

Exhibits 1 through 10
Complete Set

committed and has not been voluntarily committed to the area proposed to be pooled or unitized, in a securely sealed, certified mail, return receipt requested, postage prepaid envelope, addressed to the following named party:

W. E. Corn
1300 West Fourth Street
Roswell, New Mexico 88201

on the 22nd day of March, 1989, as reflected by the copy of the letter transmitting such copy of the Application and the return receipt executed on behalf of the addressee, attached hereto.

Patti Wier
Patti Wier

SUBSCRIBED AND SWORN TO before me this 22nd day of March, 1989, by PATTI WIER.

My commission expires:
1-2-90

Karen Reyes
Notary Public

March 22, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

W. E. Corn
1300 West Fourth Street
Roswell, New Mexico 88201

Re: Bajillo Draw State No. 4 Well
Township 7 South, Range 23 East, N.M.P.M.
Section 28: SW/4
Chaves County, New Mexico

Dear Mr. Corn:

Enclosed, please find a copy of the Application of Yates Petroleum Corporation for Compulsory Pooling, Chaves County, New Mexico.

Hearing is scheduled before the New Mexico Oil Conservation Division, in Santa Fe, New Mexico, on April 26, 1989.

Please contact the undersigned if you have any questions regarding this application.

Sincerely yours,

DICKERSON, FISK & VANDIVER


Chad Dickerson

CD:pvw
Enclosure

cc: Cy Cowan

P 920 346 946

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

PS Form 3800, June 1985

Sent to W. E. Corn	
Street and No 1300 West 4th St.	
P. O., State and ZIP Code Roswell, NM 88201	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery.

3. Article Addressed to: W. E. Corn 1300 West Fourth Street Roswell, New Mexico 88201	4. Article Number P 920 346 946
	Type of Service: <input checked="" type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
Always obtain signature of addressee or agent and DATE DELIVERED .	
5. Signature - Addressee X <i>W. E. Corn</i>	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X	
7. Date of Delivery 3-24-89	

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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

April 21, 1989

Ronadero Company Inc.
P. O. Box 430
Roswell, New Mexico 88202

Attention: Mr. Robert Hanagan

Re: Township 7 South, Range 23 East, NMPM
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
Chaves County, New Mexico

Gentlemen:

Thank you for your letter of April 20, 1989, outlining your proposal for assigning the captioned acreage. In the event Mr. Corn did not furnish you with the documents I sent to him, enclosed please find:

1. Operating Agreement for our proposed Bajillo Draw "WQ" State #4 well.
2. Two copies of the Authority for Expenditure.
3. One copy of the Compulsory Pooling Notice.

Please be advised the captioned acreage is scheduled for hearing on Wednesday, April 26, 1989 in Santa Fe.

Should you have any questions please contact me.

Thank you for your concern in this matter.

Very truly yours,

YATES PETROLEUM CORPORATION


Cy Cowan
Associate Landman

CC/bp
Enclosures

YATES PETROLEUM CORPORATION
Case No. 9657
4/26/89 Examiner Hearing
Exhibit No. 3

P 916 636 519

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

Sent to Ronadero Company Inc.	
Post Office No. P.O. Box 430	
P.O., State and ZIP Code Roswell, New Mexico 88201	
Postage	\$
Attn: Robert Hannigan	
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date 4-21-89	
Bajillo Drawer WQ St. #4	

PS Form 3800, June 1985



VIA CERTIFIED MAIL - RETURN RECEIPT REQUESTED

April 20, 1989

Yates Petroleum Corporation *W. CHAVES*
105 South 4th Street
Artesia, New Mexico 88210

Attn: Cy Cowan, Assoc. Landman

Re: Oil and Gas Lease Submittal
Township 7 South, Range 23 East, N.M.P.M.:
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
containing 40.0 acres, more or less
Chaves County, New Mexico

Gentlemen:

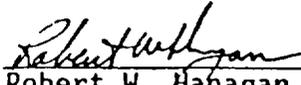
Ronadero Company, Inc. is the owner of the above captioned oil and gas lease (copy attached) and hereby offers an assignment of same, subject to prior sale and withdrawal without notice on the following basis:

- 1) Full Bonus Consideration of Two Hundred Dollars (\$200.00) per net acre (40.0 acres x \$200.00 = \$8,000.00).
- 2) Delivery of a 75% net revenue lease.

Should Yates Petroleum Corporation have an interest in this proposal, please contact me at your earliest convenience.

Very turly yours,

RONADERO COMPANY, INC.



Robert W. Mahagan

RWH/drs

Enc.

OIL & GAS LEASE

THIS AGREEMENT made this 15th day of April 19 89, between

William E. Corn, a single man

of Roswell, New Mexico (Post Office Address)

herein called lessor (whether one or more) and Ronadero Company, Inc. lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in

Chaves

County, New Mexico, to-wit:

Township 7 South, Range 23 East, N.M.P.M.: Section 28: NE 1/4 SW 1/4

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 40.0 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one (1) year 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.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, or on any of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-fourth (1/4) of the gas used, provided that on gas sold on or off the premises the royalty shall be one-fourth (1/4) of the amount realized from such sales; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ 40.00 which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the

UNITED NEW MEXICO BANK AT ROSWELL

at P. O. Box 1977, Roswell, New Mexico 88202 Bank which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term, oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. 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 on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable 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 hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. 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, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its/his successors, heirs, and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

William E. Corn

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of CHAVES

The foregoing instrument was acknowledged before me this 15th day of April, 1989 by William F. Corn, a single man

My Commission expires 7-26, 1989

Notary Signature
Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

No. _____

**OIL AND GAS LEASE
NEW MEXICO**

FROM _____ TO _____

Date _____, 19____

Section _____, Township _____, Range _____

No. of Acres _____ County, New Mexico

Term _____

STATE OF NEW MEXICO
COUNTY OF CHAVES

I hereby certify that this instrument was filed for record on the 20th day of April, A. D. 1989, at 10:01 A. m., and was duly recorded in Book 546 at Page 243

Rhoda Goodloe
County Clerk

By Phyllis Kay Helbert
Rct#64442 \$7.00 Ronadero Co, Inc.
Deputy.

PO Box 430

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

STATE OF _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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

April 18, 1989

Mr. William E. Corn
1300 West 4th Street
Roswell, New Mexico 88201

Re: Township 7 South, Range 23 East, NMPM
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
Chaves County, New Mexico

Dear Mr. Corn:

Enclosed please find a signature page executed by the Yates group to be included in the Operating Agreement sent to you on April 10, 1989.

We would like to take a lease from you or have you participate with us in drilling the Bajillo Draw "WQ" State #4 well.

Would you please contact me at Yates Petroleum Corporation collect (748-1471) or by mail at the above address?

Very truly yours,

YATES PETROLEUM CORPORATION

Cy Cowan
Associate Landman

CC/bp

Enclosure

UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, 3, and 4 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.



PENALTY FOR PRIVATE USE, \$300

RETURN TO



Print Sender's name, address, and ZIP Code in the space below.

Cy Cowan

Yates Petroleum Corporation

105 South Fourth Street

Artesia, New Mexico 88210

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent the card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Call postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

<p>3. Article Addressed to:</p> <p>Mr. William E. Corn 1300 West 4th Street Roswell, New Mexico 88201</p> <p style="text-align: right;">Bajillo Draw WQ St. #4</p>	<p>4. Article Number</p> <p>P 916 636 518</p> <p>Type of Service:</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail</p>
<p>5. Signature - Addressee</p> <p>X <i>W E Corn</i></p>	<p>Always obtain signature of addressee or agent and DATE DELIVERED</p>
<p>6. Signature - Agent</p> <p>X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>7. Date of Delivery</p> <p>4-20-89</p>	

P 916 636 518

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

Sent to	
William E. Corn	
Street and No.	
1300 West 4th Street	
P.O., State and ZIP Code	
Roswell, New Mexico 88201	
Postage	S
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	S
Postmark or Date 4-18-89	
Bajillo Draw WQ State #4	

PS Form 3800, June 1985

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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

April 10, 1989

Mr. William E. Corn
1300 West 4th Street
Roswell, New Mexico 88201

Re: Township 7 South, Range 23 East, NMPM
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
Chaves County, New Mexico

Dear Mr. Corn:

As I stated in my letter to you dated April 3, 1989, I would be sending you a copy of an Authority for Expenditure (AFE) and an Operating Agreement for the captioned well. Enclosed please find these documents.

If you wish to participate with us as a working interest owner please sign both the AFE and Operating Agreement and return them to my attention.

Also I have enclosed a copy of the lease I sent to you on April 3, 1989 in case you would rather lease to us, retaining a 3/16 override for yourself. We will begin drilling operations within 90 days of receiving a signed lease from you.

Once again, would you please contact me at Yates Petroleum Corporation collect (748-1471) at your earliest convenience?

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Cy Cowan
Associate Landman

CC/bp

Enclosures

UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, 3, and 4 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.



PENALTY FOR PRIVATE USE, \$300

RETURN
TO



Print Sender's name, address, and ZIP Code in the space below.

Cy Cowan

Yates Petroleum Corporation

105 South Fourth Street

Artesia, New Mexico 88210

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. Restricted Delivery
†(Extra charge)† †(Extra charge)†

3. Article Addressed to: William E. Corn 1300 West 4th Street Roswell, New Mexico 88201 Bajillo Draw		4. Article Number P 916 636 515
		Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
		Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature - Addressee X <i>W E Corn</i>	8. Addressee's Address (ONLY if requested and fee paid)	
6. Signature - Agent X		
7. Date of Delivery 4-12-89		

PS Form 3811, Mar. 1987

U.S.A.P.O. 1987-478-200

RETURN RECEIPT

P 916 636 515

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED

*NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to William E. Corn	
Street and No. 1300 West 4th Street	
P.O., State and ZIP Code Roswell, New Mexico 88201	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	4-10-89
Bajillo	

PS Form 3800, June 1985

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

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

April 3, 1989

Mr. William E. Corn
1300 West 4th Street
Roswell, New Mexico 88201

Re: Township 7 South, Range 23 East, NMPM
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
Chaves County, New Mexico

Dear Mr. Corn:

As you know Yates Petroleum Corporation has filed for a Compulsory Pooling Hearing with the Energy and Minerals Department of the New Mexico Oil Conservation Division on April 26, 1989 in Santa Fe.

Although we have filed for the hearing we would still like to obtain a lease from you subject to the following terms:

1. A royalty reserevation of 3/16 of 8/8ths unto yourself on all production.
2. A ninety (90) day lease term.

Also, I am preparing an Authority for Expenditure (AFE) and an Operating Agreement covering the captioned acreage if you would rather participate with us in drilling our well. These will be sent to you under separate cover.

Would you please contact me at Yates Petroleum Corporation collect (748-1471) at your earliest convenience?

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Cy Cowan
Associate Landman

CC/bp

Enclosure

P 920 346 946

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to W. E. Corn	
Street and No 1300 West 4th St.	
P. O. State and ZIP Code Roswell, NM 88201	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3800, June 1985

OIL AND GAS LEASE

THIS AGREEMENT made this 3rd day of April, 19 89, between

WILLIAM E. CORN, a widower, Lessor to YATES PETROLEUM CORPORATION

Lessee, WITNESSETH:

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

Chaves County, New Mexico, to-wit:

Township 7 South, Range 23 East, N.M.P.M.
Section 28: NE¹SW¹
Containing 40 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 90 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. ninety days

3. The royalties to be paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16

of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or 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 an 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 or 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.

WILLIAM E. CORN

Social Security Number

INDIVIDUAL ACKNOWLEDGMENT

STATE OF NEW MEXICO, }
County of _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 89 by William E. Corn, a widower.

My commission expires _____, 19 _____ Notary Public

CORPORATION ACKNOWLEDGMENT

STATE OF NEW MEXICO }
County of _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____ Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____ }
County of _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____

My commission expires _____, 19 _____ Notary Public

Producers 88 Rev. (5 Year Lease) (10-57)

No. _____

Oil and Gas Lease

FROM

TO

Dated _____, 19 _____
No. Acres _____
County, N. M. _____

Term _____
This instrument was filed for record on the _____ day of _____, 19 _____, at _____ o'clock _____ M., and duly recorded in Book _____, Page _____ of the _____ records of this office.

County Clerk
By _____, Deputy
When recorded return to _____

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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

January 23, 1988/9

Mr. W. N. Corn
1300 West 4th Street
Roswell, New Mexico 88201

Re: Township 7 South, Range 23 East
Section 7: NE $\frac{1}{4}$ SW $\frac{1}{4}$
Chaves County, New Mexico

Dear Mr. Corn:

Yates Petroleum Corporation would like to extend an offer to take a lease from you in the captioned lands subject to the following terms:

1. A royalty reservation of 3/16 of 8/8ths unto yourself on all production.
2. A ninety (90) day lease term.

Please call me at 748-1471 at your earliest convenience.

Very truly yours,

YATES PETROLEUM CORPORATION

Cy Cowan
Associate Landman

CC/bp

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS



PENALTY FOR PRIVATE
USE, \$300

SENDER INSTRUCTIONS
Print your name, address, and ZIP
Code in the space below.
• Complete items 1, 2, 3, and 4 on
the reverse.
• Attach to front of article if space
permits, otherwise affix to back
of article.
• Endorse article "Return Receipt
Requested" adjacent to number.

Print Sender's name, address, and ZIP Code in the space below.

RETURN
TO 
Cy Cowan

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

P-564 128 867

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

U.S.G.P.O. 153-506
PS Form 3800, June 1985

Sent to	
Mr. W. N. Corn	
Street and No. 1300 West 4th Street	
P.O. State and ZIP Code Roswell, New Mexico 88201	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date 1-23-89 Offer to lease	

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

MODEL FORM OPERATING AGREEMENT

BAJILLO DRAW "WQ" STATE #4

OPERATING AGREEMENT

DATED

April 3, 1989,

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA Township 7 South, Range 23 East, N.M.P.M.

Section 28: SW $\frac{1}{4}$

COUNTY OR PARISH OF Chaves STATE OF New Mexico

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

YATES PETROLEUM CORPORATION
Case No. 9657
4/26/89 Examiner Hearing
Exhibit

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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, 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.

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

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

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

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

17
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the
24 Operator that was removed.

25
26 **C. Employees:**

27
28 The number of employees used by Operator in conducting operations hereunder, their selection,
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,
30 and all such employees shall be the employees of Operator.

31
32 **D. Drilling Contracts:**

33
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-
38 menced, and such work shall be performed by Operator under the same terms and conditions as are
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-
40 ilar nature.

41
42 **ARTICLE VI.**
43 **DRILLING AND DEVELOPMENT**

44
45 **A. Initial Well:**

46
47 On or before the 30th day of June, 19 89, Operator shall commence the drill-
48 ing of a well for oil and gas at the following location:

49 Township 7 South, Range 23 East, N.M.P.M.
50 Section 28: SW $\frac{1}{4}$

51
52
53 and shall thereafter continue the drilling of the well with due diligence to adequately test
54 the Abo formation approximately 3250'

55
56
57 unless granite or other practically impenetrable substance or condition in the hole, which renders
58 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or
59 abandon the well at a lesser depth.

60
61
62 Operator shall make reasonable tests of all formations encountered during drilling which give in-
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited
64 in its application to a specific formation or formations, in which event Operator shall be required to
65 test only the formation or formations to which this agreement may apply.

66
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes
68 to abandon the well as a dry hole, it shall first secure the consent of all parties and shall

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
 57 existing on the effective date hereof, payable out of or measured by the produc-
 58 tion from such well accruing with respect to such interest until it reverts) shall
 59 equal the total of the following:

60

(a) 100% 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 100% 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

(b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
 69 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and
 70

1 300% 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
17 royalty, overriding royalty and other burdens applicable to Non-Consenting Party's
18 share of production.

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

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced
from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

1 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate
2 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of
3 production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it
4 uses.

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

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

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

29 **D. Access to Contract Area and Information:**

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

41 **E. Abandonment of Wells:**

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

54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

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

18
 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. It is not the intention of the parties that this contract is
 26 made or intended for the benefit of any third person.

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, plus interest has been paid. Each
 40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any de-
 41 fault. Operator grants a like lien and security interest to the Non-Operators to secure payment of Op-
 42 erator's 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

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, completion, 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 TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00)
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 FIFTEEN THOUSAND----- Dollars (\$ 15,000.00).

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
49 or royalty owner; and if any such other 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 higher price is concerned.

50 It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit
51 "A", such party shall have the right, 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 produced from or allocated to such lease or leases.
52 It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas 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
53 or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure
to do so.

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

55
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their
58 expense. In the event two or more parties own and have contributed interests in the same lease to this
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum
62 royalty through mistake or oversight where such payment is required to continue the lease in force,
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article
64 IV.B.2.

65
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.

53
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

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all
 2 parties assignee.
 3

4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
 5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
 6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
 7 be subject to the terms and provisions of this agreement.
 8

9 **B. Renewal or Extension of Leases:**
 10

11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
 12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
 13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
 14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
 15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
 16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.
 17

18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
 19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
 20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
 21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
 22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.
 23

24 Each party who participates in the purchase of a renewal lease shall be given an assignment/without warra
 25 proportionate interest therein by the acquiring party.
 26

27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
 28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
 29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
 30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
 31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
 32 lease and shall not be subject to the provisions of this agreement.
 33

34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
 35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions
 36 of leases, located within the Unit Area.
 37

38 **C. Acreage or Cash Contributions:**
 39

40 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
 41 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
 42 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
 43 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
 44 made shall promptly tender an assignment of the acreage, without warranty or title, to the Drilling
 45 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
 46 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
 47 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
 48 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
 49 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
 50 any other operation on the Contract Area.
 51

52 If any party contracts for any consideration relating to disposition of such party's share of substances
 53 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
 54 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage
 55 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.
 56

57 **D. Subsequently Created Interest:**
 58

59 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
 60 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
 61 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
 62 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
 63 follows:
 64

65 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
 66 party conducting such operations becomes entitled to receive the production attributable to the interest
 67 out of which the subsequently created interest is derived, such party shall receive same free and clear
 68 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
 69 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
 70 all liability resulting therefrom.
 71

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereof is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~G. Preferential Right to Purchase:~~

~~Should any party desire to sell all or part of its interests under this agreement, or its interests in the Contract Area, it shall promptly give written notice to the other parties, with such information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

1 such party shall give any notices or take any other action inconsistent with the election made hereby.
 2 If any present or future income tax laws of the state or states in which the Contract Area is located or
 3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",
 4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that
 5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as
 6 may be permitted or required by such laws. In making the foregoing election, each such party states that
 7 the income derived by such party from Operations hereunder can be adequately determined without the
 8 computation of partnership taxable income.

9
 10 **ARTICLE X.**
 11 **CLAIMS AND LAWSUITS**

12
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed FIFTEEN THOUSAND----- Dollars
 15 (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

23
 24 **ARTICLE XI.**
 25 **FORCE MAJEURE**

26
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations
 28 under this agreement, other than the obligation to make money payments, that party shall give to all
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
 37 concerned.

38
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
 43 reasonably within the control of the party claiming suspension.

44
 45 **ARTICLE XII.**
 46 **NOTICES**

47
 48 All notices authorized or required between the parties, and required by any of the provisions of
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from
 57 time to time, by giving written notice hereof to all other parties.

58
 59 **ARTICLE XIII.**
 60 **TERM OF AGREEMENT**

61
 62 This agreement shall remain in full force and effect as to the oil and gas leases and or oil and gas in-
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-
 65 tributed by any other party beyond the term of this agreement.

66
 67 ~~This Agreement shall remain in full force and effect as to the oil and gas leases and or oil and gas in-~~
 68 ~~terests subjected hereto for the period of time selected below; provided, however, no party hereto shall~~
 69 ~~ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-~~
 70 ~~tributed by any other party beyond the term of this agreement.~~

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 130 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
 37 A. Not included.

38 B. Not included.

39 C. Not included.

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

58 E. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to
 59 any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All
 60 production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with
 61 a third party purchaser. It is expressly agreed if prior written consent is given to a party selling to
 62 themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the
 63 option to also sell to said purchaser, at the same or better price. In the event any party hereto, make
 64 an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell
 65 at the same or higher price.

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED APRIL 3, 1989 BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND RONADERO COMPANY INC, ET AL, AS "NON- OPERATORS", COVERING SW $\frac{1}{4}$ OF SECTION 28 TOWNSHIP 7 SOUTH, RANGE 23 EAST, N.M.P.M., CHAVES COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. 1. Lands Subject to Agreement:
Township 7 South, Range 23 East, NMPM
 Section 28: SW $\frac{1}{4}$
 Containing 160.00 acres, more or less
 Chaves County, New Mexico
2. Depth Restriction: None
3. Drilling Unit for First Well:
 Proration Unit as established by the New Mexico OCD.

II. Percentage Interests of Parties Under the Agreement:

NAME	ACRES	%OF UNIT	INITITAL TEST	INITIAL TEST
			WELL BEFORE	WELL AFTER
			PAYOUT	PAYOUT
Yates Petroleum Corporation	48.00	30.00%	30.00%	30.00%
Yates Drilling Company	24.00	15.00	15.00	15.00
Abo Petroleum Corporation	24.00	15.00	15.00	15.00
Lillie M. Yates	12.00	7.50	7.50	7.50
Estate of Martin Yates III	12.00	7.50	7.50	7.50
Ronadero Company Inc.	40.00	25.00	25.00	25.00
	160.00	100.00%	100.00%	100.00%

III. Leasehold Interest of Each Party:

1. Lessor: State of New Mexico
- Present Lessee: Yates Petroleum Corporation - 40%
 Yates Drilling Company - 20%
 Abo Petroleum Corporation - 20%
 Lillie M. Yates - 10%
 Estate of Martin Yates III - 10%
- Expiration Date: Held by Production
- Serial Number: LG-6682
- Description: Township 7 South, Range 23 East, NMPM
Section 28: NW $\frac{1}{4}$ SW $\frac{1}{4}$, S $\frac{1}{2}$ SW $\frac{1}{4}$
 Chaves County, New Mexico
 Containing 120.00 net acres
2. Lessor: William E. Corn
- Present Lessee: Ronadero Company Inc. - 100%
- Expiration Date: April 15, 1990
- Serial Number: Fee
- Description: Township 7 South, Range 23 East, NMPM
Section 28: NE $\frac{1}{4}$ SW $\frac{1}{4}$
 Chaves County, New Mexico
 Containing 40.00 acres, more or less

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED APRIL 3, 1989 BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND RONADERO COMPANY INC, ET AL, AS "NON- OPERATORS", COVERING SW¼ OF SECTION 28 TOWNSHIP 7 SOUTH, RANGE 23 EAST, N.M.P.M., CHAVES COUNTY, NEW MEXICO.

IV. Addresses of Parties to Which Notices Should be Sent:

Ronadero Company Inc.
P. O. Box 430
Roswell, New Mexico 88202
Attn: Robert Hanagan

Yates Petroleum Corporation
Yates Drilling Company
Abo Petroleum Corporation
Lillie M. Yates
Estate of Martin Yates III
105 South Fourth Street
Artesia, New Mexico 88210
Attn: Cy Cowan

EXHIBIT " C "

Attached to and made a part of OPERATING AGREEMENT DATED APRIL 3, 1989, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND RONADERO COMPANY, INC. "NON-OPERATOR" COVERING SW $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 7 SOUTH, RANGE 23 EAST, N.M.P.M., 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%), or percentage most recently recommended by COPAS.

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

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:

- () 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 (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 2,900.00

Producing Well Rate \$ 290.00

(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 or 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 the 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) Workmen'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 \$100,000.00 per employee.

- (B) Public Liability Insurance:
 - Bodily Injury - \$500,000.00 each occurrence.

- (C) Automobile Public Liability Insurance:
 - Bodily Injury - \$250,000.00 each person.
\$500,000.00 each occurrence.

 - Property Damage - \$100,000.00 each occurrence.

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 the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. 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 cancelled, 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-1) 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.

Exhibit "F"

Page 2



Y
 AUTHORITY FOR EXPENDITURE
 * Revised 4-24-89

AFE # 89-037-0
 REVISION #
 DATE 3-22-89

207 SOUTH FOURTH STREET
 ARTESIA, NEW MEXICO 88210

LEASE NAME Bajillo Draw WQ State #4 LOCATION 760/s, 990/w, Sec. 28-7S-23E
 COUNTY Chaves STATE NM FIELD _____
 HORIZON Abo EST. T. D. 3250' EST. SPUD DATE _____
 EST. COMPLETION DATE _____ DRILLING CONTRACTOR _____

PRIMARY OBJECTIVE: OIL GAS OIL AND/OR GAS
 PURPOSE : DRILLING-NEW RECOMPLETION OTHER (SUPPLEMENTAL AFE, ETC.)
 TYPE WELL : DEVELOPMENT EXPLORATION

INTANGIBLE COSTS:		DRY HOLE	COMPLETION
9210	STAKING PERMIT & LEGAL FEES	\$ 500	\$ 500
9211	LOCATION, RIGHT-OF-WAY	8500	8500
9212	DRILLING, FOOTAGE <u>3250'</u> @ <u>\$11.50/ft</u>	37400	37400
9213	DRILLING, DAYWORK <u>1 day</u> @ <u>\$3900/day</u>	3900	3900
9214	DRILLING WATER	10000	10000
9215	DRILLING MUD & ADDITIVES	8000	8000
9216	MUD LOGGING UNIT	100	100
9217	SURFACE & INT. CEMENT, CSG., TOOLS & SERVICES	10000	10000
9218	DRILL STEM TESTING	-	-
9219	ELECTRIC LOGS - OPEN HOLE	4500	4500
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING	4000	4000
9221	SUPERVISION & OVERHEAD	7000	7000
9223	CORING, TOOLS & SERVICES	-	-
9224	BITS, TOOLS & SUPPLIES	100	100
9235	PRODUCTION CEMENT, CASING, TOOLS & SERVICES	-	5500
9222	CONTINGENCY	4900	5400
9241	COMPLETION UNIT	-	4800
9242	WATER FOR COMPLETION	-	1000
9243	MUD ADDITIVES FOR COMPLETION	-	500
9244	CEMENT, TOOLS, SERVICES & TEMP. SURV. FOR COMP.	-	1500
9245	ELECTRIC LOGS, PERFORATION TEST FOR COMPLETION	-	3900
9246	TOOLS, TRUCK, WELD. & EQUIP. RENTAL FOR COMP.	-	3800
9247	STIMULATION - COMPLETION	-	25000
9248	SUPERVISION & OVERHEAD - COMPLETION	-	500
9249	ADDT'L LOCATION, ROAD WORK & SURFACE DAMAGES	-	2200
9251	BITS, TOOLS, ETC. PURCHASED FOR COMPLETION	-	100
9250	CONTINGENCY - COMPLETION	-	2700
<u>TOTAL INTANGIBLES</u>		<u>98900</u>	<u>150900</u>

EQUIPMENT COSTS:			
9301	CHRISTMAS TREE AND WELL HEAD	1000	3700
9302	CASING <u>8-5/8" 40.5# K-55 @1200'</u>	11400	11400
9302	<u>4-1/2" 9.5# K-55 @3250'</u>	-	13800
9302		-	-
9303	TUBING <u>2-3/8" 4.7# J-55 @3000'</u>	-	6000
9304	PACKER & SPECIAL EQUIPMENT	-	-
9350	CONTINGENCY	200	500
<u>WELL EQUIPMENT</u>		<u>12600</u>	<u>35400</u>

LEASE & BATTERY EQUIPMENT COSTS:			
9401	PUMPING EQUIPMENT	-	-
9402	STORAGE <u>1-210b. welded tnk/walkway & stairs</u>	-	5200
9403	SEPARATION EQUIP., FLOWLINES, VALVES, FITTINGS	-	6400
9404	TRUCKING & CONSTRUCTION COSTS	-	4400
<u>TOTAL LEASE & BATTERY EQUIP.</u>		<u>-</u>	<u>16000</u>

TOTALS \$111500 \$202300

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

YATES PETROLEUM CORPORATION	DATE	SHARE
BY <u>[Signature]</u>	_____	30.0%
BY _____	_____	_____
BY <u>YATES DRILLING COMPANY</u>	<u>4/26/89 Examiner Hearing</u>	_____
BY _____	<u>Exhibit No. 5</u>	15.0%
BY <u>ABO PETROLEUM CORPORATION</u>	_____	_____
BY _____	_____	15.0%

Bajillo Draw WQ State #4
Sec. 28-T7S-R23E
Chaves County, New Mexico

AFE #89-037-0
March 22, 1989
Page -2-

Name	Date	Share
LILLIE M. YATES		7.5%
ESTATE OF MARTIN YATES III		7.5%
By _____ Frank W. Yates, Jr., as Attorney- in-Fact for Lillie M. Yates, individually and, with S. P. Yates, Personal Representatives of the Estate of Martin Yates III	_____	
RONADERO COMPANY INC.	_____	25.0%
By _____		

ULTIMATE RESERVES NEAR PROPOSED BAJILLO DRAW WQ STATE #4

WELL NAME	LOCATION	OPERATOR	ULTIMATE RESERVES (MMcf)
BLAZER XN STATE #1	C 15-78-23E	YATES	16
BLAZER XN STATE #2	M 16-78-23E	YATES	206
CHINA FEDERAL #3	E 17-78-23E	MESA	586
CHINA FEDERAL #10	G 17-78-23E	MESA	68
CHINA FEDERAL #6	J 17-78-23E	MESA	7
CHINA FEDERAL #4	K 17-78-23E	MESA	326
CHINA FEDERAL #1	B 18-78-23E	MESA	354
CHINA FEDERAL #2	F 18-78-23E	MESA	222
CHINA FEDERAL #5	J 18-78-23E	MESA	660
CHINA FEDERAL #7	K 18-78-23E	MESA	325
CHINA FEDERAL #8	A 19-78-23E	MESA	736
CHINA FEDERAL #13	E 19-78-23E	MESA	42
CHINA FEDERAL #14	J 19-78-23E	MESA	384
CHINA FEDERAL #15	K 19-78-23E	MESA	247
CHINA FEDERAL #11	E 20-78-23E	MESA	56
CHINA FEDERAL #9	E 20-78-23E	MESA	594
CHINA FEDERAL #12	L 20-78-23E	MESA	575
McKNIGHT COM #1	C 20-78-23E	MESA	441
IRIS STATE #1	F 21-78-23E	MESA	321
IRIS STATE #2	M 21-78-23E	MESA	173
IRIS STATE #3	C 21-78-23E	MESA	628
BAJILLO DRAW WQ STATE #5	E 27-78-23E	YATES	0
BAJILLO DRAW WQ STATE #3	F 28-78-23E	YATES	54
BAJILLO DRAW WQ STATE #1	D 28-78-23E	YATES	176
BAJILLO DRAW WQ STATE #2	C 28-78-23E	YATES	142
DEBBIE FEDERAL #6	A 29-78-23E	MESA	415
DEBBIE FEDERAL #1	F 29-78-23E	MESA	67
DEBBIE FEDERAL #8	I 29-78-23E	MESA	432
DEBBIE FEDERAL #7	K 29-78-23E	MESA	261
DEBBIE FEDERAL #3	A 30-78-23E	MESA	103
DEBBIE FEDERAL #2	C 30-78-23E	MESA	78
MILDRED XD FEDERAL #1	A 33-78-23E	YATES	274
SALT FEDERAL #6	L 04-88-23E	MESA	75
SALT FEDERAL #5	N 04-88-23E	MESA	29
SALT FEDERAL #4	L 05-88-23E	MESA	72
SALT FEDERAL #3	C 05-88-23E	MESA	108
ROCK FEDERAL #4	C 06-88-23E	MESA	23
ROCK FEDERAL #3	L 06-88-23E	MESA	41

TOTAL 9261

AVERAGE 243

YATES PETROLEUM CORPORATION
 Case No. 9657
 4/26/89 Examiner Hearing
 Exhibit No. 7

YATES PETROLEUM CORPORATION
Case No. 9657
4/26/89 Examiner Hearing
Exhibit No. 8

DATE: 04/25/89
 TIME: 23:10.05
 FILE: DRAW
 GET#: 2

BAJILLO DRAW #4
 UNIT M OF 28-7S-23E
 CHAVES COUNTY, NM
 RESERVES = 243 MMCF

RESERVES AND ECONOMICS

DRILL COST = \$220,000
 200 % PENALTY

AS OF JULY 1, 1989

YATES INTEREST

-END- MO-YR	---GROSS PRODUCTION---			---NET PRODUCTION---			---PRICES---		-----OPERATIONS. M\$-----			CAPITAL COSTS, M\$	CASE FLOW BTAX, M\$	10.00 PCT CUM. DISC BTAX, M\$
	OIL,	MEBL	GAS, MMCF	OIL,	MEBL	GAS, MMCF	\$/B	\$/M	NET OPER REVENUES	SEV+ADV+ WF TAXES	NET OPER EXPENSES			
12-89	.000	45.954	.000	38.776	.00	1.50	58.164	5.456	4.500	220.000	-171.792	-172.927		
12-90	.000	55.916	.000	48.423	.00	1.65	76.598	7.165	9.360	.000	-60.053	-119.333		
12-91	.000	33.927	.000	28.628	.00	1.82	51.960	4.874	9.734	.000	37.352	-97.464		
12-92	.000	24.911	.000	20.260	.00	2.00	40.449	3.794	10.124	.000	26.531	-67.531		
12-93	.000	18.332	.000	15.469	.00	2.20	33.972	3.187	10.529	.000	20.258	-53.696		
12-94	.000	14.690	.000	12.395	.00	2.42	29.943	2.808	10.950	.000	16.185	-43.646		
12-95	.000	12.172	.000	10.271	.00	2.66	27.294	2.561	11.366	.000	12.345	-36.113		
12-96	.000	10.306	.000	8.696	.00	2.92	25.413	2.335	11.843	.000	11.191	-30.370		
12-97	.000	8.760	.000	7.392	.00	3.22	23.768	2.229	12.317	.000	9.222	-26.068		
12-98	.000	7.445	.000	6.282	.00	3.54	22.219	2.065	12.810	.000	7.324	-22.962		
12-99	.000	6.329	.000	5.340	.00	3.89	20.773	1.949	13.322	.000	5.505	-20.340		
12- 0	.000	5.330	.000	4.540	.00	4.00	19.160	1.704	13.890	.000	2.656	-19.909		
12- 1	.000	4.573	.000	3.859	.00	4.00	15.480	1.448	13.500	.000	.188	-19.849		
12- 2														
12- 3														
S TOT	.000	246.895	.000	208.331	.00	2.12	444.158	41.365	144.477	220.000	38.016	-19.849		
REM.	.000	.000	.000	.000	.00	.00	.000	.000	.000	.000	.000	-19.849		
TOTAL	.000	246.895	.000	208.331	.00	2.12	444.158	41.365	144.477	220.000	38.016	-19.849		
CUM.	.000	.000					NET OIL REVENUES (M\$)	.000						
BLT.	.000	246.895					NET GAS REVENUES (M\$)	444.158	DISC	PW OF NET	DISC	PW OF NET		
							TOTAL REVENUES (M\$)	444.158	RATE	BTAX, M\$	RATE	BTAX, M\$		
BTAX RATE OF RETURN (PCT)			5.93	PROJECT LIFE (YEARS)			12.500		1.0	38.016	30.0	-76.104		
BTAX PAYOUT YEARS			6.36	DISCOUNT RATE (PCT)			10.000		2.0	23.511	35.0	-84.529		
BTAX PAYOUT YEARS (DISC)			12.50	GROSS OIL WELLS			.000		5.0	4.872	40.0	-91.706		
BTAX NET INCOME/INVEST			1.17	GROSS GAS WELLS			1.000		8.0	-10.768	45.0	-97.899		
BTAX NET INCOME/INVEST (DISC)			.91	GROSS WELLS			1.000		10.0	-19.849	50.0	-103.305		
									12.0	-23.029	60.0	-112.600		
INITIAL W.I. FRACTION		1.000000		INITIAL NET OIL FRACTION			.643800		15.0	-38.871	70.0	-119.511		
FINAL W.I. FRACTION		1.000000		FINAL NET OIL FRACTION			.643800		18.0	-48.239	80.0	-125.438		
PRODUCTION START DATE			7- 1-89	INITIAL NET GAS FRACTION			.643800		20.0	-53.997	90.0	-130.412		
MONTHS IN FIRST LINE			6.00	FINAL NET GAS FRACTION			.643800		25.0	-66.069	100.0	-134.657		

YATES PETROLEUM CORPORATION
Case No. 9657
4/26/89 Examiner Hearing
Exhibit No. 9

SAJILLO DRAW #4
UNIT M OF 28-73-233
CHAVES COUNTY, NM
RESERVES = 282 MMCF

DATE: 04/25/89
TIME: 23:10:05
FILE: DRAW
GET#: 3

RESERVES AND ECONOMICS

DRILL COST = \$220,000
200 % PENALTY

YATES INTEREST

AS OF JULY 1, 1989

-END- MO-YR	---GROSS PRODUCTION---		----NET PRODUCTION----		---PRICES---		-----OPERATIONS, M\$-----			CAPITAL COSTS, M\$	CASH FLOW BTAX, M\$	10.00 PCT CUM. DISC BTAX, M\$
	OIL, MBBL	GAS, MMCF	OIL, MBBL	GAS, MMCF	\$/B	\$/M	NET OPER REVENUES	SEV+ADV+ WF TAXES	NET OPER EXPENSES			
12-89	.000	53.692	.000	45.305	.00	1.50	67.958	6.375	4.500	220.000	-182.917	-164.261
12-90	.000	63.667	.000	53.722	.00	1.65	80.641	8.314	9.360	.000	70.967	-99.746
12-91	.000	39.015	.000	32.921	.00	1.82	59.752	5.605	9.724	.000	44.413	-65.041
12-92	.000	27.524	.000	23.225	.00	2.00	48.569	4.350	10.124	.000	31.895	-39.078
12-93	.000	20.975	.000	17.699	.00	2.20	38.870	3.646	10.529	.000	24.695	-22.211
12-94	.000	16.785	.000	14.163	.00	2.42	34.214	3.209	10.950	.000	20.055	-9.758
12-95	.000	13.867	.000	11.726	.00	2.66	31.160	2.923	11.388	.000	16.849	-2.247
12-96	.000	11.761	.000	9.924	.00	2.92	29.009	2.721	11.843	.000	14.445	7.166
12-97	.000	9.997	.000	8.435	.00	3.22	27.122	2.544	12.317	.000	12.261	12.886
12-98	.000	8.497	.000	7.170	.00	3.54	25.360	2.379	12.810	.000	10.171	17.199
12-99	.000	7.222	.000	6.094	.00	3.89	23.709	2.224	13.322	.000	8.163	20.346
12- 0	.000	6.140	.000	5.181	.00	4.00	20.724	1.944	13.800	.000	4.980	22.091
12- 1	.000	5.218	.000	4.403	.00	4.00	17.612	1.652	13.800	.000	3.160	22.779
12- 2												
12- 3												
S TOT	.000	284.390	.000	239.968	.00	2.13	510.500	47.886	144.477	220.000	98.137	22.779
REM.	.000	.000	.000	.000	.00	.00	.000	.000	.000	.000	.000	22.779
TOTAL	.000	284.390	.000	239.968	.00	2.13	510.500	47.886	144.477	220.000	98.137	22.779
CUM.	.000	.000					NET OIL REVENUES (M\$)	.000			-----PRESENT WORTH PROFILE-----	
JLT.	.000	284.390					NET GAS REVENUES (M\$)	510.500	DISC	PW OF NET	DISC	PW OF NET
							TOTAL REVENUES (M\$)	510.500	RATE	BTAX, M\$	RATE	BTAX, M\$
BTAX RATE OF RETURN (PCT)			14.69				PROJECT LIFE (YEARS)	12.500	.0	98.137	30.0	-47.888
BTAX PAYOUT YEARS			4.13				DISCOUNT RATE (PCT)	10.000	2.0	79.014	35.0	-58.242
BTAX PAYOUT YEARS (DISC)			6.53				GROSS OIL WELLS	.000	5.0	54.666	40.0	-67.016
BTAX NET INCOME/INVEST			1.45				GROSS GAS WELLS	1.000	8.0	34.436	45.0	-74.558
BTAX NET INCOME/INVEST (DISC)			1.10				GROSS WELLS	1.000	10.0	22.779	50.0	-81.117
									12.0	12.337	60.0	-91.989
INITIAL W.I. FRACTION			1.000000				INITIAL NET OIL FRACTION	.843800	15.0	-1.418	70.0	-100.664
FINAL W.I. FRACTION			1.000000				FINAL NET OIL FRACTION	.843800	18.0	-13.284	80.0	-107.776
PRODUCTION START DATE			7- 1-89				INITIAL NET GAS FRACTION	.843800	20.0	-20.325	90.0	-113.729
MONTHS IN FIRST LINE			8.00				FINAL NET GAS FRACTION	.843800	25.0	-35.479	100.0	-119.300