SOVEREIGN EAGLE, LLC

P.O. BOX 968 ROSWELL, NM 88202-0968

November 5, 2014

Mr. Jim Ball
Yates Holdings LLP
PO Box 1394
Artesia, NM 88211-1394

Re: Tule Field Marketing

Dear Jim,

Mitch asked me to respond to your email of October 28th regarding Sovereign Eagle LLC's (Sovereign) marketing of Tule Field products.

First I want to provide you some historical background of Sovereign's history at Tule. Sovereign purchased the Tule field in 2008 when it was making ~70 Mcfd from the 6 producing wells. Sovereign immediately upgraded all of the facilities, began well work to hopefully re-establish the field as an economic venture and was planning aeromag surveys that would hopefully lead to a seismic shoot. By early 2011 the 6 wells were producing ~2,500 Mcfd, gas prices were $4.00/MMBtu, 2-D & 3-D seismic was evaluated and Sovereign was planning development and exploratory drilling. Then in April 2011 Transwestern decided to start enforcing the inert gas specifications on their pipeline and ordered the field shut-in until we could remove enough nitrogen from the gas to meet their spec. Sovereign produced enough gas to keep the leases alive and started up a year later, April 2012, with a membrane system to remove nitrogen. Gas prices had dropped to $1.83/MMBtu. The membrane technology was not a viable process so we shut-in again in Feb 2013 and started up in May 2013 with our current processing system which is described in detail below and on the attached schematic.

Sovereign received State and Federal approval for off-lease measurement, storage and sales after acquiring the field in 2008. All production is gathered & transported from the 6 producing wells to a central facility. The produced water is pipelined from the central facility for disposal to the Powell SWD well located in the field. Oil from the Cook #1 is stored at the central facility and sold arm's length to Shell Trading. Shell also arranges for the truck transport of the oil. After the wells are individually separated and the gas is metered, the combined gas stream flows through another separator and then enters the pressure swing absorption nitrogen removal plant. The nitrogen plant is leased arm's length from IACX Energy and the associated screw compressor is leased arm's length from Exterran. After nitrogen removal the gas flows through a 3 stage compressor which is also leased arm's length from Exterran. The gas is then dehydrated by Sovereign & WIO's and then flows through a JT skid for NGL recovery which is leased arm's length from Kinder Morgan. The NGL stabilizer tower and NGL storage tank are also leased arm's length from Kinder Morgan. NGL's are sold arm's length to ICAN Energy Company and they also handle the trucking of the NGL's. The gas is then recompressed to sales line pressure in a 2 stage compressor owned by Sovereign & WIO's. There is a 7 mile pipeline owned by Southbound Gas Company from the central facility to Transwestern's pipeline. The gas is sold arm's length to Southbound at the central facility based on Transwestern's index price less Southbound's transport charge, which averages ~\$.25/MMBtu. Sovereign & WIO's also own a natural gas fueled genset to provide electricity for the central facility. Lease gas provides the fuel consumed at the central facility by the 3 compressors, the dehy and the genset. There is also a small amount of gas vented as part of the IACX nitrogen removal process.

Sovereign & WIO's own the facilities that are not leased and Sovereign is only charging its arm's length direct costs and COPAS allowed direct and indirect charges. However, because the economics of this project are so challenging with low gas prices and high operating costs, in May 2013 Sovereign initiated discussions with the State about a processing allowance prior to the payment of State tax and royalty when we started up the new processing plant. The allowance approved by the State and implemented by Sovereign is \$2.081/Mcf. It was calculated based on the 2013 estimated expenses and projected gas volumes through the new facilities. Sovereign is applying the allowance prior to payment of State taxes and all royalty interests except the federal government. The actual 2013 expenses and gas volumes would have allowed Sovereign to significantly increase the processing allowance for 2014 but Sovereign decided as a show of good faith to maintain the allowance at \$2.081/Mcf.

Sovereign continues to make improvements in the mechanics and efficiency of the processing facilities and looks forward to the time when all of the interest owners are consistently making money from the Tule project.

Because Tom Kelley at Yates Petroleum has recently inquired about the Tule project I have also sent him a copy of this letter to help explain the current status. If you have other questions please let me know.

Regards,

David Lanning

David Lanning
Exploration & Development Manager

cc: Tom Kelley