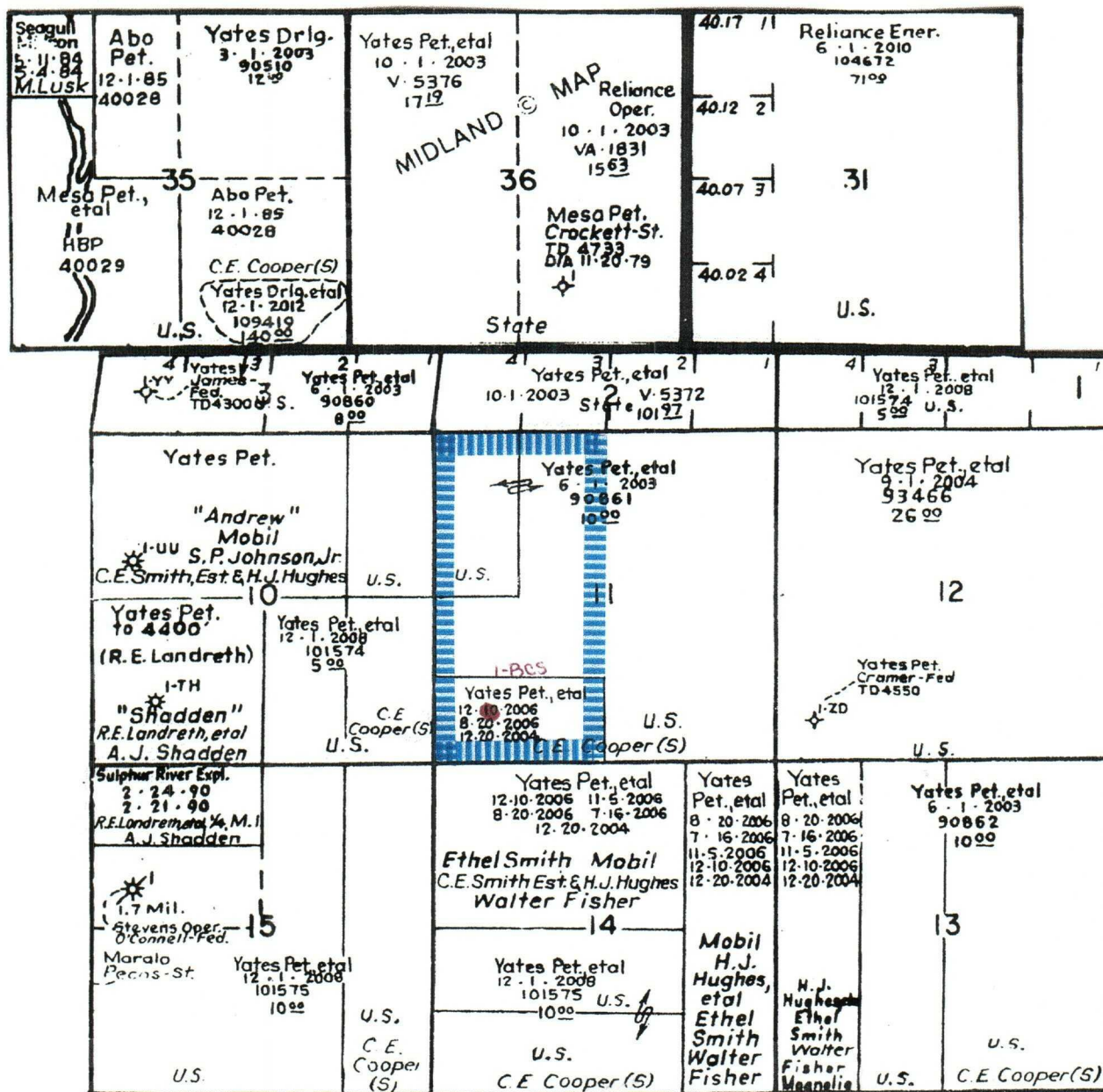
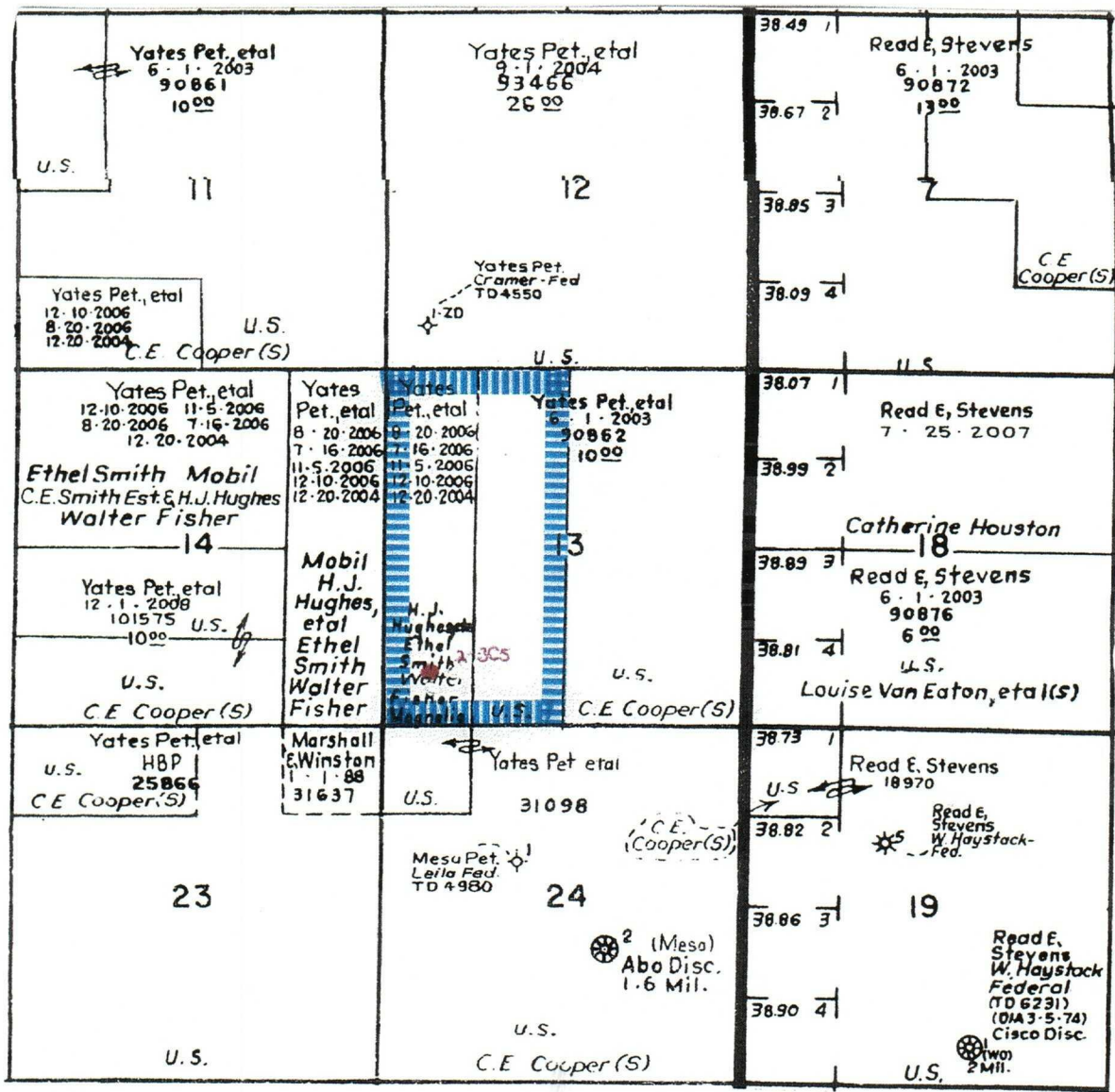


Yates Petroleum Corporation  
Sterne BCS Com. #1  
660' FSL & 660' FWL  
Section 11-T6S-R26E  
Chaves County, New Mexico



Yates Petroleum Corporation  
 Sterne BCS Com. #2  
 660' FSL & 660' FWL  
 Section 13-T6S-R26E  
 Chaves County, New Mexico



**Sterne BCS Com #1**  
**Township 6 South, Range 26 East, NMPM**  
**Section 11: W/2**  
**Chaves County, New Mexico**  
**320 acres, more or less**

Unleased Mineral Owner:	Mobil Producing Texas & New Mexico, Inc.
Description of Lands:	S/2SW/4 of Sec. 11-T6S-R26E
Net Acres:	40.00
Percentage in Spacing Unit:	12.50%

**Sterne BCS Com #1**  
**Township 6 South, Range 26 East, NMPM**  
**Section 11: SW/4**  
**Chaves County, New Mexico**  
**160 acres, more or less**

Unleased Mineral Owner:	Mobil Producing Texas & New Mexico, Inc.
Description of Lands:	S/2SW/4 of Sec. 11-T6S-R26E
Net Acres:	40.00
Percentage in Spacing Unit:	25.00%

**Sterne BCS Com #2**  
**Township 6 South, Range 26 East, NMPM**  
**Section 13: W/2**  
**Chaves County, New Mexico**  
**320 acres, more or less**

Unleased Mineral Owner:	Mobil Producing Texas & New Mexico, Inc.
Description of Lands:	W/2W/2 of Sec. 13-T6S-R26E
Net Acres:	80.00
Percentage in Spacing Unit:	25.00%

Unleased Mineral Owner:	Lacy Shortridge Revocable Living Trust
Description of Lands:	W/2W/2 of Sec. 13-T6S-R26E
Net Acres:	10.00
Percentage in Spacing Unit:	3.125%

Unleased Mineral Owner:	Richard H. and Syble W. Corn Trust
Description of Lands:	W/2W/2 of Sec. 13-T6S-R26E
Net Acres:	10.00
Percentage in Spacing Unit:	3.125%

**Sterne BCS Com #2**  
**Township 6 South, Range 26 East, NMPM**  
**Section 13: SW/4**  
**Chaves County, New Mexico**  
**160 acres, more or less**

Unleased Mineral Owner:	Mobil Producing Texas & New Mexico, Inc.
Description of Lands:	W/2SW/4 of Sec. 13-T6S-R26E
Net Acres:	40.00
Percentage in Spacing Unit:	25.00%

Unleased Mineral Owner:	Lacy Shortridge Revocable Living Trust
Description of Lands:	W/2SW/4 of Sec. 13-T6S-R26E
Net Acres:	5.00
Percentage in Spacing Unit:	3.125%

Unleased Mineral Owner:	Richard H. and Syble W. Corn Trust
Description of Lands:	W/2SW/4 of Sec. 13-T6S-R26E
Net Acres:	5.00
Percentage in Spacing Unit:	3.125%



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



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

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

March 13, 2003

Mr. Paul Keffer  
ExxonMobil and Production Company  
P.O. Box 4697  
Houston, TX 77210-4697

**Certified Mail**  
**Return Receipt Requested**

Re: Township 6 South, Range 26 East, NMPM  
Section 11: S/2SW/4  
Section 13: W/2W/2  
Chaves County, New Mexico

Dear Mr. Keffer:


Pursuant to our conversations on March 12, 2003, Yates Petroleum Corporation is interested in leasing the minerals from Mobil Producing Texas and New Mexico Company, Inc. In our conversation on the phone, you requested that I provide information with regards to our expiring lease acreage, which will expire at the end of May, 2003. Currently, we are planning to drill a well in each section to the PreCambrian formation at a depth of approximately 5,800'. Additionally, in our phone conversation, you suggested the proposed terms of a two year lease, \$150 per net mineral acre bonus and delivery of a 75% net revenue interest.

Upon reviewing our files and determining what we have done in the immediate area, Yates Petroleum Corporation hereby makes the following offer to lease your minerals. We offer to lease your minerals for a 5 year paid up oil and gas lease, 3/16 royalty reservation and \$50 per net acre bonus consideration on the lease form attached hereto as Exhibit A. This offer is subject to title acceptable to Yates Petroleum Corporation and will expire on March 28, 2003.

Lastly, due to the lease expiration problem that I have, I will need to pursue other means if we do not have a signed lease. If you have any questions, please give me a call.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

CEM:hp

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 3  
Submitted by:  
YATES PETROLEUM CORPORATION  
Hearing Date: April 24, 2003

7002 0860 0006 7052 4920

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

**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
<b>Total Postage &amp; Fees</b>	<b>\$</b>



Sent To Mr. Paul Keffer  
ExxonMobil & Production Company  
 Street, Apt. No.,  
 or PO Box No. P.O. Box 4697  
 City, State, ZIP+4 Houston, TX 77210-4697

PS Form 3800, April 2002 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:

Mr. Paul Keffer  
 ExxonMobil & Production Company  
 P.O. Box 4697  
 Houston, TX 77210-4697

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature GEE ☐ Agent  
☒ Addressee

B. Received by (Printed Name) \_\_\_\_\_ C. Date of Delivery MAR 17 2002

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 0860 0006 7052 4920

Offer  
 6S-26E-11,13

CUSTOMER'S DRAFT

Courtesy of

THE FIRST NATIONAL BANK

P.O. BOX AA

ARTESIA, NEW MEXICO 88210

Thirty (30) Banking Days From Sight Subject  
To Approval Of Title With Lease Attached

ARTESIA, NEW MEXICO

March 13, 2003

PAY TO THE

ORDER OF

ExxonMobil and Production Company f/k/a

\$6,000.00

Mobil Producing Texas and New Mexico, Inc.

Six Thousand Dollars & 00/100

DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

WITH EXCHANGE

TO: First National Bank of Artesia  
Artesia, New Mexico 88210  
Acct. of Yates Petroleum Corporation

YATES PETROLEUM CORPORATION



Chuck Moran, Landman

Endorsement of this draft constitutes acceptance of the face amount thereof as full bonus consideration for the five year paid up oil & gas lease paid to ExxonMobil and Production Company, f/k/a Mobil Producing Texas and New Mexico, Inc., by Yates Petroleum Corporation, et al, covering:

Township 6 South, Range 26 East, NMPM

Section 11: S/2SW/4

Section 13: W/2W/2

Chaves County, New Mexico

Containing 240.00 gross/ 120.00 net acres,  
more or less

Payment \$6000.00

Bonus @ \$50.00 per net acre = \$6000.00

**EXXONMOBIL AND PRODUCTION COMPANY**  
**f/k/a MOBIL PRODUCING TEXAS AND NEW**  
**MEXICO, INC.**

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

Its: \_\_\_\_\_

Tax ID# \_\_\_\_\_

**EXXONMOBIL AND PRODUCTION COMPANY f/k/a  
MOBIL PRODUCING TEXAS AND NEW MEXICO, INC.**

**Yates Petroleum Corporation has adopted a procedure of no longer recording Social Security Numbers or Tax Identification Numbers on our Leases. However, this information is still necessary in order to pay bonuses. Therefore, please sign below and fill in your SSN/Tax ID next to your signature and return this page with the executed Lease. This information will be placed in our files and not recorded in the county records.**

**ExxonMobil and Production Company  
Mobil Producing Texas and New Mexico, Inc.**

**By: \_\_\_\_\_  
Its: \_\_\_\_\_**

**\_\_\_\_\_  
SSN/Tax ID#**



THIS AGREEMENT made this 13<sup>th</sup> day of November, 2002, between **EXXONMOBIL AND PRODUCTION COMPANY f/k/a MOBIL PRODUCING TEXAS AND NEW MEXICO, INC.**, as Lessor (whether one or more), and **YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND MYCO INDUSTRIES, INC.-10%**, as Lessee, WITNESSETH:

1. Lessors in consideration of Ten and No/100 Dollars (\$ 10.00 ) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Chaves County, New Mexico to-wit:

Township 6 South, Range 26 East, NMPM  
Section 11: S/2SW/4  
Section 13: W/2W/2  
Containing 240.00 acres, more or less

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

3. The royalties to be paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

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

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

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

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

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

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

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

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

**EXXONMOBIL AND PRODUCTION COMPANY f/k/a  
MOBIL PRODUCING TEXAS AND NEW MEXICO, INC.**

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

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



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

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

March 31, 2003

Mr. Paul Keffer  
ExxonMobil and Production Company  
P.O. Box 4697  
Houston, TX 77210-4697

**Via Certified Mail**  
**Return Receipt Requested**

Re: Sterne BCS Com #1  
Township 6 South, Range 26 East, NMPM  
Section 11: W/2  
Chaves County, New Mexico

Dear Mr. Keffer:

Yates Petroleum Corporation is proposing to drill the captioned well and invites you to participate in the drilling of this well. I enclose for your review and execution a copy of the Joint Operating Agreement and Authority for Expenditure to drill the well. The estimated completed well cost is \$685,700.00 and the proposed Operating Agreement is the normal agreement used by Yates Petroleum Corporation. If this meets with your approval, please execute and return the signature page to the Operating Agreement and one signed copy of the AFE back to the undersigned. You may retain the other copy of the AFE and the full copy of the Operating Agreement for your records.

Due to the timing of operations, we request your prompt attention in this matter. If you have any questions, please give me a call.

Very truly yours,

**YATES PETROLEUM CORPORATION**

Chuck Moran  
Landman

CEM:hp  
Enclosure

7002 0860 0006 7052 6245

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

**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$



**Sent To** Mr. Paul Keffer  
ExxonMobil and Production Company  
Street, Apt. No. or PO Box No. **P.O. Box 4697**  
City, State, **Houston, TX 77210-4697**

PS Form 3800, April 2002 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:

**Mr. Paul Keffer  
ExxonMobil and Production Company  
P.O. Box 4697  
Houston, TX 77210-4697**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature **GEE** ☐ Agent  
☒ Addressee

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

**APR 03 2003**

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

**7002 0860 0006 7052 6245**

**Sterne # 1**

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



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

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
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DENNIS G. KINSEY  
TREASURER

March 31, 2003

Mr. Paul Keffer  
ExxonMobil and Production Company  
P.O. Box 4697  
Houston, TX 77210-4697

**Via Certified Mail**  
**Return Receipt Requested**

Re: Sterne BCS Com #2  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2  
Chaves County, New Mexico

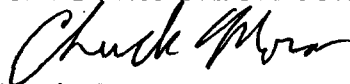
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Due to the timing of operations, we request your prompt attention in this matter. If you have any questions, please give me a call.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

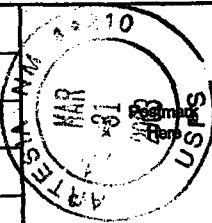
CEM:hp  
Enclosure

7052 6252 7052 6252 7052 6252 7052 6252

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

**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$



**Sent To**

**ExxonMobil and Production Company**

**Street, Apt. No., or PO Box No.** Attn: Paul Keffer  
 P.O. Box 4697

**City, State, ZIP+4** Houston, TX 77210-4697

PS Form 3800, April 2002 See Reverse for Instructions

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**ExxonMobil and Production Company**  
**Attn: Paul Keffer**  
**P.O. Box 4697**  
**Houston, TX 77210-4697**

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature **GEE** ☐ Agent ☐ Addressee

B. Received by (Printed Name) **APR 10 3 2003**

C. Date of Delivery

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

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

7002 0860 0006 7052 6252

**Sterne #2**

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-1035



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



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

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

March 31, 2003

The Richard H. and Syble W. Corn Trust  
1250 Lillie Drive  
Bosque Farms, NM 87068

**Via Certified Mail**  
**Return Receipt Requested**

Re: Sterne BCS Com #2  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2  
Chaves County, New Mexico

Dear Mr. and Mrs. Corn:

Yates Petroleum Corporation is proposing to drill the captioned well and invites you to participate in the drilling of this well. I enclose for your review and execution a copy of the Joint Operating Agreement and Authority for Expenditure to drill the well. The estimated completed well cost is \$700,400.00 and the proposed Operating Agreement is the normal agreement used by Yates Petroleum Corporation. If this meets with your approval, please execute and return the signature page to the Operating Agreement and one signed copy of the AFE back to the undersigned. You may retain the other copy of the AFE and the full copy of the Operating Agreement for your records.

Due to the timing of operations, we request your prompt attention in this matter. If you have any questions, please give me a call.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

CEM:hp  
Enclosure



YATES BUILDING - 105 SOUTH FOURTH ST.  
ARTESIA, NEW MEXICO 88210-2118

ADDRESS SERVICE REQUESTED

The Richard H. and Syble W. Corn Trust  
1250 Lillie Drive  
Bosque Farms, NM 87068

Forwarding Order Expired  
Insufficient Address  
Moved, Left No Address  
Unclaimed - Return  
Assumed - Not Known  
No Such Street  
No Such Number  
No Mail Recipients  
Do Not Forward to This Service  
Carrier's Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"><li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li><li>Print your name and address on the reverse so that we can return the card to you.</li><li>Attach this card to the back of the mailpiece, or on the front if space permits.</li></ul>		A. Signature <b>X</b> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee	
1. Article Addressed to:  The Richard H. and Syble W. Corn Trust 1250 Lillie Drive Bosque Farms, NM 87068		B. Received by (Printed Name)	C. Date of Delivery
		D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No	
		3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
2. Article Number <b>7002 0860 0006 7052 6320</b>		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	
PS Form 3811, August 2001		Domestic Return Receipt	
		102595-02-M-1035	

Stume #2

7002 0860 0006 7052 6320

U.S. Postal Service CERTIFIED MAIL RECEIPT (Domestic Mail Only: No Insurance Coverage Provided)	
OFFICIAL USE	
Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$
Sent To The Richard H. and Syble W. Corn Trust Street, Apt. No., 1250 Lillie Drive or PO Box No. Bosque Farms, NM 87068 City, State, ZIP+ 4	
PS Form 3800, April 2002	



See Reverse for Instructions

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



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

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

April 10, 2003

Ms. Cathy Griggs, Trustee  
Richard H. & Syble W. Corn Trust  
C/o Rio Hondo Land and Cattle Company  
West on US 380, South on E028,  
Cross Bridge, Turn left to House  
Picacho, NM 88343

*Via Federal Express*

Re: Richard H. & Syble W. Corn Trust  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2  
Chaves County, New Mexico

Dear Ms. Griggs:

Pursuant to our telephone conversation, enclosed please find our original mailing of March 31, 2003, inviting you to participate in the drilling of the Sterne BCS Com #2 Well. Alternatively, we have enclosed an offer to lease the mineral interest belonging to the Richard H. and Syble W. Corn Trust. Please return either the signed lease for bonus payment or the executed AFE and Operating Agreement if you wish to participate in the well. Also, please send a copy of the Trust Agreement with your signed documents. We are preparing to drill the Sterne BCS Com #2 well, so we would appreciate your prompt attention to this matter. If you have any questions, please do not hesitate to call. Thank you.

Very truly yours,

**YATES PETROLEUM CORPORATION**

Chuck Moran  
Landman

CEM:hp  
Enclosure

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



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

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

April 10, 2003

The Richard H. and Syble W.  
Corn Trust, u/a/d 10-4-83  
Cathy Griggs, Trustee  
P.O. Box 2  
Picacho, NM 88343

Re: Five Year Oil and Gas Lease  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Chaves County, New Mexico  
160.00 gross/10.00 net acres, more or less

Dear Ms. Griggs:

Yates Petroleum Corporation would like to extend an offer to lease your mineral interest in the captioned acreage subject to the following terms:

1. A Paid Up Five (5) Year Oil and Gas Lease.
2. A one (1) time bonus consideration equal to \$70.00 for each net mineral acre owned by you.
3. A royalty reservation equal to 3/16 on all oil and gas produced from the leased lands.
4. Offer will expire at office closing on April 30, 2003.
5. Title acceptable to Yates Petroleum Corporation.

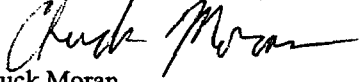
If the above meets with your approval, please execute the enclosed Oil and Gas Lease before a Notary Public, endorse the enclosed draft and send for collection to:

First National Bank of Artesia  
P.O. Drawer AA  
Artesia, New Mexico 88210  
Attention: Collection Department

Please do not hesitate to contact us, should you have any questions.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

CEM:hp  
Enclosure(s)

CUSTOMER'S DRAFT  
Courtesy of  
THE FIRST NATIONAL BANK  
P.O. BOX AA  
ARTESIA, NEW MEXICO 88210

**Thirty (30) Banking Days From Sight Subject  
To Approval Of Title With Lease Attached**

ARTESIA, NEW MEXICO

April 10, 2003

**PAY TO THE  
ORDER OF**

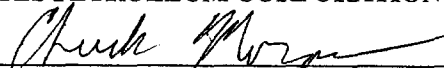
Richard H. and Syble W. Corn Trust  
Cathy Griggs, Trustee

\$700.00

Seven Hundred Dollars & 00/100----- **DOLLARS**  
VALUE RECEIVED AND CHARGE TO ACCOUNT OF WITH EXCHANGE

TO: First National Bank of Artesia  
Artesia, New Mexico 88210  
Acct. of Yates Petroleum Corporation

**YATES PETROLEUM CORPORATION**

  
Chuck Moran, Landman



Endorsement of this draft constitutes acceptance of the face amount thereof as full bonus consideration for the five year paid up oil & gas lease paid to the Richard H. and Syble W. Corn Trust, Cathy Griggs, Trustee, by Yates Petroleum Corporation, et al, covering:

Township 6 South, Range 26 East, NMPM  
Section 13: W/2  
Chaves County, New Mexico  
Containing 160.00 gross/ 10.00 net acres,  
more or less

Total Payment \$700.00

Bonus @ \$25.00 per net acre = \$700.00

**RICHARD H. & SYBLE W. CORN TRUST**

By: \_\_\_\_\_  
Cathy Griggs, Trustee  
Tax ID# \_\_\_\_\_

**RICHARD H. AND SYBLE W. CORN TRUST**

**Yates Petroleum Corporation has adopted a procedure of no longer recording Social Security Numbers or Tax Identification Numbers on our Leases. However, this information is still necessary in order to pay bonuses. Therefore, please sign below and fill in your SSN/Tax ID next to your signature and return this page with the executed Lease. This information will be placed in our files and not recorded in the county records.**

**Richard H. and Syble W. Corn Trust**

\_\_\_\_\_  
**Cathy Griggs, Trustee**

\_\_\_\_\_  
**SSN/Tax ID#**

THIS AGREEMENT made this 10<sup>th</sup> day of April, 2003, between **THE RICHARD H. AND SYBLE W. CORN TRUST u/a/d 10-4-83, Cathy Griggs, Trustee**, as Lessor (whether one or more), and **YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND MYCO INDUSTRIES, INC.-10%**, as Lessee, WITNESSETH:

1. Lessors in consideration of Ten and No/100 \_\_\_\_\_ Dollars (\$ 10.00 ) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Chaves County, New Mexico to-wit:

Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Containing 160.00 acres, more or less

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

3. The royalties to be paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

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

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

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

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

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

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

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

IN WITNESS WHEREOF, this instrument is executed on the date first above written.  
  
**The Richard H. and Syble W. Corn Trust u/a/d 10-4-83**

\_\_\_\_\_  
Cathy Griggs, Trustee

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



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

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

March 28, 2003

The Richard H. and Syble W.  
Corn Trust, u/a/d 10-4-83  
1250 Lillie Drive  
Bosque Farms, NM 87068

Re: Five Year Oil and Gas Lease  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Chaves County, New Mexico  
160.00 gross/10.00 net acres, more or less

Dear Mr. and Mrs. Corn:

Yates Petroleum Corporation would like to extend an offer to lease your mineral interest in the captioned acreage subject to the following terms:

1. A Paid Up Five (5) Year Oil and Gas Lease.
2. A one (1) time bonus consideration equal to \$50.00 for each net mineral acre owned by you.
3. A royalty reservation equal to 3/16 on all oil and gas produced from the leased lands.
4. Offer will expire at office closing on April 14, 2003.
5. Title acceptable to Yates Petroleum Corporation.


If the above meets with your approval, please execute the enclosed Oil and Gas Lease before a Notary Public, endorse the enclosed draft and send for collection to:

First National Bank of Artesia  
P.O. Drawer AA  
Artesia, New Mexico 88210  
Attention: Collection Department

Please do not hesitate to contact us, should you have any questions.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

CEM:hp  
Enclosure(s)

THIS AGREEMENT made this 28<sup>th</sup> day of March, 2003, between THE RICHARD H. AND SYBLE W. CORN TRUST u/a/d 10-4-83, Trustee as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND MYCO INDUSTRIES, INC.-10%, as Lessee, WITNESSETH:

1. Lessors in consideration of Ten and No/100-----Dollars (\$ 10.00 ) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Chaves County, New Mexico to-wit:

Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Containing 160.00 acres, more or less

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

3. The royalties to be paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

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

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

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

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

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

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

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

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

The Richard H. and Syble W. Corn Trust u/a/d 10-4-83

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



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



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

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

March 19, 2003

The Richard H. and Syble W.  
Corn Trust, u/a/d 10-4-83  
8701 Natalie Avenue, NE  
Albuquerque, NM 87110-1366

Re: Five Year Oil and Gas Lease  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Chaves County, New Mexico  
160.00 gross/10.00 net acres, more or less

Dear Gentlemen:

Yates Petroleum Corporation would like to extend an offer to lease your mineral interest in the captioned acreage subject to the following terms:

1. A Paid Up Five (5) Year Oil and Gas Lease.
2. A one (1) time bonus consideration equal to \$50.00 for each net mineral acre owned by you.
3. A royalty reservation equal to 3/16 on all oil and gas produced from the leased lands.
4. Offer will expire at office closing on April 4, 2003.
5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute the enclosed Oil and Gas Lease before a Notary Public, endorse the enclosed draft and send for collection to:

First National Bank of Artesia  
P.O. Drawer AA  
Artesia, New Mexico 88210  
Attention: Collection Department

Please do not hesitate to contact us, should you have any questions.

Very truly yours,

**YATES PETROLEUM CORPORATION**

Chuck Moran  
Landman

CEM:hp  
Enclosure(s)

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



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ARTESIA, NEW MEXICO 88210-2118  
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SECRETARY  
DENNIS G. KINSEY  
TREASURER

March 31, 2003

The Lacy Shortridge Revocable  
Living Trust  
Bank of America, N.A., Trustee  
2620 Carlisle Avenue, NE  
Albuquerque, NM 87110

**Via Certified Mail**  
**Return Receipt Requested**

Re: Sterne BCS Com #2  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2  
Chaves County, New Mexico


Dear Gentlemen:

Yates Petroleum Corporation is proposing to drill the captioned well and invites you to participate in the drilling of this well. I enclose for your review and execution a copy of the Joint Operating Agreement and Authority for Expenditure to drill the well. The estimated completed well cost is \$700,400.00 and the proposed Operating Agreement is the normal agreement used by Yates Petroleum Corporation. If this meets with your approval, please execute and return the signature page to the Operating Agreement and one signed copy of the AFE back to the undersigned. You may retain the other copy of the AFE and the full copy of the Operating Agreement for your records.

Due to the timing of operations, we request your prompt attention in this matter. If you have any questions, please give me a call.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Chuck Moran  
Landman

CEM:hp  
Enclosure

7002 0860 0006 7052 6313

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

**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$

Postmark  
 ALBUQUERQUE NM 87110  
 MAR 2003  
 USPS

Sent To  
 Lacy Shortridge Revocable Living Trust  
 Bank of America, N.A., Trustee  
 2620 Carlisle Ave., NE  
 City, State, ZIP+4 Albuquerque, NM 87110

PS Form 3800, April 2002  
 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece, or on the front if space permits.</li> </ul>	<p>A. Signature  <input checked="" type="checkbox"/> Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) C. Date of Delivery        4-20-03</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes        If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>1. Article Addressed to:</p> <p>Lacy Shortridge Revocable Living Trust          Bank of America, N.A., Trustee          2620 Carlisle Ave., NE          Albuquerque, NM 87110</p>	<p>3. Service Type  <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</p>
<p>2. Article Number          7002 0860 0006 7052 6313</p>	<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>

PS Form 3811, August 2001 Domestic Return Receipt 102595-02-M-1035

Sterne #2

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



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

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

March 19, 2003

Trust Department of Sunwest Bank, NA,  
Now known as Bank of America, NA, Trustee  
of the Lacy Shortridge Revocable Living Trust  
2620 Carlisle Avenue, NE  
Albuquerque, NM 87110

Re: Five Year Oil and Gas Lease  
Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Chaves County, New Mexico  
160.00 gross/10.00 net acres, more or less

Dear Gentlemen:

Yates Petroleum Corporation would like to extend an offer to lease the Lacy Shortridge Revocable Living Trust's mineral interest in the captioned acreage subject to the following terms:

1. A Paid Up Five (5) Year Oil and Gas Lease.
2. A one (1) time bonus consideration equal to \$50.00 for each net mineral acre owned by you.
3. A royalty reservation equal to 3/16 on all oil and gas produced from the leased lands.
4. Offer will expire at office closing on April 4, 2003.
5. Title acceptable to Yates Petroleum Corporation.


If the above meets with your approval, please execute the enclosed Oil and Gas Lease before a Notary Public, endorse the enclosed draft and send for collection to:

First National Bank of Artesia  
P.O. Drawer AA  
Artesia, New Mexico 88210  
Attention: Collection Department

Please do not hesitate to contact us, should you have any questions.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Chuck Moran  
Landman

CEM:hp  
Enclosure(s)

CUSTOMER'S DRAFT  
Courtesy of  
THE FIRST NATIONAL BANK  
P.O. BOX AA  
ARTESIA, NEW MEXICO 88210

Thirty (30) Banking Days From Sight Subject  
To Approval Of Title With Lease Attached

ARTESIA, NEW MEXICO

March 19, 2003

PAY TO THE  
ORDER OF

The Lacy Shortridge Revocable Living Trust, originally dated 4-14-87, \$500.00  
as amended and restated 11-10-92, Trust Department of Sunwest Bank, NA  
now known as Bank of America, NA, Trustee

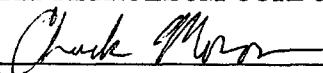
Five Hundred Dollars & 00/100----- DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

WITH EXCHANGE

TO: First National Bank of Artesia  
Artesia, New Mexico 88210  
Acct. of Yates Petroleum Corporation

YATES PETROLEUM CORPORATION

  
Chuck Moran, Landman

Endorsement of this draft constitutes acceptance of the face amount thereof as full bonus consideration for the five year paid up oil & gas lease paid to the Lacy Shortridge Revocable Living Trust, originally dated 4-14-87, as amended and restated 11-10-92, Trust Department of Sunwest Bank, NA, now known as Bank of America, NA, Trustee, by Yates Petroleum Corporation, et al, covering:

Township 6 South, Range 26 East, NMPM

Section 13: W/2W/2

Chaves County, New Mexico

Containing 160.00 gross/ 10.00 net acres,

more or less

Total Payment                      \$500.00

Bonus @ \$50.00 per net acre = \$500.00

**The Lacy Shortridge Revocable Living Trust,  
originally dated 4-14-87, as amended and  
restated 11-10-92, Trust Department of  
Sunwest Bank, NA, now known as Bank of  
America, NA, Trustee**

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

Its: \_\_\_\_\_

Tax ID# \_\_\_\_\_

**LACY SHORTRIDGE REVOCABLE LIVING TRUST  
ORIGINALLY DATED 4-14-87, AS AMENDED AND  
RESTATED 11-10-92**

**Yates Petroleum Corporation has adopted a procedure of no longer recording Social Security Numbers or Tax Identification Numbers on our Leases. However, this information is still necessary in order to pay bonuses. Therefore, please sign below and fill in your SSN/Tax ID next to your signature and return this page with the executed Lease. This information will be placed in our files and not recorded in the county records.**

**LACY SHORTRIDGE REVOCABLE  
LIVING TRUST  
Bank of America, NA, Trustee**

**By: \_\_\_\_\_  
Its: \_\_\_\_\_**

**\_\_\_\_\_  
SSN/Tax ID#**

THIS AGREEMENT made this 19<sup>th</sup> day of March, 2003, between THE LACY SHORTRIDGE REVOCABLE LIVING TRUST, ORIGINALLY DATED 4-14-87, AS AMENDED AND RESTATED 11-10-92, Trust Department of Sunwest Bank, NA, now known as Bank Of America, Trustee, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND MYCO INDUSTRIES, INC.-10%, as Lessee, WITNESSETH:

1. Lessors in consideration of Ten and No/100 Dollars (\$ 10.00 ) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Chaves County, New Mexico to-wit:

Township 6 South, Range 26 East, NMPM  
Section 13: W/2W/2  
Containing 160.00 acres, more or less

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

3. The royalties to be paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

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

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

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

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

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

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

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

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

The Lacy Shortridge Revocable Living Trust, originally  
Dated 4-14-87, as amended and restated 11-10-92, Trust  
Department of Sunwest Bank, NA, now known as Bank of  
America, NA, Trustee

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





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

**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING, RECOMPLETION & RE-ENTRY

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

A/E STATUS:

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

A/E NO.  
A/E DATE

03-123-0

3/18/03

AFEND (rev 6/98)

3-20-03

LEASE NAME	Sterne BCS Com. #1	PROJ'D DEPTH	5795'
COUNTY	Chaves	STATE	New Mexico
FIELD	Pecos Slope	HORIZON	Pre-Cambrian
LOCATION	Section 11, T6S-R26E, 660' S & 660' W		

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: New well drilled to 6,160' to test the Abo, Wolfcamp, Cisco, Strawn, Siluro-Devonian formations.

INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,500	1,500
920-110	Location, Right-of-Way	25,000	25,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 20 days @ \$7,000/day & \$15,000 Mob	164,300	164,300
920-140	Drilling Water, Fasline Rental	12,200	12,200
920-150	Drilling Mud & Additives	16,000	16,000
920-160	Mud Logging Unit, Sample Bags	10,000	10,000
920-170	Cementing - Surface Casing	15,000	15,000
920-180	Drill Stem Testing, OHT	0	0
920-190	Electric Logs & Tape Copies	24,000	24,000
920-200	Tools & Equip. Rntl., Trkg. & Welding & mud motor rental	30,000	30,000
920-205	Control of Well-Insurance	1,000	1,000
920-210	Supervision & Overhead	16,000	16,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	20,000	20,000
920-350	Cementing - Production Casing		19,000
920-410	Completion Unit - Swabbing		20,000
920-420	Water for Completion		15,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		15,000
920-460	Tools & Equip. Rental, Etc. - Completion		30,000
920-470	Stimulation for Completion		80,000
920-480	Supervision & O/H - Completion		10,000
920-490	Additional LOC Charges - Completion		5,000
920-510	Bits, Tools & Supplies - Completion		500
920-500	Contingency for Completion	0	0
TOTAL INTANGIBLE DRILLING COSTS		335,000	530,500

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	1,500	10,000
930-020	Casing 11 3/4" @ 950'	16,000	16,000
	8 5/8" @ 1600' (optional)	14,000	14,000
	5 1/2" @ 5795'		56,700
930-030	Tubing 2 7/8" @ 5,500'		22,500
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		8,000
940-030	Separation Equip., Flowlines, Misc.		20,000
940-040	Trucking & Construction Costs		8,000
TOTAL TANGIBLE EQUIPMENT COSTS		31,500	155,200

TOTAL COSTS	366,500	685,700
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IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS A/E SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	CM	AI Springer	Operations Approval	
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Yates Petroleum Corporation	DATE
BY John A. Yates	

8.1562500%

Yates Drilling Company	BEFORE THE OIL CONSERVATION DIVISION
BY Eli Khan	Santa Fe, New Mexico
	Case No. 13055/13056 Exhibit No. 4

25.4062500%

Myco Industries, Inc.	Submitted by:
BY Frank C. Yates	YATES PETROLEUM CORPORATION
	Hearing Date: April 24, 2003

25.4062500%

Abo Petroleum Corporation	DATE
BY John A. Yates	

25.4062500%

OWNER	SHARE
ExxonMobil and Production Company	12.5000000%
By: _____ Date: _____	
James S. Hughes	0.6250000%
By: _____ Date: _____	
Jennie H. Mays	0.6250000%
By: _____ Date: _____	
Mardine H. Cooper	0.6250000%
By: _____ Date: _____	
Peggy H. Paradee	0.6250000%
By: _____ Date: _____	
Richard Hughes	0.6250000%
By: _____ Date: _____	
TOTAL	100.0000000%



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

**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. 03-124-0  
AFE DATE 3/18/03

AFEND (rev 6/98)  
3-20-03

AFE Type:	Well Objective:	Well Type:
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Exploratory
<input type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

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

LEASE NAME	Sterne BCS Com. #2	PROJ'D DEPTH	5835'
COUNTY	Chaves	STATE	New Mexico
FIELD	Pecos Slope	HORIZON	Pre-Cambrian
LOCATION	Section 13, T6S-R26E, 660' S & 660' W		

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: New well drilled to 6,160' to test the Abo, Wolfcamp, Cisco, Strawn, Siluro-Devonian formations.

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,500	1,500
920-110	Location, Right-of-Way	25,000	25,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 21 days @ \$7,000/day & \$15,000 Mob	178,200	178,200
920-140	Drilling Water, Fasline Rental	12,200	12,200
920-150	Drilling Mud & Additives	16,000	16,000
920-160	Mud Logging Unit, Sample Bags	10,000	10,000
920-170	Cementing - Surface Casing	15,000	15,000
920-180	Drill Stem Testing, OHT	0	0
920-190	Electric Logs & Tape Copies	24,000	24,000
920-200	Tools & Equip. Rntl., Trkg. & Welding & mud motor rental	30,000	30,000
920-205	Control of Well-Insurance	1,000	1,000
920-210	Supervision & Overhead	16,000	16,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	20,000	20,000
920-350	Cementing - Production Casing		19,000
920-410	Completion Unit - Swabbing		20,000
920-420	Water for Completion		15,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		15,000
920-460	Tools & Equip. Rental, Etc. - Completion		30,000
920-470	Stimulation for Completion		80,000
920-480	Supervision & O/H - Completion		10,000
920-490	Additional LOC Charges - Completion		5,000
920-510	Bits, Tools & Supplies - Completion		500
920-500	Contingency for Completion	0	0
TOTAL INTANGIBLE DRILLING COSTS		348,900	544,400

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	1,500	10,000
930-020	Casing 11 3/4" @ 950'	16,000	16,000
	8 5/8" @ 1600' (optional)	14,000	14,000
	5 1/2" @ 5835'		57,100
930-030	Tubing 2 7/8" @ 5,600'		22,900
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		8,000
940-030	Separation Equip., Flowlines, Misc.		20,000
940-040	Trucking & Construction Costs		8,000
TOTAL TANGIBLE EQUIPMENT COSTS		31,500	156,000
TOTAL COSTS		380,400	700,400

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	CM Al Springer	Operations Approval	
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Yates Petroleum Corporation	12.3125%
BY John A. Yates	DATE
Yates Drilling Company	18.8125%
BY John A. Yates	DATE
Industries, Inc.	18.8125%
BY John A. Yates	DATE
Yates Petroleum Corporation	18.8125%
BY John A. Yates	DATE

Sterne BCS Com #2  
Séc. 13, T6S-R26E  
Chaves County, New Mexico

AFE #03-124-0  
Date: 3/18/03  
Page 2

OWNER

SHARE

ExxonMobil and Production Company

25.0000%

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

The Lacy Shortridge Revocable Living Trust, originally  
dated 4-14-87, as amended and restated 11-10-92

3.1250%

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

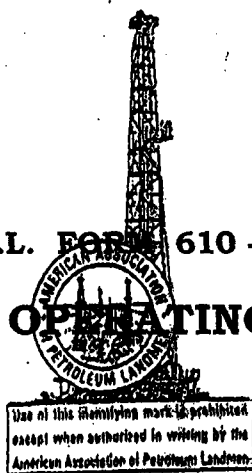
The Richard H. and Syble W. Corn Trust, u/a/d 10-4-83

3.1250%

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

TOTAL 100.0000000%

A.A.P.L. FORM 610 - 1977  
**MODEL FORM OPERATING AGREEMENT**



**STERNE BCS COM #1**

**OPERATING AGREEMENT**

DATED

March 19, 2003

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA TOWNSHIP 6 SOUTH, RANGE 26 EAST, N.M.P.M.

SECTION 11: W/2

COUNTY OR PARISH OF CHAVES STATE OF NEW MEXICO

COPYRIGHT 1977 ----- ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM. A.A.P.L. NO. 610-1977 REVISED  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 5  
Submitted by:  
YATES PETROLEUM CORPORATION  
Hearing Date: April 24, 2003

## EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated March 19, 2003 between Yates Petroleum Corporation, as "Operator" and Yates Drilling Company, et al, as "Non-Operators".

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

#### 3. Advances and Payments by Non-Operators

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

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

#### 4. Adjustments

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

#### 5. Audits

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

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

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

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

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

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (XX ) Fixed Rate Basis, Paragraph 1A, or  
( ) Percentage Basis, Paragraph 1B.

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (XX) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

- (1) Operator shall charge the Joint Account at the following rates per well per month:

	Surface to 4,000'	4,000' to 8,000'	8,000' to 12,000'	12,000' to 15,000'	over 15,000'
Drilling Well Rate \$	3,000.00	4,000.00	5,400.00	6,200.00	8,500.00
Producing Well Rate \$	300.00	400.00	540.00	620.00	850.00

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

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.



**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

**2. Overhead - Major Construction**

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
  - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
  - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

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

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

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

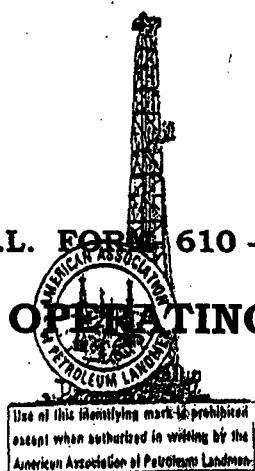
Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed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

**4. Expense of Conducting Periodic Inventories**

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

A.A.P.L. FORM 610 - 1977

**MODEL FORM OPERATING AGREEMENT**



**STERNE BCS COM #2**

**OPERATING AGREEMENT**

DATED

March 26, 2003

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA TOWNSHIP 6 SOUTH, RANGE 26 EAST, N.M.P.M.

SECTION 13: W/2

COUNTY OR PARISH OF CHAVES STATE OF NEW MEXICO

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## EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated March 19, 2003 between Yates Petroleum Corporation, as "Operator" and Yates Drilling Company, et al, as "Non-Operators".

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

#### 3. Advances and Payments by Non-Operators

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

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

#### 4. Adjustments

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

#### 5. Audits

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

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

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

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

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

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

**0. Taxes**

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

**1. Insurance**

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

**2. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (XX ) Fixed Rate Basis, Paragraph 1A, or  
( ) Percentage Basis, Paragraph 1B.

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (XX) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

- (1) Operator shall charge the Joint Account at the following rates per well per month:

	Surface to 4,000'	4,000' to 8,000'	8,000' to 12,000'	12,000' to 15,000'	over 15,000'
Drilling Well Rate \$	3,000.00	4,000.00	5,400.00	6,200.00	8,500.00
Producing Well Rate \$	300.00	400.00	540.00	620.00	850.00

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

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

**2. Overhead - Major Construction**

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
  - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
  - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

**B. Good Used Material (Condition B)**

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

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



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

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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



**-BEFORE THE OIL CONSERVATION DIVISION  
NEW MEXICO ENERGY, MINERALS AND  
NATURAL RESOURCES DEPARTMENT**

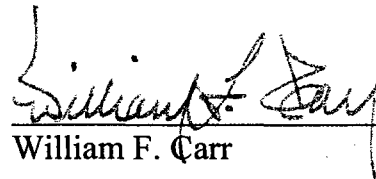
**APPLICATION OF YATES PETROLEUM CORPORATION  
FOR COMPULSORY POOLING, CHAVES COUNTY,  
NEW MEXICO.**

**CASE NO. \_\_\_\_\_**


**AFFIDAVIT**

STATE OF NEW MEXICO       )  
  ) ss.  
COUNTY OF SANTA FE       )

William F. Carr, attorney in fact and authorized representative of Yates Petroleum Corporation, the Applicant herein, being first duly sworn, upon oath, states that notice has been given to all interested persons entitled to receive notice of this application under Oil Conservation Division rules, and that notice has been given at the addresses shown on Exhibit "A" attached hereto.

  
\_\_\_\_\_  
William F. Carr

SUBSCRIBED AND SWORN to before me this 16<sup>th</sup> day of April 2003.

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

My Commission Expires:

Aug 23, 2005

**EXHIBIT A**

**APPLICATION OF  
YATES PETROLEUM CORPORATION.  
FOR COMPULSORY POOLING  
W/2 OF SECTION 11, TOWNSHIP 6 SOUTH, RANGE 26 EAST, N.M.P.M.  
CHAVES COUNTY, NEW MEXICO.**

ExxonMobil and Production Company  
Post Office Box 4697  
Houston, Texas 77210  
Attention: Mr. Paul Keffer

Mobil Producing Texas & New Mexico, Inc.  
Post Office Box 4697  
Houston, Texas 77210  
Attention: Mr. Paul Keffer

James Hughes  
Post Office Box 156  
Roswell, New Mexico 88201

Jennie H. Mays  
R Rt 3-403 Meadow Brook Rd.  
Roswell, New Mexico 88201

Mardine H. Cooper  
Post Office Box 22  
Roswell, New Mexico 88201

Peggy H. Paradee  
6509 Oakhurst Drive  
Amarillo, Texas 79109

Richard Hughes  
Post Office Box 156  
Roswell, New Mexico 88201

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

OFFICIAL U.S. MAIL

Yates  
Stern #1

Postage	\$ 1.83
Certified Fee	2.36
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.88

SANTA FE NM 88201

Sent To  
Mardine H. Cooper  
Post Office Box 22  
Roswell, NM 88201

PS Form 3800, July 1999

**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:

Mardine H. Cooper  
Post Office Box 22  
Roswell, NM 88201

2. Article Number (Copy from service label)

7001 1140 0002 5601 5829

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

- 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:

ExxonMobil Production Co.  
Attention: Mr. Paul Keffer  
Post Office Box 4697  
Houston, Texas 77210

2. Article Number (Copy from service label)

7001 1140 0002 5601 5850

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

- 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:

James Hughes  
Post Office Box 156  
Roswell, NM 88201

2. Article Number (Copy from)

7001 1140 0002 5601 5805

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

Mrs. CARL Cooper 4/2/03

C. Signature

X Mrs. Carl Cooper ☐ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes ☐ No

If YES, enter delivery address below:

YES, enter delivery address below:

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

A. Received by (Please Print Clearly) B. Date of Delivery

GEE APR 04 2003

C. Signature

X GEE ☐ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes ☐ No

If YES, enter delivery address below:

YES, enter delivery address below:

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Service Type

☒ Certified Mail ☐ Express Mail

☐ Registered ☒ Return Receipt for Merchandise

☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

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

OFFICIAL

Yates  
Stem #1

Postage	\$ 0.83
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	4.00
Total Postage & Fees	\$ 8.88

Sent To  
Richard Hughes  
Post Office Box 156  
Roswell, NM 88201

PS Form 3800, Jan

**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:

Richard Hughes  
Post Office Box 156  
Roswell, NM 88201

2. Article Number (Copy from

7001 1140 0002 5601 5843

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

- 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:

Jennie H. Mays  
R. Rt. 3-403 Meadow Brook Rd  
Roswell, NM 88201

2. Article Number (Copy from

7001 1140 0002 5601 5812

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

- 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:

Mobil Producing Texas & New Mexico, Inc.  
Attention: Mr. Paul Keffer  
Post Office Box 4697  
Houston, Texas 77210

2. Article Number (Copy from

7001 1140 0002 5601 5799

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X James S. Hughes ☐ Agent ☐ Addressee

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

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X Jennie H. Mays ☐ Agent ☐ Addressee

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

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X GEE ☐ Agent ☐ Addressee

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

3. Service Type

☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

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

OFFICIAL

Yates  
Stem #1

Postage	\$ 0.83
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	4.00
Total Postage & Fees	\$ 8.88

Sent To  
Jennie H. Mays  
R. Rt. 3-403 Meadow Brook Rd  
Roswell, NM 88201

PS Form 3800, Jan

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

OFFICIAL

Yates  
Stem #1

Postage	\$ 0.83
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	4.00
Total Postage & Fees	\$ 8.88

Sent To  
Mobil Producing Texas & New Mexico, Inc.  
Attention: Mr. Paul Keffer  
Post Office Box 4697  
Houston, Texas 77210

PS Form 3800, Jan

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

OFFICIAL USE

Postage	\$ 1.83
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	
<b>Total Postage &amp; Fees</b>	<b>\$ 4.88</b>



Sent To  
Street, Apt. No.,  
or PO Box No.  
City, State, ZIP+ 4

Peggy H. Paradee  
6509 Oakhurst Drive  
Amarillo, Texas 79109

**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:

Peggy H. Paradee  
6509 Oakhurst Drive  
Amarillo, Texas 79109

2. Article Number (Copy from sender)

7001 1140 0002 5601 5836

PS Form 3811, July 1999

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

07-02-99

C. Signature

X Peggy H. Paradee ☐ Agent  
☐ Addressee

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

Domestic Return Receipt

102595-00-M-0952

**-BEFORE THE OIL CONSERVATION DIVISION  
NEW MEXICO ENERGY, MINERALS AND  
NATURAL RESOURCES DEPARTMENT**

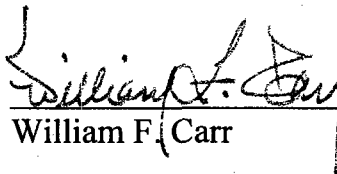
**APPLICATION OF YATES PETROLEUM CORPORATION  
FOR COMPULSORY POOLING, CHAVES COUNTY,  
NEW MEXICO.**

**CASE NO. \_\_\_\_\_**

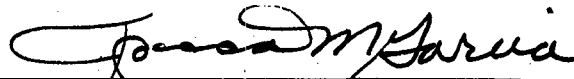
**AFFIDAVIT**

STATE OF NEW MEXICO       )  
  ) ss.  
COUNTY OF SANTA FE       )

William F. Carr, attorney in fact and authorized representative of Yates Petroleum Corporation, the Applicant herein, being first duly sworn, upon oath, states that notice has been given to all interested persons entitled to receive notice of this application under Oil Conservation Division rules, and that notice has been given at the addresses shown on Exhibit "A" attached hereto.

  
\_\_\_\_\_  
William F. Carr

SUBSCRIBED AND SWORN to before me this 16<sup>th</sup> day of April 2003.

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

My Commission Expires:

Aug. 23, 2005

**EXHIBIT A**

**APPLICATION OF  
YATES PETROLEUM CORPORATION.  
FOR COMPULSORY POOLING  
W/2 OF SECTION 13, TOWNSHIP 6 SOUTH, RANGE 26 EAST, N.M.P.M.  
CHAVES COUNTY, NEW MEXICO.**

ExxonMobil Production Company  
Post Office Box 4697  
Houston, Texas 77210  
Attention: Mr. Paul Keffer

Mobil Producing Texas & New Mexico, Inc.  
Post Office Box 4697  
Houston, Texas 77210  
Attention: Mr. Paul Keffer

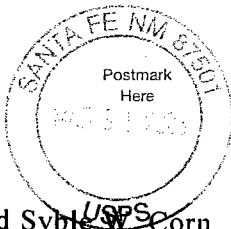
The Lacy Shortridge Revocable Living Trust  
Bank of America, N.A., trustee  
2620 Carlisle Avenue, NE  
Albuquerque, new Mexico 87110

Richard H. and Syble W. Corn Trust  
1250 Lillie Drive  
Bosque Farms, New Mexico 87068

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

OFFICIAL USE

Yates  
 Stern #2  
 Postage \$ .83  
 Certified Fee 2.30  
 Return Receipt Fee (Endorsement Required) 1.75  
 Restricted Delivery Fee (Endorsement Required)  
 Total Postage & Fees \$ 4.88



Sent To  
 Richard H. and Sybil W. Corn  
 Trust  
 1250 Lillie Drive  
 Bosque Farms, NM 87068

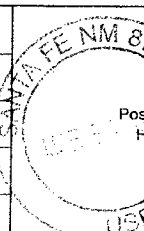
PS Form 3800, Jan

MAIL  
 RETURNED

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

OFFICIAL USE

Yates  
 Stern #2  
 Postage \$ .83  
 Certified Fee 2.30  
 Return Receipt Fee (Endorsement Required) 1.75  
 Restricted Delivery Fee (Endorsement Required)  
 Total Postage & Fees \$ 4.88



Sent To  
 ExxonMobil Production Co.  
 Attention: Mr. Paul Keffer  
 Post Office Box 4697  
 Houston, Texas 77210

PS Form 3800, July

**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:

ExxonMobil Production Co.  
 Attention: Mr. Paul Keffer  
 Post Office Box 4697  
 Houston, Texas 77210

2. Article Number (Co

7001 1140 0002 5601 5751

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery APR 04 78

C. Signature GEE ☐ Agent ☐ Addressee  
 X

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



## Katherine Hawkins

**From:** Chuck Moran [cmoran@ypcnm.com]  
**Sent:** Monday, April 14, 2003 3:11 PM  
**To:** Katherine Hawkins  
**Cc:** William F. Carr  
**Subject:** Sterne BCS Com. #2

Katherine: In tracking down owners we are attempting to force pool for the captioned well, I provided the most recent address I had for the Richard H. and Syble Corn Trust and an address in Bosque Farms, NM. Since that time, I have actually tracked down one of the two Trustees.

**Address:**  
Ms. Cathy Griggs, Trustee of the Richard H. & Syble W. Corn Trust  
P. O. Box 2  
Picacho, NM 88343

Chuck Moran  
Yates Petroleum Corporation  
Phone: 505-748-4349  
Fax: 505-748-4572

*resent  
4/15/03*

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

OFFICIAL USE

WFE/Yates Sterne #2	Postage	\$ 1.06
	Certified Fee	2.30
	Return Receipt Fee (Endorsement Required)	1.75
	Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees		\$ 5.11



Sent To  
Cathy Griggs Trustee R.H.S.W. Corn  
Street, Apt. No.  
or PO Box No. P.O. Box 2  
City, State, ZIP+4 Picacho, NM 88343  
PS Form 3800, January 2001 See Reverse for Instructions

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

OFFICIAL U.S. MAIL

Yates Postage \$ .83  
Stern #2 Certified Fee 2.30  
Return Receipt Fee (Endorsement Required) 1.75  
Restricted Delivery Fee (Endorsement Required)  
Total Postage & Fees \$ 4.88

Sent To Mobil Producing Texas & Mexico, Inc.  
Attention: Mr. Paul Keffer  
Post Office Box 4697  
Houston, Texas 77210  
Street, Apt. No. or PO Box No.  
City, State, ZIP

PS Form 380

**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:

Mobil Producing Texas & New Mexico, Inc.  
Attention: Mr. Paul Keffer  
Post Office Box 4697  
Houston, Texas 77210

2. Article Number (Copy from

7001 1140 0002 5601 5768

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X

GEE

☐ Agent

☐ Addressee

D. Is delivery address different from item 1?

If YES, enter delivery address below:

☐ Yes

☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

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

OFFICIAL U.S. MAIL

Yates Postage \$ .83  
Stern #2 Certified Fee 2.30  
Return Receipt Fee (Endorsement Required) 1.75  
Restricted Delivery Fee (Endorsement Required)  
Total Postage & Fees \$ 4.88

Sent To The Lacy Shortridge Revocable Living Trust  
Bank of America, N.A., Trustee  
2620 Carlisle Avenue, NE  
Albuquerque, NM 87110  
Street, Apt. No. or PO Box No.  
City, State, ZIP

PS Form 380

- 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:

The Lacy Shortridge Revocable Living Trust  
Bank of America, N.A., Trustee  
2620 Carlisle Avenue, NE  
Albuquerque, NM 87110

2. Article Number (Copy from service

7001 1140 0002 5601 5775

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X

☐ Agent

☐ Addressee

D. Is delivery address different from item 1?

If YES, enter delivery address below:

☐ Yes

☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

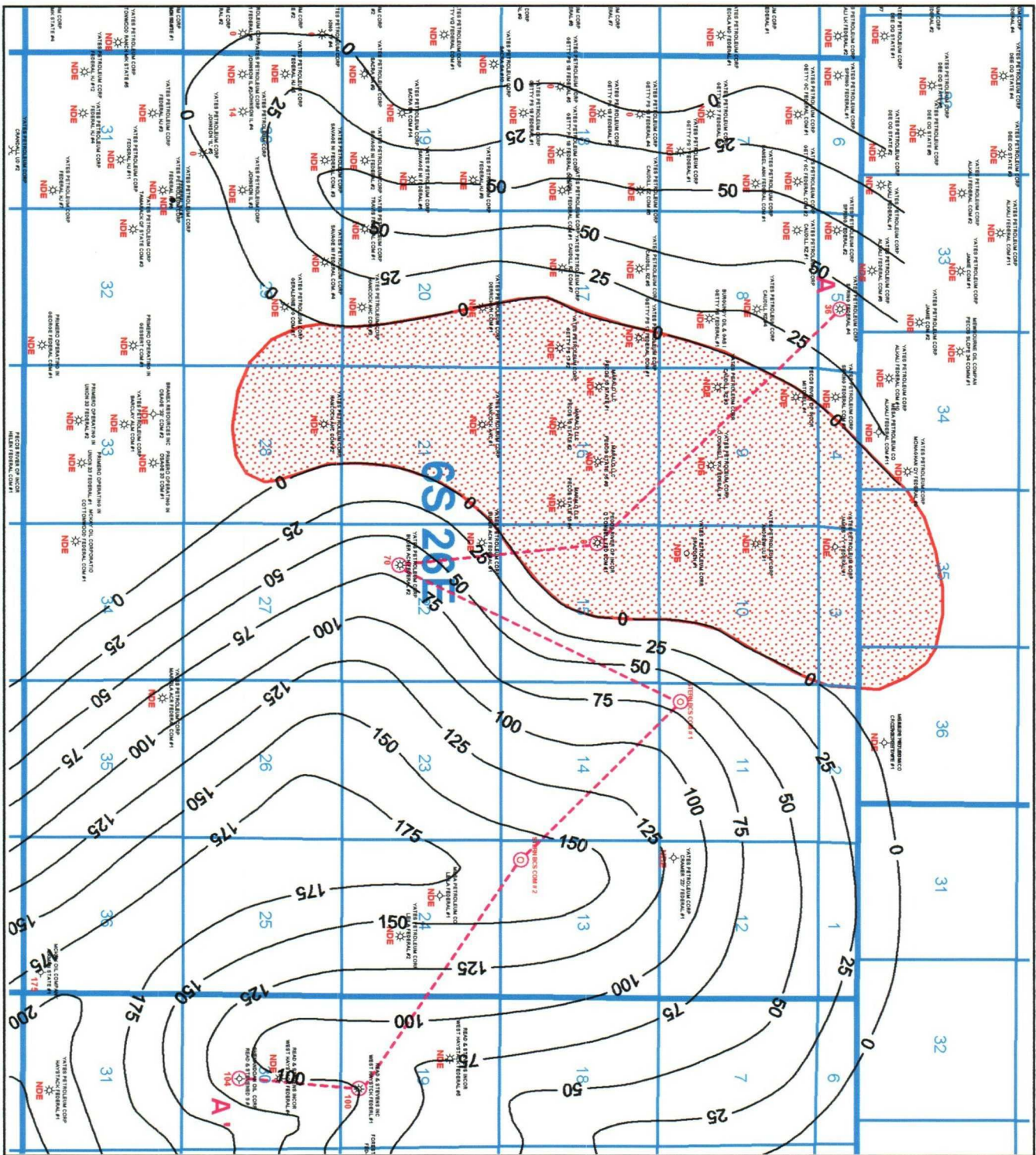
BEFORE THE OIL CONSERVATION DIVISION  
 Santa Fe, New Mexico  
 Case No. 13055/13056 Exhibit No. 8  
 Submitted by:  
 YATES PETROLEUM CORPORATION  
 Hearing Date: April 24, 2003

**GRANITE HIGH &  
 NO DOLOMITE**

YATES PETROLEUM CORPORATION

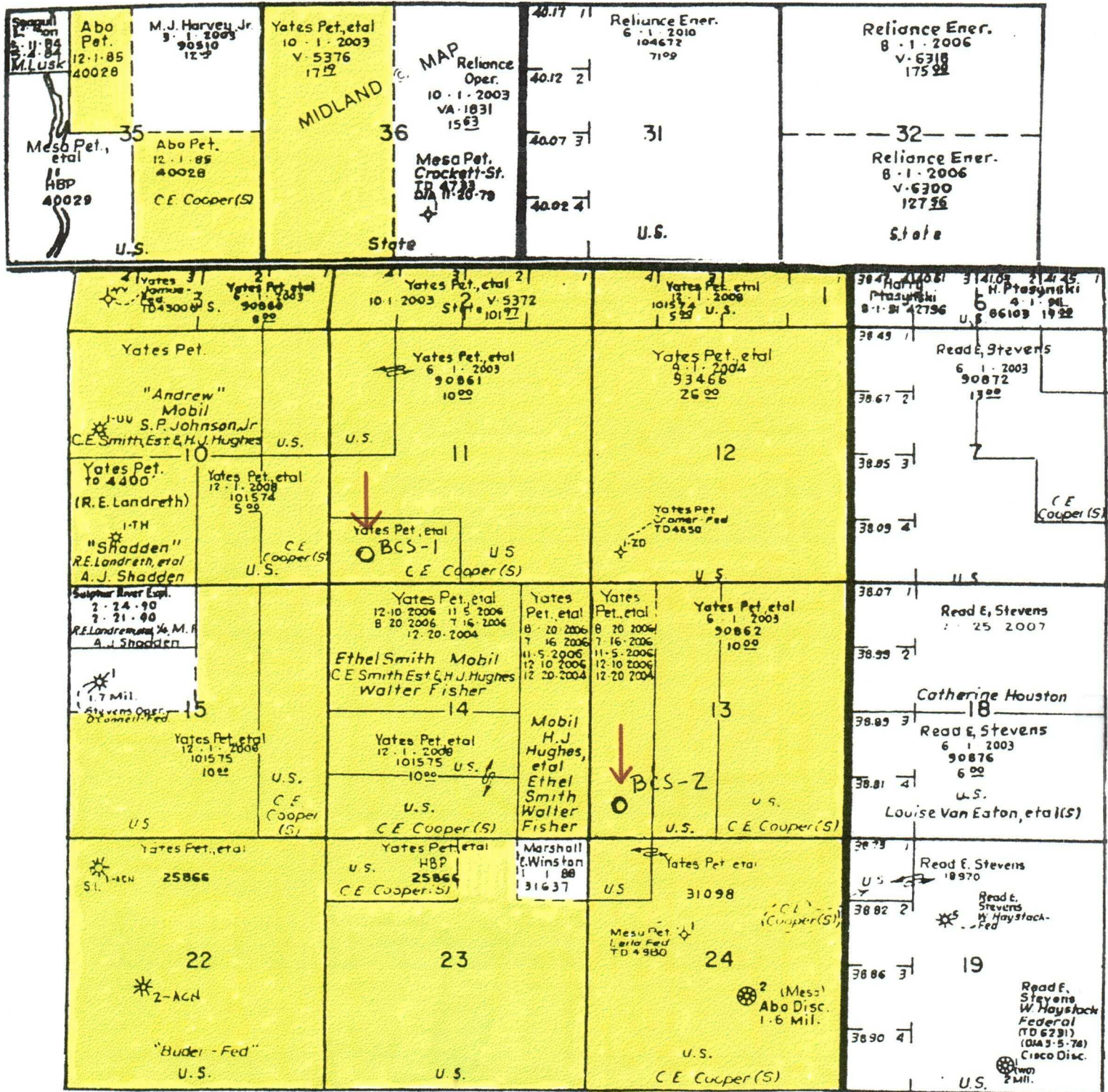
GROSS ISOPACH  
 OF 25'

DATE:	9 APRIL 2003
BY:	TIM MILLER
SCALE:	1"=200'





Yates Petroleum Corporation  
Sterne BCS #1 and #2  
T6S - R26E  
Chaves County



## Wells Drilled near Sterne BCS Locations

Item	Well Name	API Number	Operator	Feet N/S	Feet E/W	Unit	Sec	Twp	Rng	Spud Date	TD	Comp Date	Perforations	Field	Pool	IP BOPD	IP Mcf/D	IP BWPD
1	Crockett State 1	3000560607	Mesa	990 S	1980 E	O	36	5S	25E	11/04/79	4733	11/20/79	No Casing				D & A	
1	Crockett State 1	3000560607	Gaelic Petroleum	990 S	1980 E	O	36	5S	25E	03/24/80	4733	03/26/80	1670-1680				D & A	
2	James YY Federal 1	3000562135	Yates	660 S	750 W	D	3	6S	26E	03/27/84	4300	04/06/84	No Casing				D & A	
3	Andrew UU 1	3000561724	Yates	1980 N	660 W	E	10	6S	26E	09/12/82	4300	11/08/82	3923-3927	Pecos Slope	Abo	0	229	0
4	Shadden TN 1	3000561552	Yates	990 S	990 W	M	10	6S	26E	05/22/82	4300	08/05/82	3823-3967	Pecos Slope	Abo	0	445	0
5	Cramer ZD Federal 1	3000562117	Yates	660 S	660 W	M	12	6S	26E	02/28/84	4550	03/10/84	No Casing				D & A	
6	O'Connell Federal Com 1	3000562740	Stevens Operating	1980 N	660 W	E	15	6S	26E	11/15/89	5595	12/28/89	4133-4150	Pecos Slope	Abo	0	1772	0
7	Buder ACN Federal 1	3000562283	Yates	660 N	660 W	D	22	6S	26E	07/31/85	4350	09/05/85	4127-4135	Pecos Slope	Abo	0	816	0
8	Buder ACN Federal 2	3000564513	Yates	1950 S	1387 W	K	22	6S	26E	12/06/02	5730	03/10/03	5310-5322	Cottonwood Ranch	Penn	7	1381	0
9	Leila Federal 1	3000561672	Mesa	1980 N	1980 W	F	24	6S	26E	12/12/82	4980	09/15/83	4231-4423				D & A	
10	Leila Federal 2	3000561721	Mesa	1980 S	1980 E	J	24	6S	26E	07/30/82	4805	09/22/82	4296-4445	Pecos Slope	Abo	0	1573	0
11	West Haystack Fed 5	3000562991	Read & Stevens	1650 N	2100 W	F	19	6S	27E	07/29/94	5980	10/14/94	5524-5690	Haystack	Cisco	0	150	0
12	West Haystack Fed 1	3000560290	Read & Stevens	660 S	1980 E	O	19	6S	27E	02/05/74	6231	03/05/74	No Casing				D & A	
12	West Haystack Fed 1	3000560290	Read & Stevens	660 S	1980 E	O	19	6S	27E	10/25/81	6231	11/17/81	5684-5704	Haystack	Cisco	0	611	0

April 24, 2003

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 11  
Submitted by:  
**YATES PETROLEUM CORPORATION**  
Hearing Date: April 24, 2003

## Production from Wells near Sterne BCS Locations

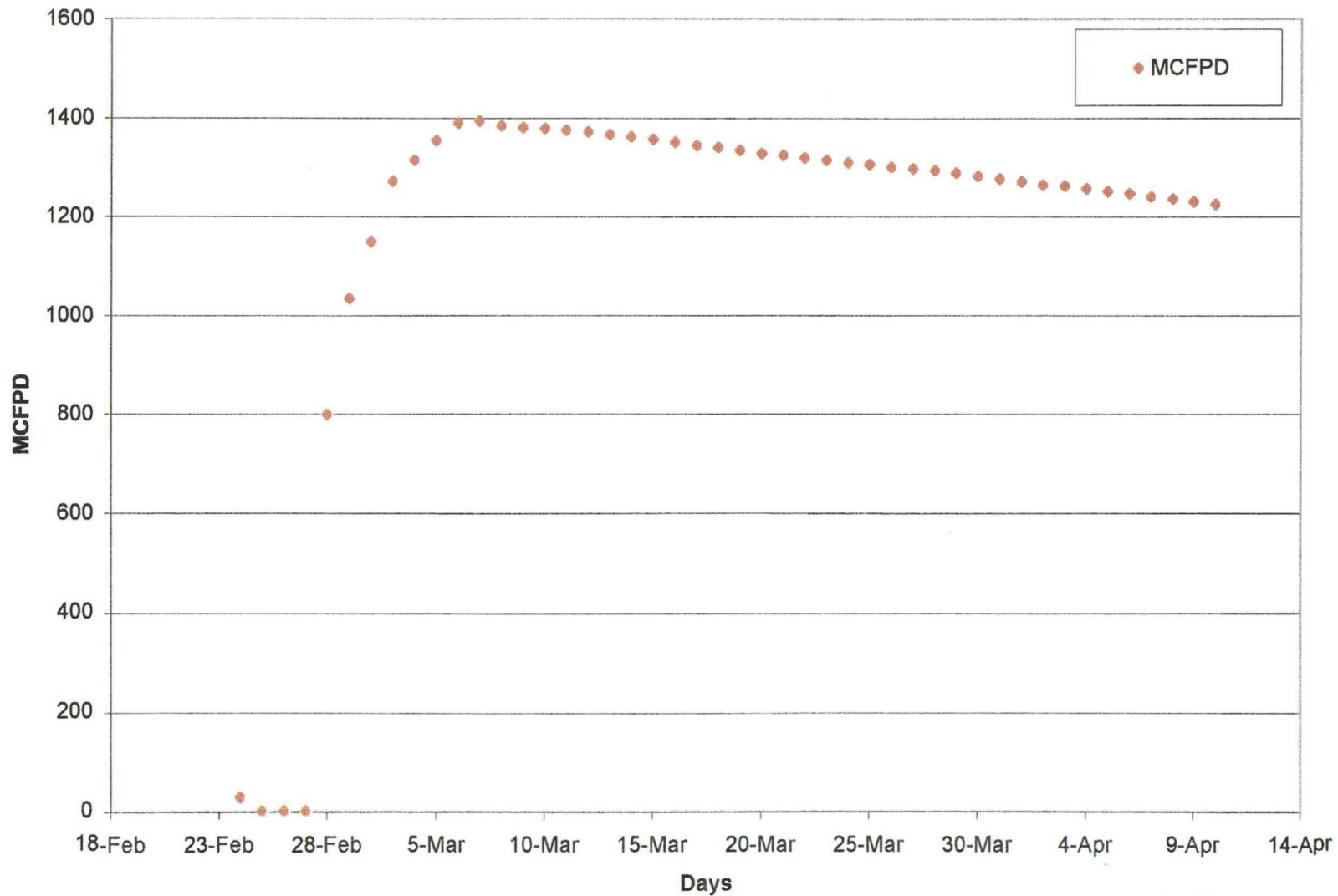
Item	Well Name	API Number	Operator	Unit	Sec	Twp	Rng	Comp Date	Field	Pool	Through 2002			December 2002	
											IP Mcf/D	Cum MMcf	Cum MBW	Mcf/D	BWPD
1	Crockett State 1	3000560607	Mesa	O	36	5S	25E	11/20/79						D & A	
1	Crockett State 1	3000560607	Gaelic Petroleum	O	36	5S	25E	03/26/80						D & A	
2	James YY Federal 1	3000562135	Yates	D	3	6S	26E	04/06/84						D & A	
3	Andrew UU 1	3000561724	Yates	E	10	6S	26E	11/08/82	Pecos Slope	Abo	229	32	0	5	0
4	Shadden TN 1	3000561552	Yates	M	10	6S	26E	08/05/82	Pecos Slope	Abo	445	118	26	Shutin	Shutin
5	Cramer ZD Federal 1	3000562117	Yates	M	12	6S	26E	03/10/84						D & A	
6	O'Connell Federal Com 1	3000562740	Stevens Operating	E	15	6S	26E	12/28/89	Pecos Slope	Abo	1772	144	2	8	0
7	Buder ACN Federal 1	3000562283	Yates	D	22	6S	26E	09/05/85	Pecos Slope	Abo	816	141	5	9	1
8	Buder ACN Federal 2	3000564513	Yates	K	22	6S	26E	03/10/03	Cottonwood Ranch	Penn	1381	Began March 2003			
9	Leila Federal 1	3000561672	Mesa	F	24	6S	26E	09/15/83						D & A	
10	Leila Federal 2	3000561721	Mesa	J	24	6S	26E	09/22/82	Pecos Slope	Abo	1573	360	2	55	1
11	West Haystack Fed 5	3000562991	Read & Stevens	F	19	6S	27E	10/14/94	Haystack	Cisco	150	Never Produced			
12	West Haystack Fed 1	3000560290	Read & Stevens	O	19	6S	27E	03/05/74						D & A	
12	West Haystack Fed 1	3000560290	Read & Stevens	O	19	6S	27E	11/17/81	Haystack	Cisco	611	1340	8	3	0

April 24, 2003

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 12  
Submitted by:  
**YATES PETROLEUM CORPORATION**  
Hearing Date: April 24, 2003



# Buder ACN Fed #2 2003 Daily Production



BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 13  
Submitted by:  
YATES PETROLEUM CORPORATION  
Hearing Date: April 24, 2003

## Gas Cums and Ultimates from Wells near Sterne BCS Locations

Item	Well Name	API Number	Operator	Unit	Sec	Twp	Rng	Comp Date	Field	Pool	IP Mcf/D	Cum MMCF	Remaining MMCF	Ultimate MMCF
1	Crockett State 1	3000560607	Mesa	O	36	5S	25E	11/20/79			D & A			
1	Crockett State 1	3000560607	Gaelic Petroleum	O	36	5S	25E	03/26/80			D & A			
2	James YY Federal 1	3000562135	Yates	D	3	6S	26E	04/06/84			D & A			
3	Andrew UU 1	3000561724	Yates	E	10	6S	26E	11/08/82	Pecos Slope	Abo	229	32	0	32
4	Shadden TN 1	3000561552	Yates	M	10	6S	26E	08/05/82	Pecos Slope	Abo	445	118	0	118
5	Cramer ZD Federal 1	3000562117	Yates	M	12	6S	26E	03/10/84			D & A			
6	O'Connell Federal Com 1	3000562740	Stevens Operating	E	15	6S	26E	12/28/89	Pecos Slope	Abo	1772	144	0	144
7	Buder ACN Federal 1	3000562283	Yates	D	22	6S	26E	09/05/85	Pecos Slope	Abo	816	141	0	141
8	Buder ACN Federal 2	3000564513	Yates	K	22	6S	26E	03/10/03	Cottonwood Ranch	Penn	1381	Began 3/03	558	558
9	Leila Federal 1	3000561672	Mesa	F	24	6S	26E	09/15/83			D & A			
10	Leila Federal 2	3000561721	Mesa	J	24	6S	26E	09/22/82	Pecos Slope	Abo	1573	360	247	607
11	West Haystack Fed 5	3000562991	Read & Stevens	F	19	6S	27E	10/14/94	Haystack	Cisco	150	Never Produced		
12	West Haystack Fed 1	3000560290	Read & Stevens	O	19	6S	27E	03/05/74			D & A			
12	West Haystack Fed 1	3000560290	Read & Stevens	O	19	6S	27E	11/17/81	Haystack	Cisco	611	1340	0	1340

April 24, 2003

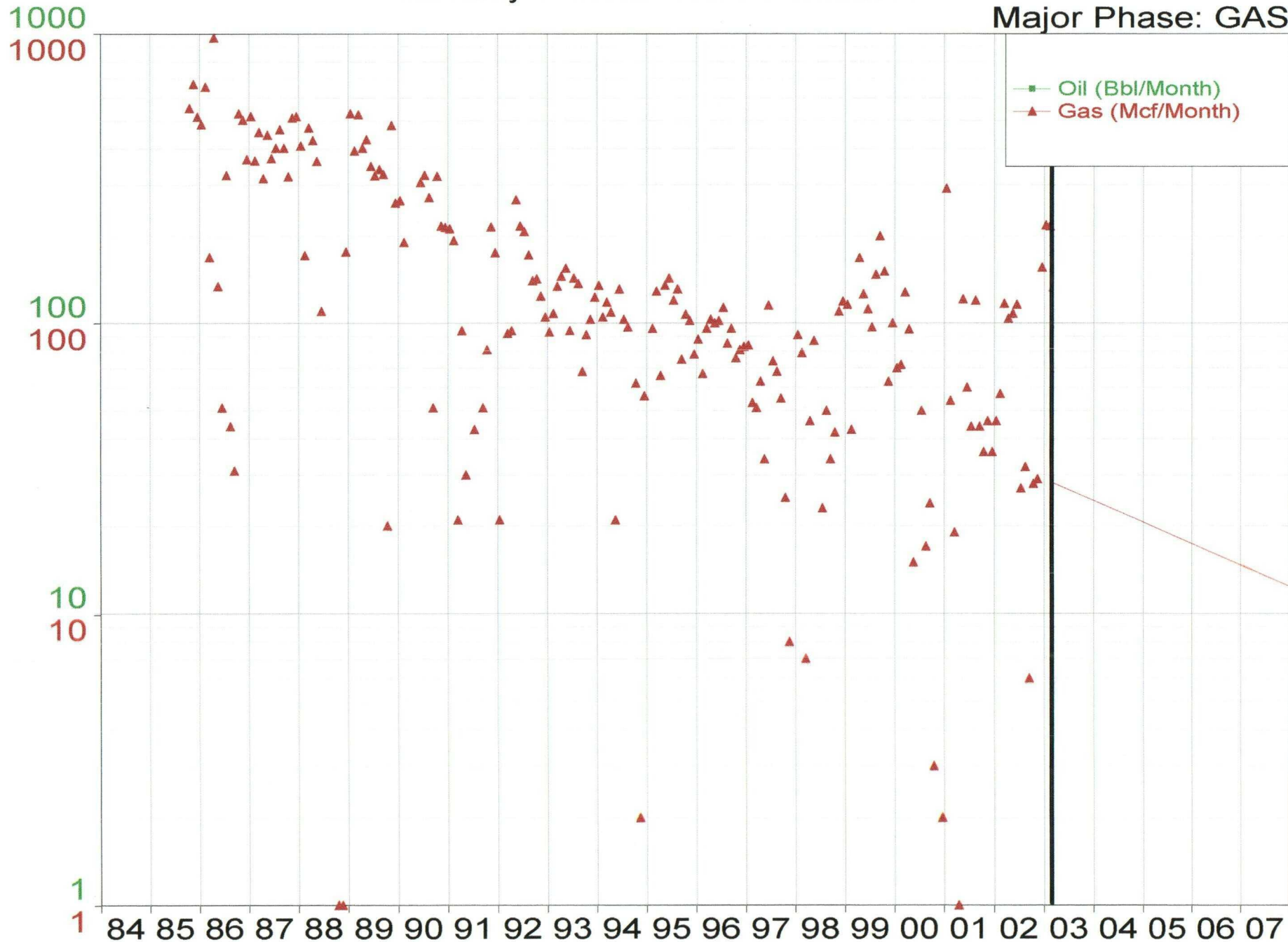
BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13055/13056 Exhibit No. 14  
Submitted by:  
**YATES PETROLEUM CORPORATION**  
Hearing Date: April 24, 2003



# Property 4 ANDREW UU 1

## Monthly Oil and Gas Production

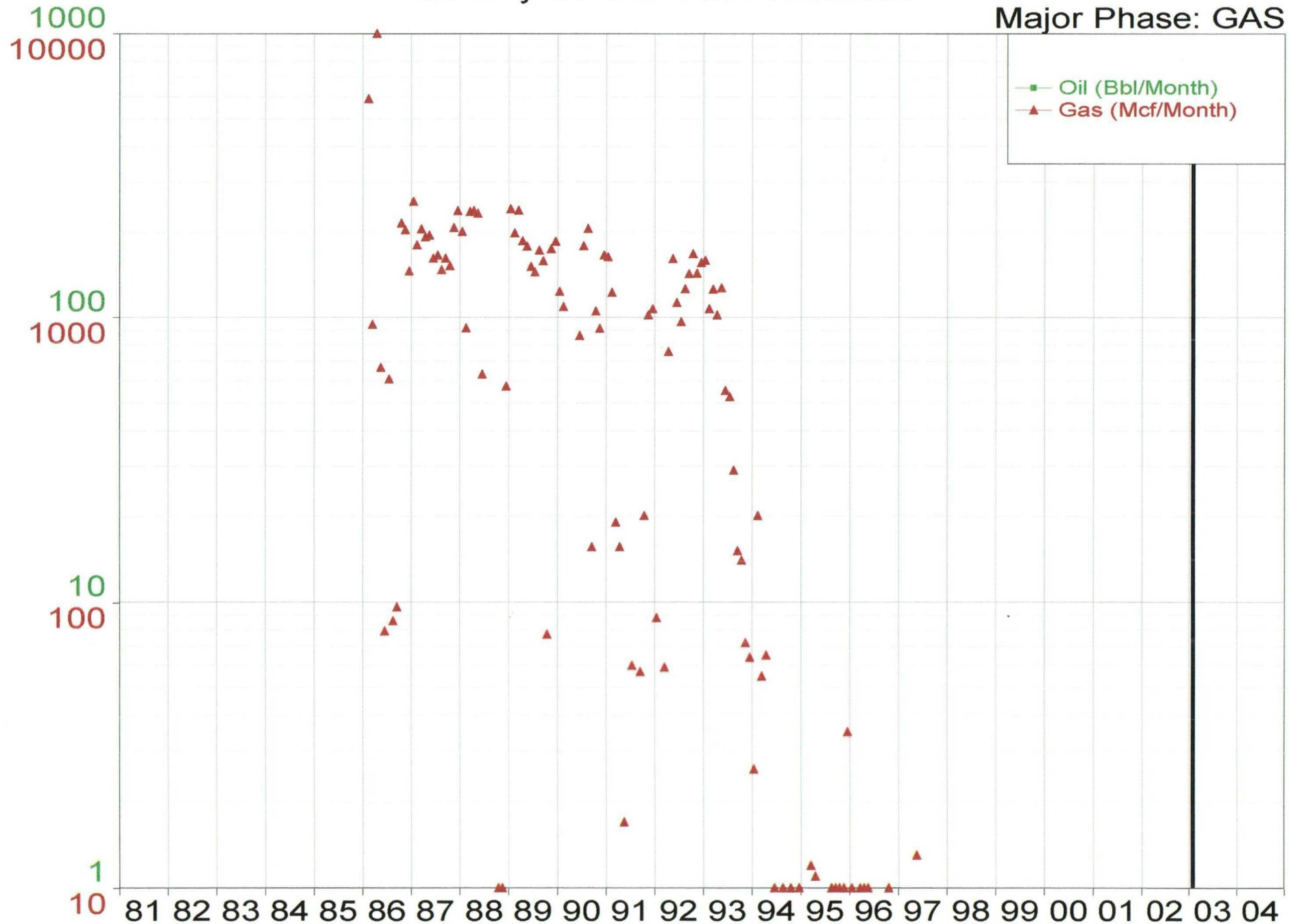
Major Phase: GAS



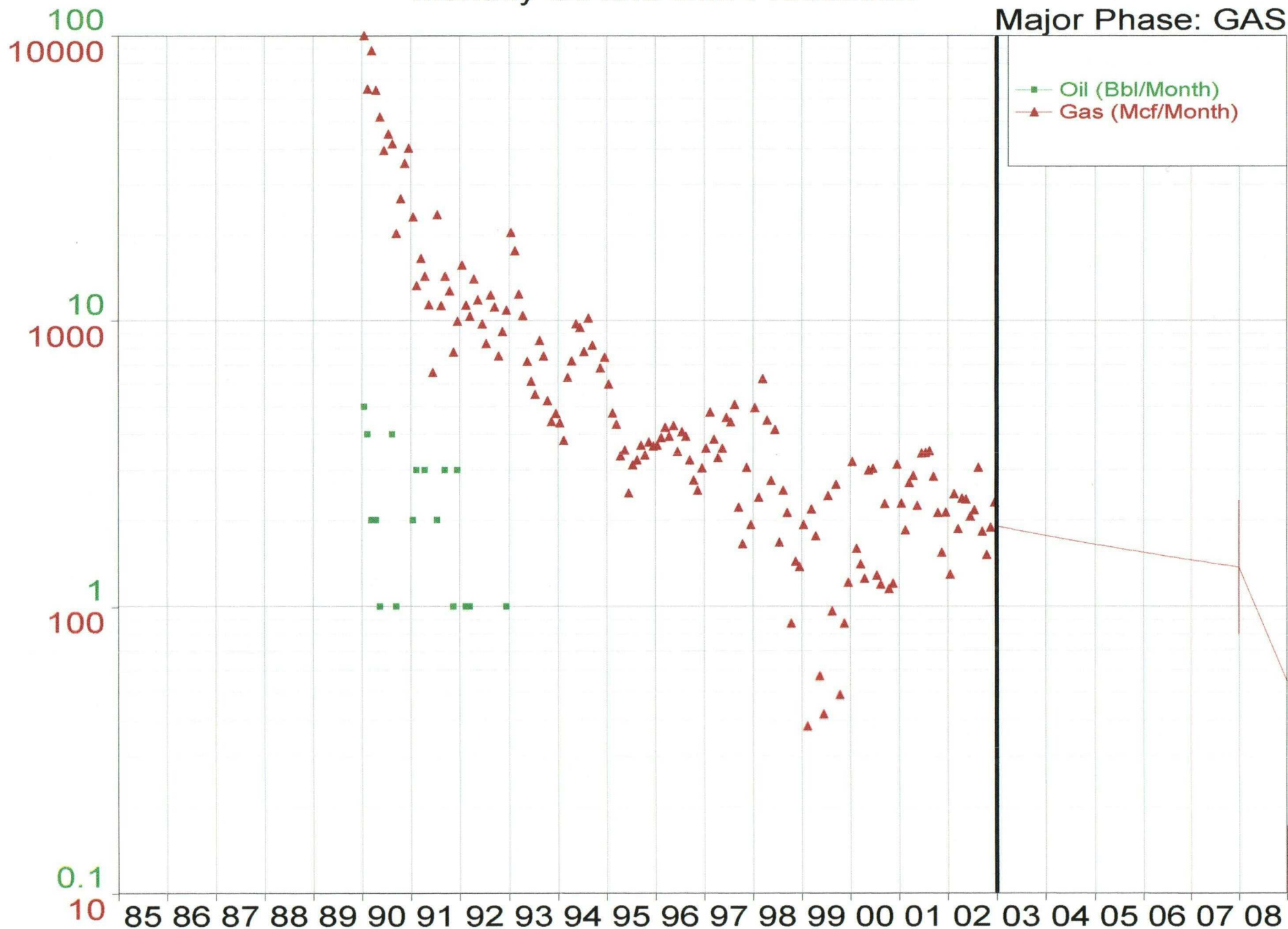
# Property 2 SHADDEN 1

## Monthly Oil and Gas Production

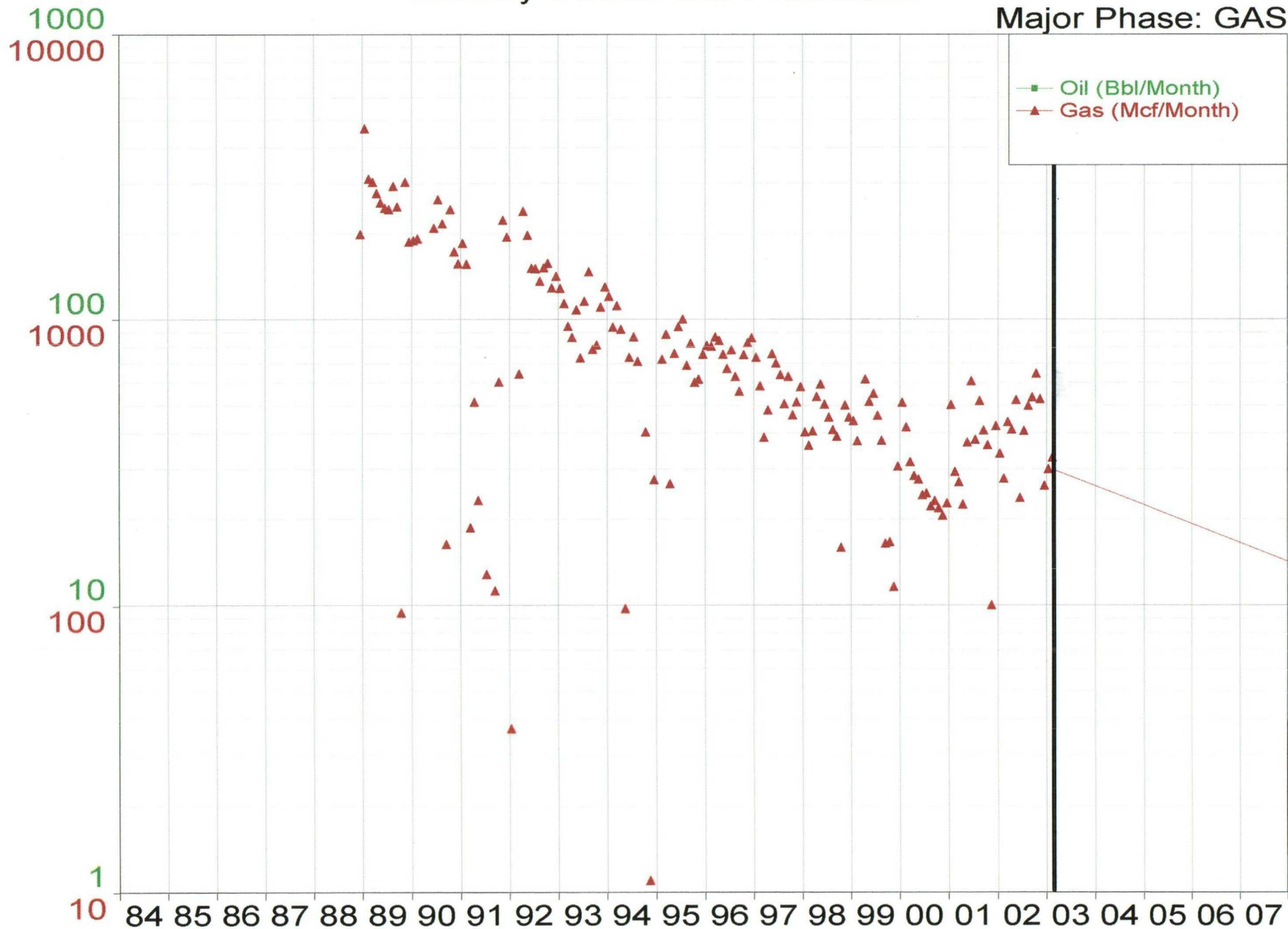
Major Phase: GAS



Property 6  
O CONNELL FED COM 1  
Monthly Oil and Gas Production



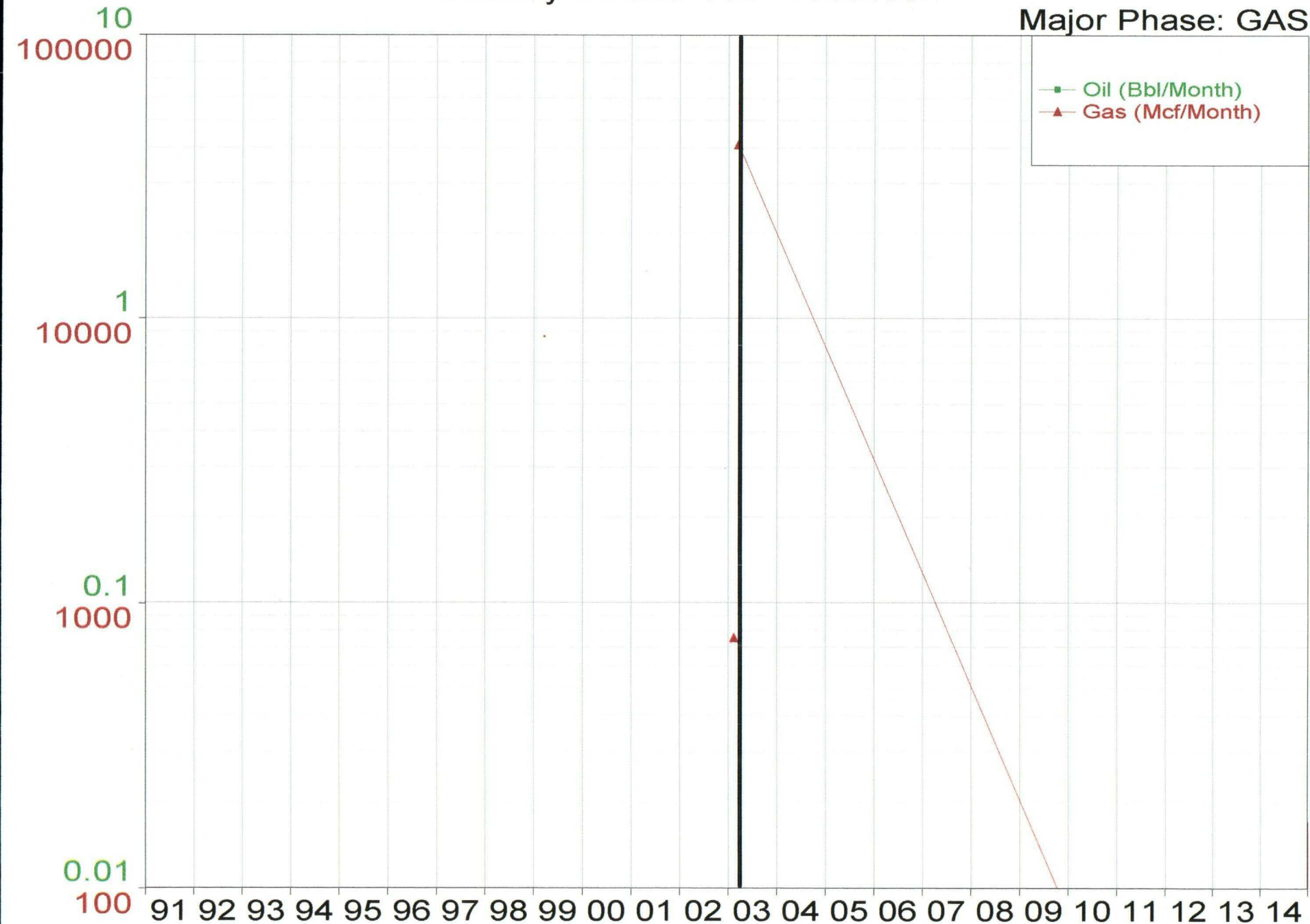
Property 5  
BUDER ACN FEDERAL 1  
Monthly Oil and Gas Production





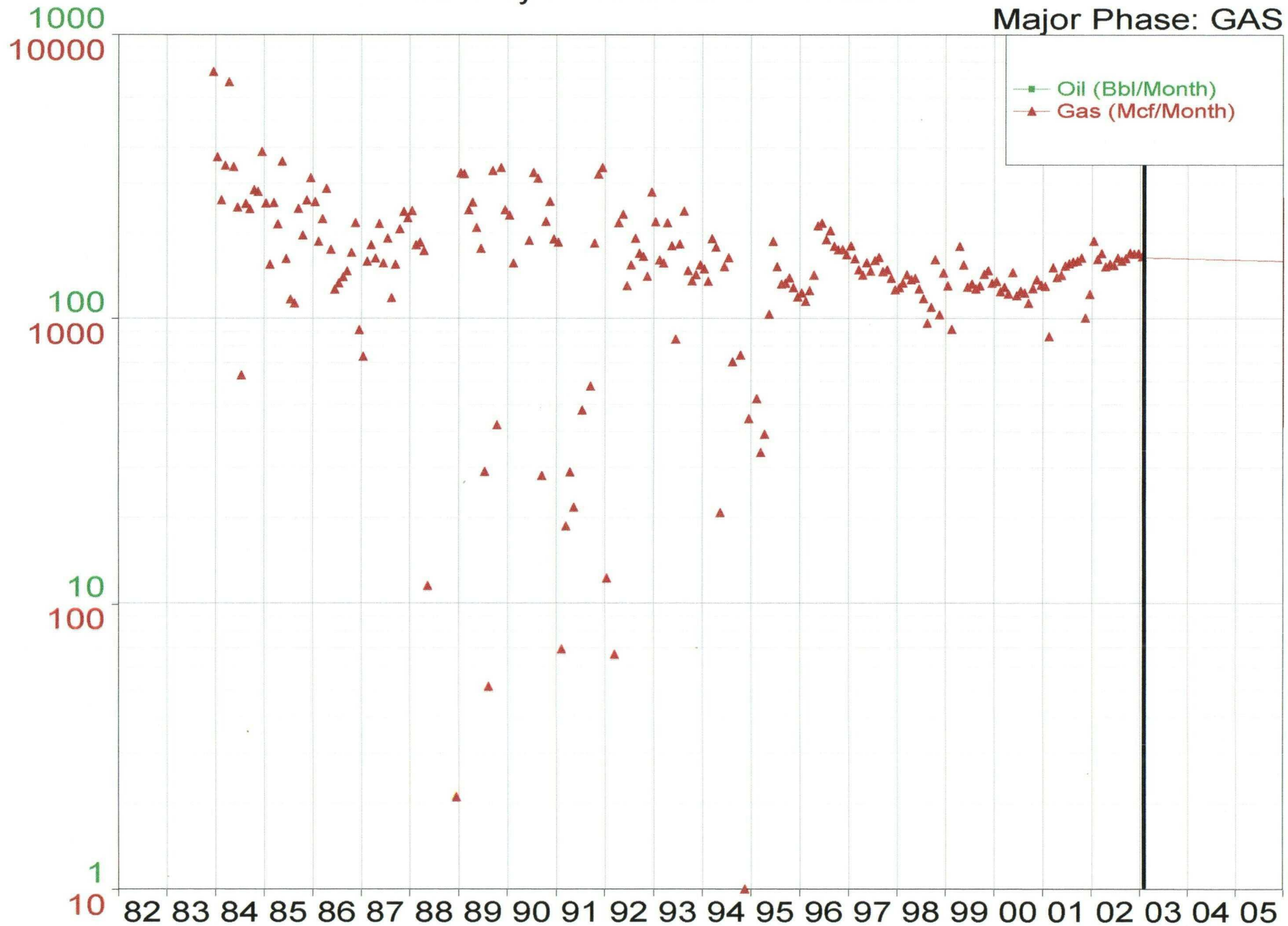
Property 7  
BUDER ACN FEDERAL 2  
Monthly Oil and Gas Production

Major Phase: GAS



Property 3  
LEILA FEDERAL 2  
Monthly Oil and Gas Production

Major Phase: GAS



Property 1  
WEST HAYSTACK FEDERAL 1  
Monthly Oil and Gas Production

Major Phase: GAS

