

HOLLAND & HART^{LLP}



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44519.0145

October 12, 2005

VIA HAND DELIVERY

Mr. Will Jones
Hearing Examiner
Oil Conservation Division
Energy, Minerals & Natural Resources Department
1220 South St. Francis Drive
Santa Fe, NM 87504

Re: OCD Case No. 13550: Application of Yates Petroleum Corporation for Approval of a Unit Agreement, Chaves County, New Mexico.

Dear Mr. Jones:

Attached is a copy of the State Unit Agreement, Unit Operating Agreement and the letter to Peter Martinez at the State Land Office requesting final approval for the LaCrosse State Exploratory Unit. Please call if you have any questions.

Very truly yours,

Ocean Munds-Dry
Ocean Munds-Dry
for Holland & Hart^{LLP}

OM:keh
Enclosures

2005 OCT 12 PM 2 08

59/2/01 JEM

Holland & Hart^{LLP}

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Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ♻

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

September 27, 2005

Via Federal Express

State of New Mexico
Pete Martinez
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, NM 87504-1148

Re: Request for Final Approval
Proposed Lacrosse State Exploratory Unit
Chaves County, New Mexico

Dear Mr. Martinez:

Please find enclosed the proposed Lacrosse State Unit in Chaves, New Mexico for the State of New Mexico, Commissioner of Public Lands final approval. Currently, we have committed to the Lacrosse State Unit all tracts comprising 3,840.00 acres. Yates Petroleum Corporation as Operator believes that this agreement will tend to promote the conservation of oil and gas and the better utilization of the reservoir energy. The State of New Mexico will receive its fair share of the recoverable oil and gas in place of the lands in the proposed unit area and each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area. Such agreement is in other respects for the best interest of the trust.

Therefore, I enclose the following documents:

1. One copy of the Unit Operating Agreement executed by all working interest owners.
2. Two copies of the Unit Agreement executed by all working interest owners.
3. Copies of the original C-101 for the Lacrosse State Unit #1 well.
4. A copy of Order No. R-12429, from the New Mexico Oil Conservation Division.
5. Yates Petroleum Corporation's check #147195 in the amount of \$180.00 as the required filing fee.

We hereby request approval of the unit effective with the OCD order. If you have any questions, please give me a call at (505) 748-4349. We look forward to hearing from you.

Very truly yours,

YATES PETROLEUM CORPORATION


Chuck Moran
Landman

CEM/th
Enclosure(s)



No. 147195

First National Bank
ARTESIA, NEW MEXICO

95-43
1122

YATES BUILDING • ARTESIA, N.M. 88210

SEP 27, 2005

AMOUNT

PAY:*****180*DOLLARS*AND*00*CENTS

\$ *****180.00

192200 COMMISSIONER OF PUBLIC LANDS
TO THE ORDER OF
FO BOX 1148
SANTA FE, NM 87504-1148

⑈ 147195 ⑈ ⑆ 12200439 ⑈ ⑆ 69408810 ⑈

DETACH BEFORE DEPOSITING CHECK

YATES PETROLEUM CORPORATION
105 SOUTH 4TH STREET ARTESIA, N.M. 88210

No. 147195

CEM/TH
RECORDING/FILING FEES
LACROSSE STATE EXPLORATORY UNIT -- FILING FEES
TOWNSHIP 11 SOUTH, RANGE 27 EAST, N.M.P.M.
SECTIONS 22, 27, 28, 32, 33, AND 34; ALL
CHAVES COUNTY, NEW MEXICO

\$180.00

STATE/FEE
EXPLORATORY UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
LACROSSE STATE UNIT AREA
CHAVES COUNTY, NEW MEXICO

NO. _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
LACROSSE STATE UNIT AREA
CHAVES COUNTY, NEW MEXICO
NO. _____

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
LACROSSE STATE UNIT AREA
CHAVES COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 1st day August of 2005, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development or part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing state Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Lacrosse State Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 11 South, Range 27 East, N.M.P.M

Section 22: ALL
Section 27: ALL
Section 28: ALL
Section 32: ALL
Section 33: ALL
Section 34: ALL

Containing 3,840.00 acres, more or less,
Chaves County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any part hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the

STATE/FEE
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Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Yates Petroleum Corporation, whose address is 105 South Fourth Street, is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interest in accordance with an operating agreement entered into by an between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable

evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the Siluro-Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 6,075 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of the section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees or record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interest shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective

leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessor's, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purposes of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due to the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of re-pressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provision of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessor's and lessees shall be effective to conform to the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease, which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The

commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in five (5) years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

STATE/FEE
EXPLORATORY UNITS

19. **APPEARANCES:** Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. **NOTICES:** All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. **LOSS OF TITLE:** In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

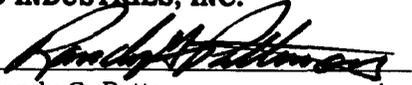
22. **SUBSEQUENT JOINDER:** Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. **COUNTERPARTS:** This agreement may be executed in any number of counterparts, no one of which need to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

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

UNIT OPERATOR AND WORKING INTEREST OWNERS

**YATES PETROLEUM CORPORATION
YATES DRILLING COMPANY
ABO PETROLEUM CORPORATION
MYCO INDUSTRIES, INC.**

By: 
Randy G. Patterson
Attorney-in-Fact

ELK OIL COMPANY

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: [Signature]
Its: Joseph J. Kelly, President

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

[Signature]
Notary Public

STATE OF NEW MEXICO §
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this 21st day of September, 2005 by _____
Joseph J. Kelly as _____ President _____ of Elk Oil Company.

October 22, 2008

My commission expires

[Signature]
Notary Public

ELK OIL COMPANY

By: _____
Its: _____

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: Mary Ann White
Its: Manager

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

Antonia G. Hernandez
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elk Oil Company.

My commission expires

Notary Public

ELK OIL COMPANY

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

GENESIS LIMITED PARTNERSHIP

By: [Signature]
Its: PRES. OF ELLIOTT MANAGEMENT CO.,
MANAGING GENERAL PTRN. OF ELLIOTT
INDUSTRIES LTD. PARTNERSHIP
TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____

By: _____
Its: _____



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

[Signature]
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____ as _____ of Elk Oil Company.

My commission expires

Notary Public

ELK OIL COMPANY

By: _____
Its: _____

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: Stephen W Speer
Its: General Partner

TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

Antonia G. Hernandez
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____ as _____ of Elk Oil Company.

My commission expires

Notary Public

ELK OIL COMPANY

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

TUMBLEWEED Oil & Gas, L.L.C.

By: *John R. Card*
Its: *Manager*



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

Antonia G. Hernandez
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____ as _____ of Elk Oil Company.

My commission expires

Notary Public

ELK OIL COMPANY

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

By: _____
Its: _____

TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____

STATE OF NEW MEXICO
COUNTY OF EDDY

§
§



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by as for YATES
PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO
INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

Antonia G. Hernandez
Notary Public

STATE OF
COUNTY OF

§
§

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elk Oil Company.

My commission expires

Notary Public

ELK OIL COMPANY

By: [Signature]
Its: Joseph J. Kelly, President

ELLIOTT-HALL COMPANY, LIMITED
PARTNERSHIP

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED
PARTNERSHIP

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED Oil & Gas, L.L.C.

By: _____
Its: _____



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/09

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, all New Mexico corporations, on behalf of said corporations.

[Signature]
Notary Public

STATE OF NEW MEXICO §
COUNTY OF CHAVES §

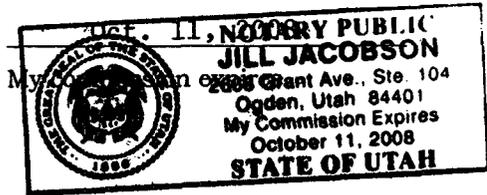
The foregoing instrument was acknowledged before me this 21st day of September, 2005 by _____
Joseph J. Kelly as President of Elk Oil Company.

October 22, 2008
My commission expires

[Signature]
Notary Public

STATE OF Utah §
COUNTY OF Weber §

The foregoing instrument was acknowledged before me this 15th day of September 2005 by _____
Mary Ann Miller as Manager of Elliott-Hall Company, Limited Partnership.



Jill Jacobson
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott Industries, Limited Partnership.

My commission expires

Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Genesis Limited Partnership.

My commission expires

Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Tumbleweed Oil & Gas, L.L.C.

My commission expires

Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott-Hall Company, Limited Partnership.

My commission expires Notary Public

STATE OF NEW MEXICO §
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this 20TH day of SEPT., 2005 by STEPHEN L. ELLIOTT, PRES. OF ELLIOTT MANAGEMENT CO., MANAGING GENERAL PARTNER
as _____ of Elliott Industries, Limited Partnership.

MARCH 2, 2008
My commission expires Cathy Henderson
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Genesis Limited Partnership.

My commission expires Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Tumbleweed Oil & Gas, L.L.C.

My commission expires Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott-Hall Company, Limited Partnership.

My commission expires

Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott Industries, Limited Partnership.

My commission expires

Notary Public

STATE OF *South Carolina* §
COUNTY OF *Charleston* §

The foregoing instrument was acknowledged before me this *15th* day of *September*, 2005 by *Stephen*
W. Speer as *General Partner* of Genesis Limited Partnership.

My Commission Expires Nov. 7, 2013

My commission expires

Jeff D. Jahn
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Tumbleweed Oil & Gas, L.L.C.

My commission expires

Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott-Hall Company, Limited Partnership.

My commission expires _____ Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Elliott Industries, Limited Partnership.

My commission expires _____ Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____
_____ as _____ of Genesis Limited Partnership.

My commission expires _____ Notary Public

STATE OF Michigan §
COUNTY OF Otsego §

The foregoing instrument was acknowledged before me this 19th day of September, 2005 by James R.
Vandiver as Manager of Tumbleweed Oil & Gas, L.L.C.

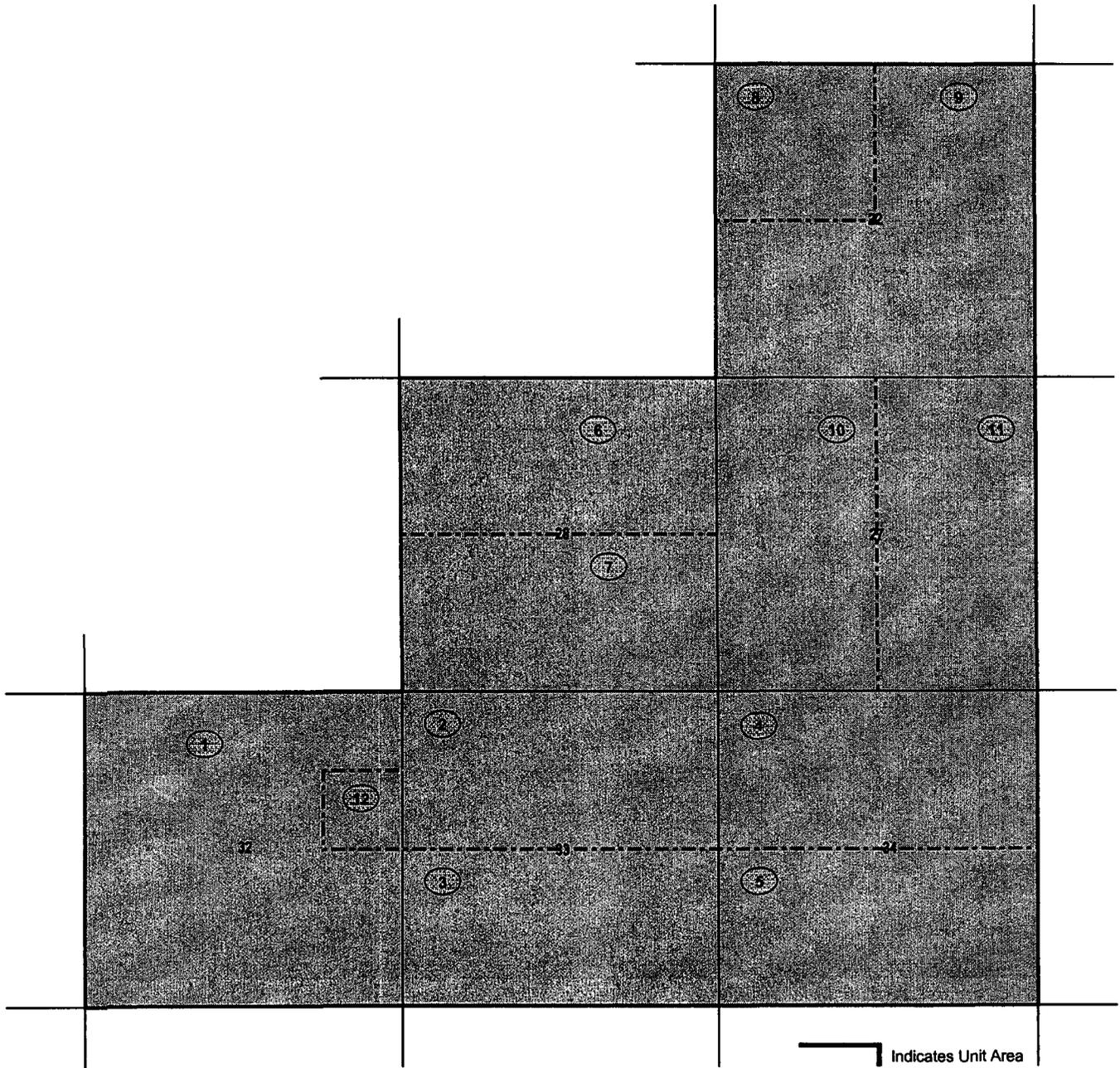
10/21/05
My commission expires _____

Notary Public

EXHIBIT "A"

Yates Petroleum Corporation

**Lacrosse State Unit Area
Township 11 South, Range 27 East, N.M.P.M.
Chaves County, New Mexico**



Indicates Unit Area

Scale 2 inches = 1 mile

#

Tract number

**Exhibit B
Lacrosse State Unit
Chaves County, New Mexico**

Tract No.	Lessor	Description of Land Township 11 South - Range 27 East N.M.P.M.	No. of Acres	Lease Serial No.	Lease Expiration Date	Royalty	Lessee of Record/ Original Lessee	% OVERRIDING ROYALTY and Percentage	Working Interest Owner and Percentage	%
1	State of New Mexico	Sec. 32: N/2NE, SW/4NE/4, W/2, SE/4	600	VA-2226	10/1/2005	1/8	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
2	State of New Mexico	Sec. 33: N/2	320	VA-2227	10/1/2005	1/6	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
3	State of New Mexico	Sec. 33: S/2	320	VA-2228	10/1/2005	1/6	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
4	State of New Mexico	Sec. 34: N/2	320	VA-2222	10/1/2005	1/6	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
5	State of New Mexico	Sec. 34: S/2	320	VA-2229	10/1/2005	1/6	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
6	State of New Mexico	Sec. 28: N/2	320	VO-6422	11/1/2006	1/6	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
7	State of New Mexico	Sec. 28: S/2	320	VO-6431	11/1/2006	1/8	Yates Petroleum Corporation	100%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%

**Exhibit B
Lacrosse State Unit
Chaves County, New Mexico**

Tract No.	Lessor	Description of Land Township 11 South - Range 27 East N.M.P.M.	No. of Acres	Lease Serial No.	Lease Expiration Date	Royalty	Lessee of Record/ Original Lessee	%	Overriding Royalty and Percentage	Working Interest Owner and Percentage	%
8	State of New Mexico	Sec. 22: NW/4	160	VA-2331	1/1/2006	1/8	Yates Petroleum Corporation	100%	None.	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	70.00% 10.00% 10.00% 10.00%
9	State of New Mexico	Sec. 22: NE/4, S/2	480	VO-6243	6/1/2006	1/8	Yates Petroleum Corporation	100%	None.	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. Elk Oil Company Elliott-Hall Company, Limited Elliott Industries, Limited Genesis Limited Partnership Tumbleweed Oil & Gas L.L.C.	49.00% 7.00% 7.00% 7.00% 15.00% 3.00% 3.00% 4.50% 4.50%
10	State of New Mexico	Sec. 27: W/2	320	VO-6246	6/1/2006	1/8	Yates Petroleum Corporation	100%	None.	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. Elk Oil Company Elliott-Hall Company, Limited Elliott Industries, Limited Genesis Limited Partnership Tumbleweed Oil & Gas L.L.C.	49.00% 7.00% 7.00% 7.00% 15.00% 3.00% 3.00% 4.50% 4.50%
11	State of New Mexico	Sec. 27: E/2	320	VO-6232	6/1/2006	1/8	Yates Petroleum Corporation	100%	None.	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. Elk Oil Company Elliott-Hall Company, Limited Elliott Industries, Limited Genesis Limited Partnership Tumbleweed Oil & Gas L.L.C.	49.00% 7.00% 7.00% 7.00% 15.00% 3.00% 3.00% 4.50% 4.50%

**Exhibit B
Lacrosse State Unit
Chaves County, New Mexico**

Tract No.	Lessor	Description of Land Township 11 South - Range 27 East N.M.P.M.	No. of Acres	Lease Serial No.	Lease Expiration Date	Royalty	Lessee of Record/ Original Lessee	% Overriding Royalty and Percentage	Working Interest Owner and Percentage	%
12	Charles F. and Pauline C. Smith Living Trust, Charles F. and Pauline C. Smith Trustees	Sec. 32: SE/4NE/4	40	Fee	8/9/2010		Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	None. 70.00% 10.00% 10.00%	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc.	25.00% 25.00% 25.00% 25.00%

Total State Tracts 3800
 Total Fee Tracts 40
3840

EXHIBIT C
Schedule of Tract Participation

Yates Petroleum Corporation
Lacrosse State Unit Area
Township 11 South, Range 27 East, N.M.P.M.
Chaves County, New Mexico

<u>Tract #</u>	<u>Acres</u>	<u>Unit Participation</u>
1	600	15.62500%
2	320	8.33333%
3	320	8.33333%
4	320	8.33333%
5	320	8.33333%
6	320	8.33333%
7	320	8.33333%
8	160	4.16667%
9	480	12.50000%
10	320	8.33333%
11	320	8.33333%
12	40	1.04167%
	<u>3840</u>	<u>100.00000%</u>



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

MODEL FORM OPERATING AGREEMENT

Use of this identifying mark is prohibited
American Association of Petroleum Landmen

LACROSSE STATE UNIT

OPERATING AGREEMENT

DATED

August 01, 2005

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA TOWNSHIP 11 SOUTH, RANGE 27 EAST, N.M.P.M.

SECTION 22: ALL

SECTION 27: ALL

SECTION 28: ALL

SECTION 32: ALL

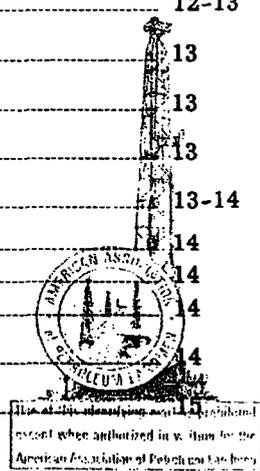
SECTION 33: ALL

SECTION 34: ALL

COUNTY OR PARISH OF CHAVES STATE OF NEW MEXICO

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico Corporation, 105 S. 4th Street, Artesia, NM 88210, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II. EXHIBITS

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

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

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.
24

25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-
47 terests; and

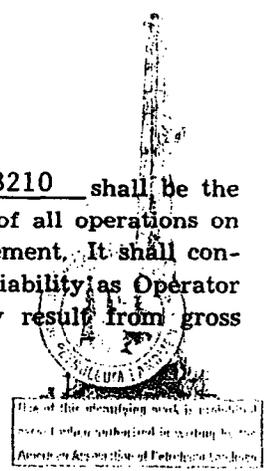
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.
56

57 **ARTICLE V.**
58 **OPERATOR**

59 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

60 YATES PETROLEUM CORPORATION, 105 South 4th Street, Artesia, NM 88210 shall be the
61 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
62 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
63 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
64 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
65 negligence or willful misconduct.
66
67
68
69
70



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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 1st day of October, 2005 Operator shall commence the drilling of a well for oil and gas at the following location:

Township 11 South, Range 27 East, N.M.P.M.

Section: 32

760' FWL & 660' FNL

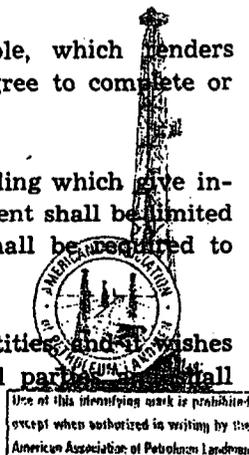
Chaves County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to reach the top of the Siluro-Devonian formation or a depth of 6,075'.

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

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

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



1 **B. Subsequent Operations:**

2

3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16

17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30

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

40

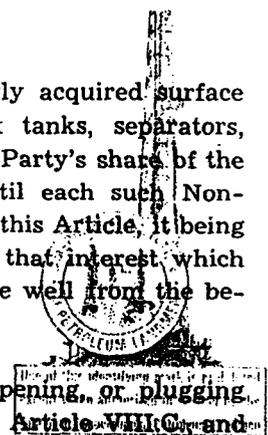
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all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

59

60 (a) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 200% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68

69 (b) 500 % of that portion of the costs and expenses of drilling reworking, deepening or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C. and



1 500% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens
17 applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter, shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63
64 **C. Right to Take Production in Kind:**

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from
67 the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and
68 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate
69 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of
70 production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Any party's failure to timely respond within said thirty (30) days shall be deemed to consent to abandonment. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations with the Contract Area for a term of one year and so long thereafter as oil and or gas is produced from the interval or intervals of the formation or formations covered thereby, such

1 lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which
2 the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of
3 their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
4 Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.
5
6
7

8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-
9 eration of or production from the well in the interval or intervals then open other than the royalties
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
12 templated by this agreement, plus any additional cost and charges which may arise as the result of
13 the separate ownership of the assigned well.
14

15 **ARTICLE VII.**
16 **EXPENDITURES AND LIABILITY OF PARTIES**

17
18 **A. Liability of Parties:**
19

20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall
24 this agreement be construed as creating, a mining or other partnership or association, or to render the
25 parties liable as partners.
26

27 **B. Liens and Payment Defaults:**
28

29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a
30 security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure
31 payment of its share of expense, together with interest thereon at the rate provided in the Accounting
32 Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the
33 Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies
34 of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator
35 for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
36 rights or security interest as security for the payment thereof. In addition, upon default by any Non-
37 Operator in the payment of its share of expense, Operator shall have the right, without prejudice to
38 other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's
39 share of oil and/or gas until the amount owed by such Non-Operator, including reasonable attorney fees in the event of suit to collect
40 any delinquency, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning
41 the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's
42 proportionate share of expense.
43

44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.
49

50 **C. Payments and Accounting:**
51

52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and
57 received.
58

59 Operator, at its election, shall have the right from time to time to demand and receive from the
60 other parties payment in advance of their respective shares of the estimated amount of the expense to
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
62 by submission to each such party of an itemized statement of such estimated expense, together with
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
68 made monthly between advances and actual expense to the end that each party shall bear and pay its
69 proportionate share of actual expenses incurred, and no more.
70

Use of this operating agreement is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

1 **D. Limitation of Expenditures:**

2
3 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, ex-
4 cept any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being
5 understood that the consent to the drilling or deepening shall include:

6
7 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and
8 equipping of the well, including necessary tankage and/or surface facilities.~~

9
10 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties
13 receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holi-
14 days) in which to elect to participate in the setting of casing and the completion attempt. Such election,
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice
17 to reply within the period above fixed shall constitute an election by that party not to participate in
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to
21 the operations thereafter conducted by less than all parties.

22
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include
26 consent to all necessary expenditures in conducting such operations and completing and equipping of
27 said well, including necessary tankage and/or surface facilities.

28
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require
30 an expenditure in excess of FORTY THOUSAND----- Dollars (\$ 40,000.00)
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project
38 costing in excess of TWENTY-FIVE THOUSAND Dollars (\$ 25,000.00).

39
40 **E. Royalties, Overriding Royalties and Other Payments:**

41
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of
43 1/8 of 8/8ths due on its share of production and shall hold the other parties free
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account
47 for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

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

3
4 **G. Taxes:**

5
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad
7 valorem taxation all property subject to this agreement which by law should be rendered for such
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-
16 ner provided in Exhibit "C".

17
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-
28 duced under the terms of this agreement.

29
30 **H. Insurance:**

31
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain
40 such other insurance as Operator may require.

41
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for
44 such insurance for Operator's fully owned automotive equipment.

45
46 **ARTICLE VIII.**
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48
49 **A. Surrender of Leases:**

50
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall
52 not be surrendered in whole or in part unless all parties consent thereto. However, no consent shall be
53 necessary to release a lease which has expired or otherwise terminated.

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

70
American Association of Petroleum Landmen

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

12
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
 14 any liability which has accrued or attached prior to the date of such termination.
 15

16 **ARTICLE XIV.**
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**

18
 19 **A. Laws, Regulations and Orders:**

20
 21 This agreement shall be subject to the conservation laws of the state in which the committed
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
 24 orders.
 25

26 **B. Governing Law:**

27
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
 30 terpretation or construction, shall be governed and determined by the law of the state in which the
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
 32 of the land in the Contract Area is located shall govern.
 33

34 **ARTICLE XV.**
 35 **OTHER PROVISIONS**

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

51 **B.** No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's
 52 subsidiaries, affiliates, or associates, without each party's prior written consent. All Production sold from the
 53 lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser. It is
 54 expressly agreed if prior written consent is given to a party selling to themselves, its subsidiaries, affiliates, or
 55 associates, the other parties to this agreement will have the option to also sell to said purchaser, at the same or
 56 better price. In the event any party hereto, makes an arm's length trade with a third party purchaser, the remaining
 57 parties will have the option to also sell at the same or higher price.

58 **C.** Only as to the working interest, the parties hereto agree that, notwithstanding the terms of the Unit Agreement
 59 or Paragraph XV-H of this Operating Agreement, the working interest in each well drilled hereunder and the ownership
 60 of all equipment shall remain fixed, and the expansion or contraction of Participating Areas will not cause a
 61 revision of the working interest percentages in any well or its equipment.

62 **D.** Should any working interest owner fail or refuse to subscribe or consent to the Unit Agreement and/or this Unit
 63 Operating Agreement prior to commencement of Unit Operations (as contemplated by Section ___ of the Unit Agreement)
 64 such working interest owner shall not have the right of subsequent joinder to the Unit Agreement or to this Unit
 65 Operating Agreement unless such subsequent joinder is approved by working interest owners having at least a ___% net
 66 leasehold working interest in the total leasehold acres remaining in the Unit Area after exclusion of the Tract or
 67 Tracts in which the working interest owner who failed to initially join the Unit Agreement owns leasehold working
 68 interest.

69 **CONTRACTION OR EXPANSION OF UNIT AREA - UNDIVIDED**

70 **E.** In the event of contraction of the Unit Area as provided in Section 2 of the Unit Agreement, the lands excluded
 from the Unit Area shall continue to be subject to this agreement but such exclusion shall not alter the interests of
 the parties as to lands remaining in the Unit Area or as to the lands contracted out of said unit.

F. In the event of expansion of the Unit Area as provided in Section 2 of the Unit Agreement the lands added to the
 Unit Area shall not become subject to this agreement unless and until the owner or owners of the working interest in
 such lands become Parties to this agreement in accordance with Article 22 dealing with Subsequent Joinder, and
 until such time any reference to Unit Area shall not include such lands for the purposes of this agreement.

1 G. In addition to the liens and security interest as provided herein, each Non-Operator to this Agreement, to secure payment of its share
2 of expenses incurred under this Operating Agreement, grants Operator a lien on all of its right, title and interest now owned or hereafter
3 acquired in the contract area including, but not limited to, the oil and gas leases, mineral estates and other mineral interests subject to this
4 Operating Agreement and any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests;
5 and all unsevered and unextracted oil, gas and other hydrocarbons that may be produced, obtained or secured from the lands covered and
6 affected by such mineral interests. In addition to the rights and remedies afforded to Operator pursuant to the terms hereof, or at law or in
7 equity, it is understood and agreed that each defaulting party grants to the Operator a contractual right of offset in and to all money,
8 production proceeds from the sale of production and property of every kind or character of such defaulting party, now or at any time
9 hereunder coming within Operator's custody or control, wheresoever located whether or not subject to the terms of the Agreement or any
10 other agreement between Operator and defaulting party. Operator, may, at its election, at any time from time to time, reduce (or eliminate,
11 as the case may be) any debt owing to it by any defaulting party by applying such defaulting party's money, proceeds or property in the
12 custody or control of Operator to the balance owed on such debt and giving such defaulting party appropriate credit therefore. Any such
13 amount so applied shall first be applied to any past due interest, if any, then to any costs, including attorney's fees, incurred by Operator in
14 the collection of the proceeds or property, and then to the underlying debt. It is agreed and understood that Operator's contractual right of
15 offset shall extend to and include all proceeds of production attributable to the defaulting party from any wells in which the defaulting party
16 owns an interest. In addition to all rights and remedies afforded Operator under this agreement, in the event any debt owing by the
17 defaulting party to Operator shall exceed any money, proceeds of sale of production, or property of such defaulting party as provided in the
18 contractual right of offset as provided above, the Operator may elect to proceed and foreclose the lien of Operator against the interest of
19 any defaulting party in the contract area.
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ARTICLE XVI. MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: [Signature]
Its: Attorney-in-Fact

NON-OPERATORS

YATES DRILLING COMPANY

By: [Signature]
Its: Vice-President

MYCO INDUSTRIES, INC.

By: [Signature]
Its: Attorney-in-Fact

Attest:

ABO PETROLEUM CORPORATION

By: [Signature]
John A. Yates, Jr., Attorney-in-Fact

ELK OIL COMPANY

By:
Its:

ELLIOTT-HALL COMPANY, LIMITED

By:
Its:

ELLIOTT INDUSTRIES, LIMITED

By:
Its:

GENESIS LIMITED PARTNERSHIP

By:
Its:

TUMBLEWEED OIL & GAS, L.L.C.

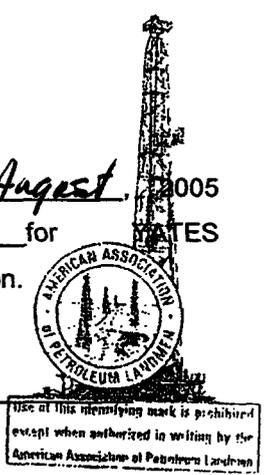
By:
Its:

STATE OF NEW MEXICO
COUNTY OF EDDY

The foregoing instrument was acknowledged before me this 24th day of August 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

Notary Public State of New Mexico
Antonia G. Hernandez
My commission expires: 5/18/2009

[Signature]
Notary Public



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MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August, 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: Randy Patterson
Its: Attorney-in-Fact *CPA*

NON-OPERATORS

YATES DRILLING COMPANY

By: John T. Chubb
Its: Vice-President

MYCO INDUSTRIES, INC.

By: Frank Yates Jr
Its: Attorney-in-Fact

Attest: _____

ABO PETROLEUM CORPORATION

By: John A. Yates, Jr.
Its: John A. Yates, Jr., Attorney-in-Fact

ELK OIL COMPANY

By: Joseph I. Kelly
Its: Joseph I. Kelly, President

ELLIOTT-HALL COMPANY, LIMITED

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED OIL & GAS, L.L.C.

By: _____
Its: _____

STATE OF NEW MEXICO

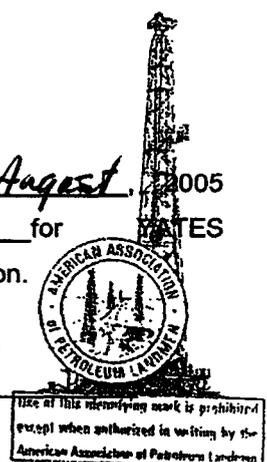
COUNTY OF EDDY

§
§
§

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OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

Antonia G. Hernandez
Notary Public



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

not 9/27/05

ARTICLE XVI
MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August, 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: Randy G. Patterson
Its: Attorney-in-Fact *per*

NON-OPERATORS

YATES DRILLING COMPANY

By: John T. Clark
Its: Vice-President

MYCO INDUSTRIES, INC.

By: Frank Yates Jr
Its: Attorney-in-Fact

Attest: _____

ABO PETROLEUM CORPORATION

By: John A. Yates, Jr.
Its: Attorney-in-Fact

ELK OIL COMPANY

By: _____
Its: _____

ELLIOTT-HALL COMPANY, LIMITED

By: Mary A. Miller
Its: _____

ELLIOTT INDUSTRIES, LIMITED

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED OIL & GAS, L.L.C.

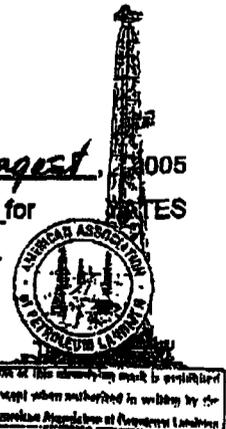
By: _____
Its: _____

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 1st day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

 Antonio G. Hernandez
NOTARY PUBLIC STATE OF NEW MEXICO
My commission expires: 5/18/2009

Antonio G. Hernandez
Notary Public



ARTICLE XVI
MISCELLANEOUS

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

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IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August, 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: Randy G. Patterson
Its: Attorney-in-Fact *CGM*

NON-OPERATORS

YATES DRILLING COMPANY

By: John A. Yates, Jr.
Its: Vice-President

MYCO INDUSTRIES, INC.

By: Frank Yates, Jr.
Its: Attorney-in-Fact

Attest: _____

ABO PETROLEUM CORPORATION

By: John A. Yates, Jr.
Its: John A. Yates, Jr., Attorney-in-Fact

ELK OIL COMPANY

By: _____
Its: _____

ELLIOTT-HALL COMPANY, LIMITED

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED

By: _____
Its: PRES. OF ELLIOTT MANAGEMENT CO., MANAGING GEN. PTNR. OF ELLIOTT INDUSTRIES LTD. PARTNERSHIP

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED OIL & GAS, L.L.C.

By: _____
Its: _____

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

OFFICIAL SEAL
 Antonio G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

Antonio G. Hernandez
Notary Public

Use of this accompanying mark is prohibited except when authorized in writing by the American Association of Petroleum Landmen

ARTICLE XVI. MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: [Signature] Attorney-in-Fact

NON-OPERATORS

YATES DRILLING COMPANY

By: [Signature] Vice-President

MYCO INDUSTRIES, INC.

By: [Signature] Attorney-in-Fact

Attest:

ABO PETROLEUM CORPORATION

By: [Signature] John A. Yates, Jr., Attorney-in-Fact

ELK OIL COMPANY

By: _____ Its: _____

ELLIOTT-HALL COMPANY, LIMITED

By: _____ Its: _____

ELLIOTT INDUSTRIES, LIMITED

By: _____ Its: _____

GENESIS LIMITED PARTNERSHIP

By: [Signature] General Partner

TUMBLEWEED OIL & GAS, L.L.C.

By: _____ Its: _____

STATE OF NEW MEXICO § COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

Notary Public State of New Mexico, My commission expires: 5/18/2009



Use of this identifying mark is prohibited except when authorized in writing by the American Association of Petroleum Landmen

ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of August, 2005.

OPERATOR

YATES PETROLEUM CORPORATION

By: Randy Patterson
Its: Attorney-in-Fact *CSM*

NON-OPERATORS

YATES DRILLING COMPANY

By: John F. [Signature]
Its: Vice-President

MYCO INDUSTRIES, INC.

By: Frank Yates J
Its: Attorney-in-Fact

Attest: _____

ABO PETROLEUM CORPORATION

By: John A. Yates, Jr.
Its: John A. Yates, Jr., Attorney-in-Fact

ELK OIL COMPANY

By: _____
Its: _____

ELLIOTT-HALL COMPANY, LIMITED

By: _____
Its: _____

ELLIOTT INDUSTRIES, LIMITED

By: _____
Its: _____

GENESIS LIMITED PARTNERSHIP

By: _____
Its: _____

TUMBLEWEED OIL & GAS, L.L.C.

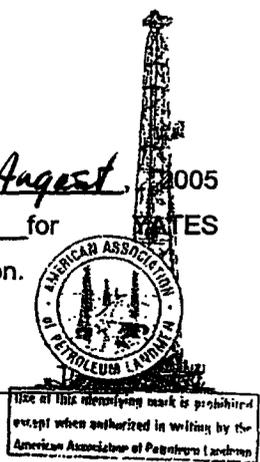
By: David D. [Signature]
Its: Manager

STATE OF NEW MEXICO §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Randy G. Patterson as Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

Antonia G. Hernandez
Notary Public



STATE OF NEW MEXICO
COUNTY OF EDDY

§
§
§



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by Toby Rhodes as Vice-President for, YATES DRILLING COMPANY, a New Mexico corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO
COUNTY OF EDDY

§
§
§



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by John A. Yates, Jr. as Attorney-in-Fact for ABO PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO
COUNTY OF EDDY

§
§
§



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005 by John A. Yates, Jr. as Attorney-in-Fact for MYCO INDUSTRIES, INC., a New Mexico corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF
COUNTY OF

§
§
§

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____ as _____ of Elk Oil Company.

My commission expires

Notary Public

STATE OF
COUNTY OF

§
§
§

The foregoing instrument was acknowledged before me this _____ day of _____, 2005 by _____ as _____ of Elliott-Hall Company, Limited Partnership.

My commission expires

Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by Toby Rhodes as Vice-President for, YATES DRILLING
COMPANY, a New Mexico corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by John A. Yates, Jr. as Attorney-in-Fact for ABO PETROLEUM CORPORATION, a New Mexico
corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by John A. Yates, Jr. as Attorney-in-Fact for MYCO INDUSTRIES, INC., a New Mexico corporation, on
behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO §
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this 21st day of September 2005
by Joseph J. Kelly as President of Elk Oil Company.

October 22, 2008
My commission expires

Julie G. Bradley
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005
by _____ as _____ of Elliott-Hall Company, Limited
Partnership.

My commission expires
Lacrosse State Unit, Signature Pages to OA

Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by Toby Rhodes as Vice-President for, YATES DRILLING
COMPANY, a New Mexico corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by John A. Yates, Jr. as Attorney-in-Fact for ABO PETROLEUM CORPORATION, a New Mexico
corporation, on behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF NEW MEXICO §
COUNTY OF EDDY §



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5/18/2009

The foregoing instrument was acknowledged before me this 24th day of August, 2005
by John A. Yates, Jr. as Attorney-in-Fact for MYCO INDUSTRIES, INC., a New Mexico corporation, on
behalf of said corporation.

Antonia G. Hernandez
Notary Public

STATE OF _____ §
COUNTY OF _____ §

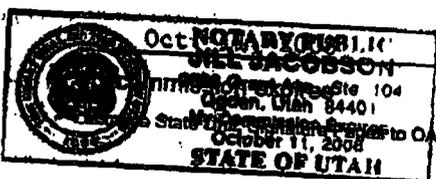
The foregoing instrument was acknowledged before me this _____ day of _____, 2005
by _____ as _____ of Elk Oil Company.

My commission expires _____

Notary Public

STATE OF UTAH §
COUNTY OF WEBER §

The foregoing instrument was acknowledged before me this 27th day of September, 2005
by Mary Ann Miller as Manager of Elliott-Hall Company, Limited
Partnership.



Jill Jacobson
Notary Public

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005
by _____ as _____ of Elliott Industries, Limited Partnership.

My commission expires Notary Public

STATE OF *South Carolina* §
COUNTY OF *Charleston* §

The foregoing instrument was acknowledged before me this 15th day of September, 2005
by Stephen W. Speer as General Partner of Genesis Limited Partnership.

My Commission Expires Nov. 7, 2013

My commission expires Notary Public *Jeff A. Quin*

STATE OF §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 2005
by _____ as _____ of Tumbleweed Oil & Gas, L.L.C.

My commission expires Notary Public

EXHIBIT "A"

I. CONTRACT LANDS:

Township 11 South, Range 27 East, N.M.P.M.
Section 22: ALL
Section 27: ALL
Section 28: ALL
Section 32: ALL
Section 33: ALL
Section 34: ALL
Chaves County, New Mexico
Containing 3,840.00 acres, more or less

II. DEPTH RESTRICTION:

NONE

III. PERCENTAGE INTERESTS OF PARTIES SUBJECT TO AGREEMENT:

Yates Petroleum Corporation	63.40625%
Yates Drilling Company	9.28125%
Abo Petroleum Corporation	9.28125%
Myco Industries, Inc.	9.28125%
Elk Oil Company	4.37500%
Elliott-Hall Company Limited Partnership	0.87500%
Elliott Industries Limited Partnership	0.87500%
Genesis Limited Partnership	1.31250%
Tumbleweed Oil & Gas, LLC	1.31250%
	100.00000%

IV. LEASES SUBJECT TO AGREEMENT:

1. Serial No.: VA-2226
Dated: October 1, 2000
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East, N.M.P.M.
Section 32: N/2NE, SW/4NE/4, W/2, SE/4
Chaves County, New Mexico
Royalty Rate: 1/8
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 600.00 acres, more or less
2. Serial No.: VA-2227
Dated: October 1, 2000
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 33: N/2
Chaves County, New Mexico

Royalty Rate: 1/6
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%

Net Acres: 320.00 acres, more or less

3. Serial No.: VA-2228
Dated: October 1, 2000
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 33: S/2
Chaves County, New Mexico
Royalty Rate: 1/6
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 320.00 acres, more or less

4. Serial No.: VA-2222
Dated: October 1, 2000
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 34: N/2
Chaves County, New Mexico
Royalty Rate: 1/6
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 320.00 acres, more or less

5. Serial No.: VA-2229
Dated: October 1, 2000
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 34: S/2
Chaves County, New Mexico
Royalty Rate: 1/6
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%

Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%

Net Acres: 320.00 acres, more or less

6. Serial No.: VA-6422
Dated: November 1, 2001
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 28: N/2
Chaves County, New Mexico
Royalty Rate: 1/6
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 320.00 acres, more or less

7. Serial No.: VA-6431
Dated: November 1, 2001
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 28: S/2
Chaves County, New Mexico
Royalty Rate: 1/8
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 320.00 acres, more or less

8. Serial No.: VA-2331
Dated: January 1, 2001
Lessor: State of New Mexico
Lessee: Yates Petroleum Corporation 100.00%
Description: Township 11 South, Range 27 East,
Section 22: NW/4
Chaves County, New Mexico
Royalty Rate: 1/8
Working Interest Owner: Yates Petroleum Corporation 70.00%
Yates Drilling Company 10.00%
Abo Petroleum Corporation 10.00%
Myco Industries, Inc. 10.00%
Net Acres: 160.00 acres, more or less

9. Serial No.: VO-6243
 Dated: June 1, 2001
 Lessor: State of New Mexico
 Lessee: Yates Petroleum Corporation 100.00%

Description: Township 11 South, Range 27 East,
 Section 22: NE/4, S/2
 Chaves County, New Mexico

Royalty Rate: 1/8

Working Interest Owner:

Yates Petroleum Corporation	49.00%
Yates Drilling Company	7.00%
Abo Petroleum Corporation	7.00%
Myco Industries, Inc.	7.00%
Elk Oil Company	15.00%
Elliott-Hall Company Limited Partnership	3.00%
Elliott Industries, Limited Partnership	3.00%
Genesis Limited Partnership	4.50%
Tumbleweed Oil & Gas LLC	4.50%

Net Acres: 480.00 acres, more or less

10. Serial No.: VO-6246
 Dated: June 1, 2001
 Lessor: State of New Mexico
 Lessee: Yates Petroleum Corporation 100.00%

Description: Township 11 South, Range 27 East,
 Section 27: W/2
 Chaves County, New Mexico

Royalty Rate: 1/8

Working Interest Owner:

Yates Petroleum Corporation	49.00%
Yates Drilling Company	7.00%
Abo Petroleum Corporation	7.00%
Myco Industries, Inc.	7.00%
Elk Oil Company	15.00%
Elliott-Hall Company Limited Partnership	3.00%
Elliott Industries, Limited Partnership	3.00%
Genesis Limited Partnership	4.50%
Tumbleweed Oil & Gas LLC	4.50%

Net Acres: 320.00 acres, more or less

11. Serial No.: VO-6232
 Dated: June 1, 2001
 Lessor: State of New Mexico
 Lessee: Yates Petroleum Corporation 100.00%

Description: Township 11 South, Range 27 East,
 Section 27: E/2
 Chaves County, New Mexico

Royalty Rate: 1/8

Working Interest Owner:

Yates Petroleum Corporation	49.00%
Yates Drilling Company	7.00%
Abo Petroleum Corporation	7.00%
Myco Industries, Inc.	7.00%
Elk Oil Company	15.00%
Elliott-Hall Company Limited Partnership	3.00%
Elliott Industries, Limited Partnership	3.00%
Genesis Limited Partnership	4.50%
Tumbleweed Oil & Gas LLC	4.50%

Net Acres: 320.00 acres, more or less

12. Serial No.: Fee

Dated: August 9, 2010

Lessor: Charles F. and Pauline C Smith, Trustees of the Charles F. and Pauline C. Smith Living Trust

Lessee:

Yates Petroleum Corporation	70.00%
Yates Drilling Company	10.00%
Abo Petroleum Corporation	10.00%
Myco Industries, Inc.	10.00%

Description: Township 11 South, Range 27 East, N.M.P.M. Section 32: SE/4NE/4
Chaves County, New Mexico

Royalty Rate: 3/16

Working Interest Owner:

Yates Petroleum Corporation	25.00%
Yates Drilling Company	25.00%
Abo Petroleum Corporation	25.00%
Myco Industries, Inc.	25.00%

Net Acres: 40.00 acres, more or less

V. ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES

Yates Petroleum Corporation
Yates Drilling Company
Myco Industries, Inc.
Abo Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210
Phone: (505) 748-1471
Fax: (505) 748-4572

Elk Oil Company
P.O. Box 310
Roswell, NM 88202-0310
Phone: (505) 623-3190

Elliott-Hall Company Limited Partnership
George Hall
P.O. Box 1231
Ogden, UT 84402
Phone: (801) 399-5871
Fax: (801) 399-5887

Elliott Industries Limited Partnership
Stephen L. Elliot
P.O. Box 3300
Roswell, NM 88202-3300
Phone: (505) 622-5840
Fax: (505) 625-9850

Genesis Limited Partnership
P.O. Box 1363
Mt. Pleasant, SC 29465-1363
Phone: (843) 884-0011

Tumbleweed Oil & Gas, L.L.C.
Jim Vandiver
P.O. Box 782
Gaylord, MI 49734
Phone: (989) 731-0736
Fax: (989) 731-1442

"EXHIBIT B"

Producers 88 Rev. (5 Year Lease) 5-96
YPC Revised Form

(FIVE YEAR PAID UP LEASE)
OIL AND GAS LEASE

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

THIS AGREEMENT made this ____ day of _____, between _____, as Lessor (whether one or more), and _____, 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 _____ County, _____ to-wit:

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

3. The royalties to be paid by Lessee are: (a) on oil, 1/8 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 1/8 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/8 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.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated August 1, 2005 between Yates Petroleum Corporation as "Operator" and Yates Drilling Company, et.al. "Non-Operator" covering Township 11 South, Range 27 East, N.M.P.M. Sections: 22, 27, 28, 32, 33 & 34, All. Chaves County, New Mexico

**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 Surface to 4000' 4000' to 8000' 8000' to 12000'

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

Drilling Well Rate \$	3000.00	4000.00	\$5400000
Producing Well Rate \$	300.00	400.00	540.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, 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.

EXHIBIT "D"

**ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT**

ADDITIONAL INSURANCE PROVISIONS

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

- (A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per employee.

- (B) Public Liability Insurance:
Bodily Injury and Property Damage - \$1,000,000.00 single limit each occurrence.

- (C) Automobile Public Liability Insurance:
Bodily Injury - \$500,000.00 each person.
\$1,000,000.00 each occurrence.

Property Damage - \$500,000.00 each accident.

(or)
Bodily Injury and Property Damage - \$1,000,000.00 combined single limit.

- (D) Control of Well and Extra Expense - \$10,000,000.00 - Limit of Liability

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with all royalty owners to whom royalty is due. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners paid by each party. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of ¶6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

- (7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-I) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001 .