 2002

## CERTIFIED MAIL/RRR

Yates Petroleum Corporation (70%)  
Yates Drilling Company (10%)  
MYCO Industries, Inc. (10%)  
Abo Petroleum Corp. (10%)  
105 South 4<sup>th</sup> Street  
Artesia, New Mexico 88210

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Gentlemen:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, completing, stimulation and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the E/2 NE/4 of said Section 25 in 0.25000 net mineral acres, or 0.3125%, for a N/2 unit participation of 0.078125%.

The leases owned by you and the associated ownership rights are set forth in greater detail on Exhibit “A”, attached hereto. A proposed form of Operating Agreement is enclosed for your consideration.

Yates Petroleum Corporation et al  
May 3, 2002  
Page Two

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement. The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to farmout or enter into a term assignment of your leasehold interest we would be happy to discuss such a trade with you.

If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**



Dennis J. Hopkins, CPL  
Land Manager

**AGREED AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2002,  
for participation in the Well for the 0.078125% ownership vested in Yates Petroleum Corporation, Yates Drilling Company, MYCO Industries, Inc., and Abo Petroleum Corp.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT "A"**

**Attached to that certain Well Proposal Letter Agreement dated May 3, 2002  
between TMBR/Sharp Drilling, Inc. and Yates Petroleum Corporation, et al as to  
lands located in the N/2 of Section 25-16S-35E, N.M.P.M., Lea County, New Mexico.**

Lease Dated: October 30, 2001  
Recorded: Book 1115. Page 603  
Lessor: Larry Hunnicutt, Custodian  
Lessee: Yates Petroleum Corporation et al  
Legal Description: Township 16 South, Range 35 East, N.M.P.M.  
Section 25: E/2 NE/4



**EXHIBIT "A"**

**Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.**

**Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less

Lea County, New Mexico

**Parties subject to this Agreement and their respective percentages of interest:**

|                             |                          |
|-----------------------------|--------------------------|
| TMBR/Sharp Drilling, Inc.   | 98.51562%                |
| Chesapeake Energy Corp.     | 0.70312%                 |
| Yates Petroleum Corporation | 0.54687%                 |
| Yates Drilling Company      | 0.07813%                 |
| MYCO Industries, Inc.       | 0.07813%                 |
| Abo Petroleum Corp.         | 0.07813%                 |
| <b>Total:</b>               | <b><u>100.00000%</u></b> |

**Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970

Chesapeake Energy Corp.  
P. O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Yates Petroleum Corporation  
Yates Drilling Company  
MYCO Industries, Inc.  
Abo Petroleum Corp.  
105 South 4<sup>th</sup> Street  
Artesia, New Mexico 88210-2122

STATE OF TEXAS       §  
COUNTY OF MIDLAND   §

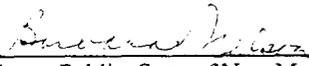
This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF NEW MEXICO   §  
                                  §  
COUNTY OF EDDY       §

The foregoing instrument was acknowledged before me this 20<sup>th</sup> day of June, 2002 by PEYTON YATES, Attorney-in-Fact for YATES PETROLEUM CORPORATION and YATES DRILLING COMPANY, by JOHN A. YATES, JR., Attorney-in-Fact for ABO PETROLEUM CORPORATION and by FRANK YATES, JR., Attorney-in-Fact for MYCO INDUSTRIES, INC., all New Mexico corporations, on behalf of said corporations.

My commission expires:  
1-8-2004

  
\_\_\_\_\_  
Notary Public, State of New Mexico  
Barbara Nelson

8 Other provisions

who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS 1989 Model Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles \_\_\_\_\_, have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of April 2002.

ATTEST OR WITNESS:

OPERATOR

TMBR Sharp Drilling, Inc.

By: \_\_\_\_\_  
Type or Print Name  
Title: Jeffery D. Phillips, President  
Date: \_\_\_\_\_  
Address: P O Box 10970, Midland, Texas 79702-7970

ATTEST OR WITNESS:

NON-OPERATORS

Yates Petroleum Corporation B2

By: [Signature] Rayton Yates  
Type or Print Name  
Title: Attorney-in-Fact  
Date: 4/20/02  
Address: 25 South 4th, Artesia, NM 88210

ATTEST OR WITNESS:

Yates Drilling Company

By: [Signature] Rayton Yates  
Type or Print Name  
Title: Attorney-in-Fact  
Date: 4/20/02  
Address: 25 South 4th, Artesia, NM 88210

ATTEST OR WITNESS:

MYCO Industries, Inc.

By: [Signature] Frank Yates, Jr.  
Type or Print Name  
Title: Attorney-in-Fact  
Date: 4/20/02  
Address: 165 South 4th, Artesia, NM 88210

ATTEST OR WITNESS:

Abo Petroleum Corp.

By: [Signature] John A. Yates, Jr.  
Type or Print Name  
Title: Attorney-in-Fact  
Date: 4/20/02  
Address: 25 South 4th, Artesia, NM 88210

ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April, (year) 2002

~~\_\_\_\_\_ who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610 1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Article \_\_\_\_\_, have been made to the form.~~

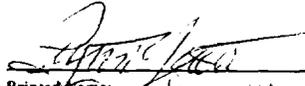
OPERATOR

TMBR/SHARP DRILLING, INC.

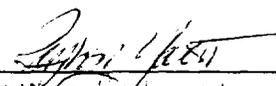
By: \_\_\_\_\_  
Jeffrey D. Phillips, President

NON-OPERATORS

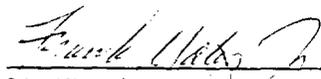
YATES PETROLEUM CORPORATION

  
\_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

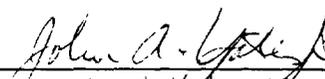
YATES DRILLING COMPANY

By:   
\_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

MYCO INDUSTRIES, INC.

  
\_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

ABO PETROLEUM CORP

By:   
\_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

CHESAPEAKE ENERGY CORP.

\_\_\_\_\_  
Printed Name: \_\_\_\_\_  
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STATE OF TEXAS       §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF NEW MEXICO   §  
                                  §  
COUNTY OF EDDY       §

The foregoing instrument was acknowledged before me this 20<sup>th</sup> day of June, 2002 by PEYTON YATES, Attorney-in-Fact for YATES PETROLEUM CORPORATION and YATES DRILLING COMPANY, by JOHN A. YATES, JR., Attorney-in-Fact for ABO PETROLEUM CORPORATION and by FRANK YATES, JR., Attorney-in-Fact for MYCO INDUSTRIES, INC., all New Mexico corporations, on behalf of said corporations.

My commission expires:  
1-8-2004

Barbara Nelson  
Notary Public, State of New Mexico  
Barbara Nelson

**EXHIBIT "A"**

**Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.**

**Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less  
Lea County, New Mexico

**Parties subject to this Agreement and their respective percentages of interest:**

|                             |                          |
|-----------------------------|--------------------------|
| TMBR/Sharp Drilling, Inc.   | 98.51562%                |
| Chesapeake Energy Corp.     | 0.70312%                 |
| Yates Petroleum Corporation | 0.54687%                 |
| Yates Drilling Company      | 0.07813%                 |
| MYCO Industries, Inc.       | 0.07813%                 |
| Abo Petroleum Corp.         | 0.07813%                 |
| <b>Total:</b>               | <b><u>100.00000%</u></b> |

**Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970

Chesapeake Energy Corp.  
P. O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Yates Petroleum Corporation  
Yates Drilling Company  
MYCO Industries, Inc.  
Abo Petroleum Corp.  
105 South 4<sup>th</sup> Street  
Artesia, New Mexico 88210-2122

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
*(Domestic Mail-Only; No Insurance Coverage Provided)*

7002 0460 0002 0073 5349

ROSWELL, NM 88202

|   |                |
|---|----------------|
| Postage   | \$ 3.10        |
| Certified Fee                                     | 2.10           |
| Return Receipt Fee<br>(Endorsement Required)      | 1.50           |
| Restricted Delivery Fee<br>(Endorsement Required) |                |
| <b>Total Postage &amp; Fees</b>                   | <b>\$ 6.70</b> |

UNIT ID: 0708

Postmark Here  
 Clerk: KHGFOG  
 05/04/02

Sent To  
 Branex Resources, Inc.  
 Street, Apt. No. or PO Box No. P. O. Box 2328  
 City, State, ZIP+ 4 Roswell, NM 88202-2328  
 PS Form 3800, January 2001 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**BRANEX RESOURCES, INC.**  
**P. O. BOX 2328**  
**ROSWELL, NM 88202-2328**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
 X *[Signature]*  Addressee

B. Received by (Printed Name) C. Date of Delivery  
 5-6-02

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number (Transfer from service label) 7002 0460 0002 0073 5349



BRANEX RESOURCES, INC.  
POST OFFICE BOX 1328  
ROSWELL, NEW MEXICO 88202-2328  
(505) 627-0612 • Fax (505) 627-6353

May 6, 2002

Dennis J. Hopkins, CPL  
Land Manager  
TMBR/Sharp  
Drawer 10970  
Midland, Texas 79702-7970

Re: Your AFE, JOA and Well Proposal dated May 3, 2002 and covering your "Blue Fin 25 No. 1 Well" to be located 1913' FNL & 924' FWL, Section 25, T16S-R35E, NMPM Lea County, New Mexico

Gentlemen:

The above items constitute the third well proposal that we have received or been notified about in Section 25, T16S-R35E, NMPM and it appears that the NMOCD still has to rule on certain items. I prefer to wait and see what final determinations that the NMOCD makes before I make a decision as to what we will do. As you are probably aware under NMOCD regulations, we have thirty (30) days after we receive a copy of the approved compulsory pooling order in order to either (a) participate with our interest in and to the subject well; or (b) simply be bound by the terms of the order. I do not desire to be uncooperative with TMBR/Sharp but I do think I am being prudent in awaiting the final orders of the NMOCD prior to my making a decision in this matter. Thank you.

Sincerely,

A handwritten signature in black ink that reads "F. Andrew Grooms". The signature is written in a cursive style with a long, sweeping underline.

F. Andrew Grooms, President  
Branex Resources, Inc.

cc. Jim Bruce

# TMBR/Sharp



Lawyer 10970  
Midland, Texas 79702-7970  
15-699-5050

May 3, 2002

## **CERTIFIED MAIL/RRR**

Branex Resources, Inc.  
P. O. Box 2328  
Roswell, New Mexico 88202-2328

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Dear Mineral Owner:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, competing, stimulation, and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the W/2 NE/4 of said Section 25 in 2.2500 net mineral acres, or 2.8125%, for a N/2 unit participation of 0.7031%.

A proposed form of our Operating Agreement is enclosed for your review and consideration.

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement

Branex Resources, Inc.  
May 3, 2002  
Page Two

The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to enter into an oil and gas covering your mineral interest we would be happy to discuss such a transaction with you.

If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**

  
Dennis J. Hopkins, CPL  
Land Manager

**AGREED AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2002,  
for participation in the Well for the 0.8928% ownership vested in Branex Resources,  
Inc.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT™**  
 (Domestic Mail Only; No Insurance Coverage Provided)

7002 0460 0002 0073 5318

DALLAS, TX 75219

|   |                |   |
|---|----------------|---|
| Postage   | \$ 3.10        | UNIT ID: 0708<br><br>Postmark Here<br>Clerk: KHGFOG<br>05/04/02 |
| Certified Fee                                     | 2.10           |   |
| Return Receipt Fee<br>(Endorsement Required)      | 1.50           |   |
| Restricted Delivery Fee<br>(Endorsement Required) |                |   |
| <b>Total Postage &amp; Fees</b>                   | <b>\$ 6.70</b> |   |

Sent To Robert M. Edsel  
 Street, Apt. No., or PO Box No. 3111 Welborn, No. 1604  
 City, State, ZIP+4 Dallas, TX 75219-5023

PS Form 3800, January 2001 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**ROBERT M. EDSSEL**  
**3111 WELBORN, NO. 1604**  
**DALLAS, TX 75219-5023**

2. Article Number  
 (Transfer from service label)

7002 0460 0002 0073 5318

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
 Addressee  
 B. Received by (Printed Name) C. Date of Delivery  
 D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

# TMBR/Sharp



Drilling, Inc.

Box 10970  
Dallas, Texas 75202-7970  
1-849-3050

May 3, 2002

## CERTIFIED MAIL/RRR

Robert M. Edsel  
3111 Welborn, No. 1604  
Dallas, Texas 75219-5023

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Dear Mineral Owner:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, completing, stimulation and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the NW/4 NE/4 of said Section 25 in 0.5000 net mineral acres, or 1.2500%, for a N/2 unit participation of 0.1562%.

A proposed form of our Operating Agreement is enclosed for your review and consideration.

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement

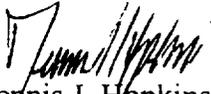
Robert M. Edsel  
May 3, 2002  
Page Two

The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to enter into an oil and gas covering your mineral interest we would be happy to discuss such a transaction with you.

If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**

  
Dennis J. Hopkins, CPL  
Land Manager

**AGREED AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2002,  
for participation in the Well for the 0.8928% ownership vested in Robert M. Edsel.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April, (year) 2002

~~\_\_\_\_\_ who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Article \_\_\_\_\_ have been made to the form.~~

OPERATOR

**TMBR/SHARP DRILLING, INC.**

By: \_\_\_\_\_  
Jeffrey D. Phillips, President

NON-OPERATORS

**BRANEX RESOURCES, INC.**

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Printed Title: \_\_\_\_\_

**EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.

**A. Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less

Lea County, New Mexico

**B. Restrictions as to depth:**

None

**C. Parties subject to this Agreement and their respective percentages of interest:**

TMBR/Sharp Drilling, Inc. 99.29688%

Branex Resources, Inc. 0.70312%

**Total:** 100.00000%

**D. Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970  
Telephone: (915) 699-5050  
Facsimile: (916) 699-5085

Branex Resources, Inc.  
P. O. Box 2328  
Roswell, New Mexico 88202  
Telephone:  
Facsimile:

1 8 Other provisions

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\_\_\_\_\_ who has prepared and circulated this form for execution represents and warrants that the form was printed from and with the exception(s) listed below is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and Financing Statement as published in computerized form by Forms On A Disk, Inc. No changes, alterations, or modifications other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles \_\_\_\_\_ have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of April year 2002.

ATTEST OR WITNESS:

OPERATOR

\_\_\_\_\_  
**TMBR Sharp Drilling, Inc.**  
By: \_\_\_\_\_  
Type or Print Name  
Title: Jeffery D. Phillips, President  
Date: \_\_\_\_\_  
Address: P O Box 10970, Midland, Texas 79702-7970

ATTEST OR WITNESS:

NON-OPERATORS

\_\_\_\_\_  
**Branex Resources, Inc.**  
By: \_\_\_\_\_  
Type or Print Name  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

ATTEST OR WITNESS:

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By: \_\_\_\_\_  
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Address: \_\_\_\_\_

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Address: \_\_\_\_\_

ATTEST OR WITNESS:

\_\_\_\_\_  
By: \_\_\_\_\_  
Type or Print Name  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

**EXHIBIT "A"**

**Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.**

**Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less

Lea County, New Mexico

**Parties subject to this Agreement and their respective percentages of interest:**

|                           |                          |
|---------------------------|--------------------------|
| TMBR/Sharp Drilling, Inc. | 99.29688%                |
| Branex Resources, Inc.    | 0.70312%                 |
| <b>Total:</b>             | <b><u>100.00000%</u></b> |

**Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970

Branex Resources, Inc.  
P. O. Box 2328  
Roswell, New Mexico 88202

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ARTICLE XVI  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April (year) 2002

~~\_\_\_\_\_ who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles \_\_\_\_\_ have been made to the form.~~

OPERATOR

TSIBR/SHARP DRILLING, INC.

By: \_\_\_\_\_  
Jeffrey D. Phillips, President

NON-OPERATORS

By: \_\_\_\_\_  
Printed Name: Robert M. Edsel  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

**EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.

**A. Lands subject to this Agreement:**

Township 16 South. Range 35 East. N.M.P.M.  
Section 25: The North Half (N/2). containing 320 acres. more or less  
Lea County. New Mexico

**B. Restrictions as to depth:**

None

**C. Parties subject to this Agreement and their respective percentages of interest:**

|                           |                   |
|---------------------------|-------------------|
| TMBR/Sharp Drilling, Inc. | 99.84375%         |
| Robert M. Edsel           | 0.15625%          |
| <b>Total:</b>             | <u>100.00000%</u> |

**D. Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970  
Telephone: (915) 699-5050  
Facsimile: (916) 699-5085

Robert M. Edsel  
3111 Welborn, No. 1604  
Dallas, Texas 75219  
Telephone:  
Facsimile:

1 8. Other provisions  
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7 \_\_\_\_\_, who has prepared and circulated this form for execution, represents and warrants  
8 that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model  
9 Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by  
10 Forms On A Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion  
11 and that are clearly recognizable as changes in Articles \_\_\_\_\_, have been made to the form.  
12

13 IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of April  
14 year 2002.

15  
16 ATTEST OR WITNESS:

OPERATOR

17 \_\_\_\_\_  
18  
19 TMBR Sharp Drilling, Inc.  
20

21 By: \_\_\_\_\_  
22 Type or Print Name  
23 Title: Jeffery D. Phillips, President  
24 Date: \_\_\_\_\_  
25 Address: P O Box 10970, Midland, Texas 79702-7970  
26  
27

28 ATTEST OR WITNESS:

NON-OPERATORS

29 \_\_\_\_\_  
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31 \_\_\_\_\_

32  
33 By: \_\_\_\_\_  
34 Type or Print Name  
35 Title: Robert M. Edsel  
36 Date: \_\_\_\_\_  
37 Address: \_\_\_\_\_  
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40 ATTEST OR WITNESS:

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45 By: \_\_\_\_\_  
46 Type or Print Name  
47 Title: \_\_\_\_\_  
48 Date: \_\_\_\_\_  
49 Address: \_\_\_\_\_  
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51 ATTEST OR WITNESS:

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62 ATTEST OR WITNESS:

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69 Title: \_\_\_\_\_  
70 Date: \_\_\_\_\_  
71 Address: \_\_\_\_\_  
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**EXHIBIT "A"**

**Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective April 20, 2002, by TMBR/Sharp Drilling, Inc., Operator.**

**Lands subject to this Agreement:**

Township 16 South, Range 35 East, N.M.P.M.  
Section 25: The North Half (N/2), containing 320 acres, more or less

Lea County, New Mexico

**Parties subject to this Agreement and their respective percentages of interest:**

|                           |                          |
|---------------------------|--------------------------|
| TMBR/Sharp Drilling, Inc. | 99.84375%                |
| Robert M. Edsel           | 0.15625%                 |
| <b>Total:</b>             | <b><u>100.00000%</u></b> |

**Addresses of the parties to this Agreement:**

TMBR/Sharp Drilling, Inc.  
Attn: Jeffrey D. Phillips  
P. O. Box 10970  
Midland, Texas 79702-7970

Robert M. Edsel  
3111 Welborn, No. 1604  
Dallas, Texas 75219

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

7002 0460 0002 0073 5301

**ROSWELL, NM 88202**

|   |           |             |
|---|-----------|-------------|
| Postage   | \$        | 3.10        |
| Certified Fee                                     |           | 2.10        |
| Return Receipt Fee<br>(Endorsement Required)      |           | 1.50        |
| Restricted Delivery Fee<br>(Endorsement Required) |           |             |
| <b>Total Postage &amp; Fees</b>                   | <b>\$</b> | <b>6.70</b> |

**UNIT ID: 0708**  
  
 Postmark Here  
**Clerk: KHGFOG**  
**05/04/02**

*Sent To*  
 Harle, Inc.  
*Street, Apt. No., or PO Box No.*  
 P. O. Box 2608  
*City, State, ZIP+ 4*  
 Roswell, NM 88202-2608

**PS Form 3800, January 2001 See Reverse for Instructions.**

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**HARLE, INC.**  
**P. O. BOX 2608**  
**ROSWELL, NM 88202-2608**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
*T. Skaggs*  Addressee

B. Received by (Printed Name), C. Date of Delivery

D. Is delivery address different from item 1?  Yes  
 If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number  
*(Transfer from service label)* **7002 0460 0002 0073 5301**

57792-149  
May 3, 2002

**CERTIFIED MAIL/RRR**

Harle, Inc.  
P. O. Box 2608  
Roswell, New Mexico 88202-2608

Re: Well Proposal – Blue Fin “25” No. 1 (the “Well”)  
1913 Feet FNL, 924 Feet FWL,  
Section 25, T-16-S, R-35-E, N.M.P.M.,  
Lea County, New Mexico

Proposed Total Depth – 13,200 feet subsurface or to a depth  
sufficient to test the Mississippian Formation, whichever is  
the lesser depth.

Dear Mineral Owner:

TMBR/Sharp Drilling, Inc. (“TMBR”) proposes the drilling of the Well at the indicated location to an approximate depth of 13,200’ subsurface, or to a depth sufficient to test the Mississippian Formation, whichever is the lesser depth. Site preparation and drilling operations will be commenced in the next few days. An Authority for Expenditure (“AFE”) is enclosed detailing estimated anticipated expenditures for the drilling, testing, casing, competing, stimulation and equipping of the Well.

The Real Estate Records of Lea County, New Mexico indicate that you are presently vested with ownership rights in the E/2 NE/4 of said Section 25 in 0.2500 net mineral acres, or 0.3125%, for a N/2 unit participation of 0.0781%.

A proposed form of our Operating Agreement is enclosed for your review and consideration.

Please indicate your desire to participate in the proposed Well by executing this letter in the appropriate space(s) below and returning one original signature page to the undersigned within thirty (30) days of receipt of this letter with a check for the appropriate percentage of the costs estimated on the AFE and the executed signature pages to the Operating Agreement

Harle, Inc.  
May 3, 2002  
Page Two

The failure to respond to this proposal in the allowed time will be treated as an election not to participate in the Well, and your ownership rights will be recognized as would a non-participating co-tenant, and appropriate action will be taken with the New Mexico Oil Conservation Division to consolidate these interests into the N/2 spacing unit for the Well. As an alternative, should you wish to enter into an oil and gas covering your mineral interest we would be happy to discuss such a transaction with you.

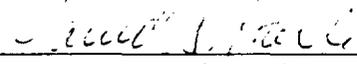
If there are any questions, comments or additional information needed, please contact Lonnie Arnold or the undersigned. Thank you for your consideration of our proposal.

Yours truly,

**TMBR/SHARP DRILLING, INC.**

  
Dennis J. Hopkins, CPL  
Land Manager

**AGREED AND ACCEPTED THIS 10 DAY OF May, 2002,  
for participation in the Well for the 0.0281% ownership vested in Harle, Inc.**

By:   
Name: ~~Lonnie Arnold~~, HARLE, INC  
Title: RESIDENT

1 8. Other provisions  
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6 \_\_\_\_\_ who has prepared and circulated this form for execution, represents and warrants  
7 that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model  
8 Form Resolving Supplement to Operating Agreement and Financing Statement, as published in computerized form by  
9 Forms On A Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion  
10 and that are clearly recognizable as changes in Articles \_\_\_\_\_, have been made to the form.  
11

12  
13 IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of April  
14 2002.

15  
16 ATTEST OR WITNESS: OPERATOR  
17 \_\_\_\_\_  
18  
19 EMBR Sharp Drilling, Inc.  
20  
21 By: \_\_\_\_\_  
22 Type or Print Name  
23 Jeffery D. Phillips, President  
24 Title: \_\_\_\_\_  
25 Date: \_\_\_\_\_  
26 Address: P O Box 10970, Midland, Texas 79702-7970

27  
28 ATTEST OR WITNESS: NON-OPERATORS  
29 David S. Harle  
30 \_\_\_\_\_  
31 Harle, Inc.  
32  
33 David S. Harle  
34 By: \_\_\_\_\_  
35 Type or Print Name  
36 Title: President  
37 Date: 14 May 02  
38 Address: 224 Bl. 5th Taylor Dr  
39 Tuacatin, CA 97062

40 ATTEST OR WITNESS:  
41 \_\_\_\_\_  
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45 By: \_\_\_\_\_  
46 Type or Print Name  
47 Title: \_\_\_\_\_  
48 Date: \_\_\_\_\_  
49 Address: \_\_\_\_\_

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57 Type or Print Name  
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59 Date: \_\_\_\_\_  
60 Address: \_\_\_\_\_

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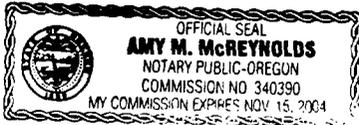
STATE OF TEXAS §  
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF Oregon §  
COUNTY OF Clatsop §

This instrument was acknowledged before me on the 14<sup>th</sup> day of May, 2002 by David S. Hesse of Herk Inc, a New Mexico corporation, on behalf of said corporation.



Amy M. McReynolds  
Notary Public, State of Oregon  
Printed Name: Amy M. McReynolds  
Commission Expires: 11/15/2004

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

ARTICLE XVI.  
MISCELLANEOUS

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This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of April (year) 2002

~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception noted below is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles \_\_\_\_\_, have been made to the form.~~

OPERATOR

TMBR/SHARP DRILLING, INC.

By: \_\_\_\_\_  
Jeffrey D. Phillips, President

NON-OPERATORS

HARLE, INC.

By: David S. Horle  
Printed Name: David S. Horle  
Printed Title: President

Printed Name:  
Printed Title:

Printed Name:  
Printed Title:

Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

By: \_\_\_\_\_  
Printed Name:  
Printed Title:

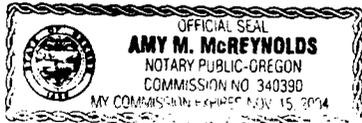
STATE OF TEXAS §  
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 20<sup>th</sup> day of April, 2002 by Jeffrey D. Phillips, President of TMBR/Sharp Drilling, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF Oregon §  
COUNTY OF Clatsop §

This instrument was acknowledged before me on the 14<sup>th</sup> day of May, 2002 by David S. Harle of Harle Inc, a New Mexico corporation, on behalf of said corporation.



Amy M. McReynolds  
Notary Public, State of Oregon  
Printed Name: Amy M. McReynolds  
Commission Expires: 11/15/2004

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

**TMBR/ Sharp Drilling, INC.**  
**AUTHORIZATION FOR EXPENDITURE**

AFE Number = 1 23-Apr-02

Well No.1.

|               |                     |                       |   |
|---------------|---------------------|-----------------------|---|
| Name<br>in 25 | State<br>New Mexico | County/ Parish<br>Lea | Location:<br>1913' FNL & 924' FWL, Sec. 25, T16S, R 35E |
|---------------|---------------------|-----------------------|---|

| INTANGIBLE DESCRIPTION                     | COST TO CASING POINT | COMPLETION COST  | TOTAL WELL COST    |
|--|----------------------|------------------|--------------------|
| 1 Surveys - Permits - Bonds                | 1200                 |                  | 1,200              |
| 2 Roads Location/ Damages                  | 30000                |                  | 30,000             |
| 3 Mob demo                                 | 27000                |                  | 27,000             |
| 4 Drilling Contract-                       |                      |                  |                    |
| 5 Daywork: 50 days At \$8520 /day.         | 400440               | 25,560           | 426,000            |
| 6 Footage                                  |                      |                  |                    |
| 7 Completion Unit: 15 days At \$ 2000 /day |                      | 30,000           | 30,000             |
| 8 Mud/ Chemicals                           | 35000                |                  | 35,000             |
| 9 Water                                    | 18000                | 3,000            | 21,000             |
| 10 Cement/ Cementing Services              | 20000                | 36,000           | 56,000             |
| 11 Fuel/ Electricity/ Generator/ lights    | 28200                | 1,800            | 30,000             |
| 12 Bits                                    | 65000                |                  | 65,000             |
| 13 Reamers/ stabilizers                    | 15000                |                  | 15,000             |
| 14 Service Equipment                       | 2000                 | 5,000            | 7,000              |
| 15 Equipment rentals                       | 10000                | 35,000           | 45,000             |
| 16 Wire line Unit                          |                      |                  |                    |
| 17 Mud Logging/ Paleo/ Bioassay            | 18000                |                  | 18,000             |
| 18 Open Hole Logging                       | 25000                | 25,000           | 50,000             |
| 19 Drill Stem Testing and coring           | 20000                |                  | 20,000             |
| 20 Tubular Inspection/ Testing             | 3000                 | 1,500            | 4,500              |
| 21 Transportation (land)                   | 3000                 | 2,000            | 5,000              |
| 22 Equipment inspection/ testing           | 2500                 | 2,000            | 4,500              |
| 23 Casing Crews/ Tongs                     | 4500                 | 5,000            | 9,500              |
| 24 Drilling Overhead                       | 6500                 | 1,500            | 8,000              |
| 25 Supervision                             | 2750                 | 5,500            | 8,250              |
| 26 Cased Hole Logging & Perf               |                      | 5,500            | 5,500              |
| 27 Stimulation                             |                      | 100,000          | 100,000            |
| 28 Production Testing                      |                      | 10,000           | 10,000             |
| 29 Completion Fluids                       |                      | 2,500            | 2,500              |
| 30 Fishing Tools, Supervisor               | 5000                 |                  | 5,000              |
| 31 Contract labor                          | 2500                 | 3,000            | 5,500              |
| 32 Insurance                               | 8756                 | 2,919            | 11,675             |
| 33 Plug and Abandon                        | 15000                |                  | 15,000             |
| 34 Contingency (7%)                        | 53784                | 21195            | \$74,979           |
| <b>TOTAL INTANGIBLE ESTIMATED COST</b>     | <b>\$822,130</b>     | <b>\$323,974</b> | <b>\$1,146,104</b> |

| TANGIBLE DESCRIPTION                               | COST TO CASING POINT | COMPLETION COST  | TOTAL WELL COST    |
|--|----------------------|------------------|--------------------|
| 35 Conductor                                       |                      |                  |                    |
| 36 500' of 13 3/8" 54.5 @ 15.50/FT Surface Casing  | 7,750                |                  | 7,750              |
| 37 5000' of 9 5/8" 40# @ 13.00/FT Intermediate Csg | 65,000               |                  | 65,000             |
| 38 Intermediate Csg                                |                      |                  |                    |
| 39 Intermediate Csg                                |                      |                  |                    |
| 40 12 500' of 7" 26# @ 11.50/FT Production Csg     |                      | 143,750          | 143,750            |
| 41 1500' of 4 1/2" 11.60# @ 5.75/ft Liner          |                      | 8,625            | 8,625              |
| 42 13800' of 2 7/8" 6.50# @ 3.20/FT Tubing         |                      | 44,160           | 44,160             |
| 43 Tubing  |                      |                  |                    |
| 44 Tubing  |                      |                  |                    |
| 45 Wellhead Equipment                              | 4,200                | 9,000            | 13,200             |
| 46 Float Equipment                                 | 4,000                | 7,000            | 11,000             |
| 47 Liner Equipment                                 |                      | 12,000           | 12,000             |
| 48 Pumping Unit / Base / Engine                    |                      |                  |                    |
| 49 Sucker rods, Polished Rods                      |                      |                  |                    |
| 50 Producing Equipment, Tank Battery, Flowline     |                      | 60,000           | 60,000             |
| 51 Flowlines, Vavles, Fittings/Connections         |                      | 8,000            | 8,000              |
| 52 Packers & Other Subsurface Tools                |                      | 6,500            | 6,500              |
| 53 Compressor                                      |                      |                  |                    |
| 54 Miscellaneous Sale Items                        |                      | 5,000            | 5,000              |
| 55 Contingency (7%)                                | 5,667                | 21,282           | 26,949             |
| <b>TOTAL TANGIBLE ESTIMATED COST</b>               | <b>\$86,617</b>      | <b>\$325,317</b> | <b>\$411,934</b>   |
| <b>TOTAL AFE ESTIMATED COST</b>                    | <b>\$908,747</b>     | <b>\$649,291</b> | <b>\$1,558,038</b> |

**PROVAL AND ACCEPTANCE**

Participant TARLE Inc.  
 I. 0.751%  
 Title President  
 Signature Daniel H. Hark

IT IS RECOGNIZED THAT AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN THE HEREIN SET OUT

I wish to be covered by TMBR/Sharp's blow out insurance.  
 I DO NOT wish to be covered by TMBR/Sharp's blow out insurance.

Date 14 May 02