

YATES PETROLEUM CORPORATION

**STRUCTURE MAP T/AUSTIN (MISS)
PROPOSED KRIS UNIT
LEA COUNTY, NM**

Author:
J. AMIET
F. SCHEUBEL

Date:
15 August, 2003

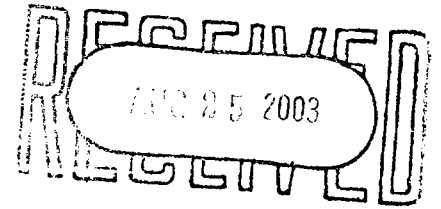
CI = 50'

Scale:
1"=2000'

Sept. 4, 2003
EXHIBIT E of Exhibit #1
In Case No. 13122



August 22, 2003



Mr. Robert Bullock
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210-2118

RE: KRIS STATE EXPLORATORY UNIT
LEA COUNTY, NEW MEXICO

Dear Mr. Bullock:

Enclosed please find our executed AFE indicating Murchison's election to participate in forming the Kris State Exploratory Unit and drilling a test well in Section 28, T11S, R34E, Lea County, New Mexico. Since Murchison Oil & Gas, Inc. has its own Control of Well Insurance we have elected not to participate in your coverage. Accordingly, the AFE and subsequent billings should be modified to exclude charges for COW coverage.

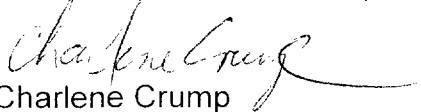
Along with the executed AFE are the executed signature pages to the Unit Agreement and the Operating Agreement for this five-section unit.

We have enclosed the same blank signature pages to the Unit Agreement & Operating Agreement and request that Yates execute and return them to the undersigned.

Should your company need any additional information regarding our COW coverage please call Zelma Hess at 972-931-0700.

Yours truly,

MURCHISON OIL & GAS, INC.

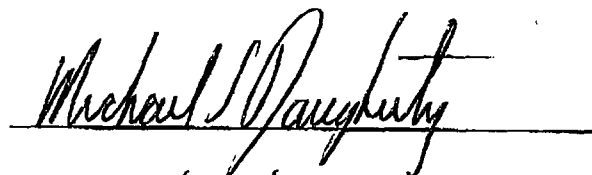

Charlene Crump

Encl.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

WORKING INTEREST OWNER

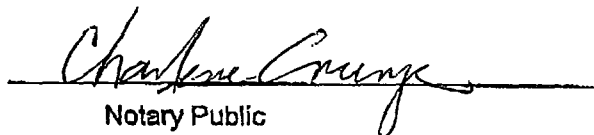
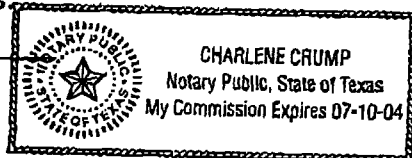
MURCHISON OIL & GAS, INC.

Date: 8/22/03

STATE OF TEXAS §
§
COUNTY OF COLLIN §

The foregoing instrument was acknowledged before me this 22 day of August, 2003 by Michael S. Daugherty, as VP Operations of Murchison Oil & Gas, Inc., a Oklahoma corporation, on behalf of said corporation.

My commission expires:


Notary Public

A.A.P.L. FORM 610 -- MODEL FORM OPERATING AGREEMENT - 19775

Attached to and made a part of that certain Operating Agreement dated August 5, 2003 between Yates Petroleum Corporation, "Operator" and Murchison Oil & Gas, Inc., et al, "Non-Operator"

**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 _____ day of _____, 2003.

OPERATOR

YATES PETROLEUM CORPORATION

NON-OPERATOR

YATES DRILLING COMPANY

ABO PETROLEUM CORPORATION

MYCO INDUSTRIES, INC.

MURCHISON OIL & GAS COMPANY, INC.

Michael S. Daugherty

STATE OF NEW MEXICO §
 §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this _____ day of _____, 2003 by *Peyton Yates*, Attorney-in-Fact for *Yates Petroleum Corporation*; by *Tobin Rhodes*, Vice-President of *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.

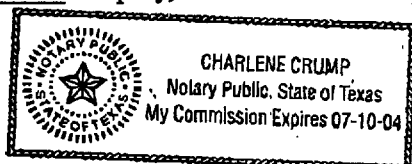
My Commission Expires:

Notary Public

STATE OF TEXAS §
 §
COUNTY OF COLLIN §

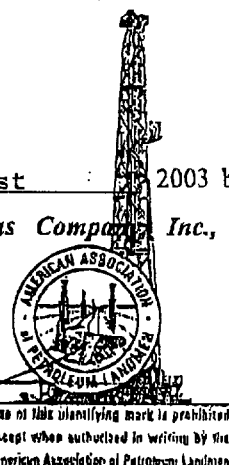
The foregoing instrument was acknowledged before me this 22 day of August, 2003 by Michael S. Daugherty as VP Operations of Murchison Oil & Gas Company, Inc., a Oklahoma company, on behalf of said company.

My Commission Expires:



Charlene Crump

Notary Public





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

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

<input type="checkbox"/>	Development
<input checked="" type="checkbox"/>	Exploratory

AFE NO.

03-346-0

AFE DATE

8/14/03

AFEND (rev 0/08)

AFE STATUS:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	Final
<input type="checkbox"/>	Supplemental

LEASE NAME

Kris State Unit #1

COUNTY

Lea

FIELD

LOCATION

Section 28 T11S-R34E, 1,300' N & 990' W

PROJ'D DEPTH

12,700'

STATE

New Mexico

HORIZON

Mississippian

DIVISION CODE

100

DIVISION NAME

Oil & Gas Division

DISTRICT CODE

DISTRICT NAME

BRANCH CODE

BRANCH NAME

PROGNOSIS: New well drilled to 12,700' to test the Atoka and Morrow formations.

INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	24,000	24,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 60 days @ \$8,200/day + \$25,000 mob	548,000	548,000
920-140	Drilling Water, Fasline Rental	25,000	25,000
920-150	Drilling Mud & Additives	60,000	60,000
920-160	Mud Logging Unit, Sample Bags	50,000	50,000
920-170	Cementing - Surface Casing	40,000	40,000
920-180	Drill Stem Testing, OHT 2 dst's	15,000	15,000
920-190	Electric Logs & Tape Copies	50,000	50,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	70,000	70,000
920-205	Control of Well-Insurance	9,000	9,000
920-210	Supervision & Overhead	60,000	60,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	68,000	68,000
920-350	Cementing - Production Casing		45,000
920-410	Completion Unit - Swabbing		15,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		25,000
920-460	Tools & Equip. Rental, Etc. - Completion		40,000
920-470	Stimulation for Completion Completions only for Morrow & Atoka		80,000
920-480	Supervision & O/H - Completion		5,000
920-490	Additional LOC Charges - Completion		6,000
920-510	Bits, Tools & Supplies - Completion		1,000
920-500	Contingency for Completion 10 percent	100,000	160,000
TOTAL INTANGIBLE DRILLING COSTS		1,122,000	1,404,000

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	2,500	22,000
930-020	Casing 13 3/8" @ 400'	7,000	7,000
	9 5/8" @ 4,100'	55,000	55,000
	7" @ 12,700'		150,000
930-030	Tubing 2 3/8" @ 12,550' & 2 3/8" @ 11,550'		60,000
930-040	Packer & Special Equipment Dual packer		25,000
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.		30,000
940-040	Trucking & Construction Costs		15,000
TOTAL TANGIBLE EQUIPMENT COSTS		64,500	379,000

TOTAL COSTS

1,186,500 1,783,000

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

Prepared By Al Springer

Operations
Approval

BY MURCHISON OIL & GAS INC

BY Michael J. Daugherty

DATE 8/22/03

.2000000

BY DATE

BY DATE