Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

James M Alexander

P O Box 58

Abilene, TX 79604

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

2.5 0.781250%

Previous Lease dated:

9/21/01

Expiration:

9/20/04

Lease Renewal and Correspondence Timeline

2/13/04

Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

2/20/04 Letter of acceptance received as per terms offered.

2/20/04 Lease documents & bank draft sent as per terms accepted in offer letter

4/26/04 Received signed lease, containing several modifications not acceptable

to Yates management.

4/26/04 Responded with cover letter not accepting modified lease. Sent a

compromise lease form, acceptable to Yates management.

9/21/04 No response from Mr. Alexander - lease expired.

11/10/04 Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/12/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

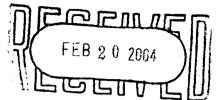
1/4 royalty

Illegible Date

Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572



February 13, 2004

James M. Alexander P. O. Box 58 Abilene, TX 79604

RE: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mr. Alexander:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 4.1667 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on March 15, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

James M. Alexander

Very truly yours,
Yates Petroleum Corporation
Shirley Pruitt
Land Technician

AGREED and AC	CEPTED this 16	day of _	Feb	, 2004
	111			



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 20, 2004

James M. Alexander P. O. Box 58 Abilene, TX 79604

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Mr. Alexander:

Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$416.67 which is full bonus consideration of \$100.00 per acre for your 4.1667 net mineral acre interest.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and <u>send it for collection through your bank</u>, together with the lease to the address below:

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

Or you may void the draft and send the executed and notarized lease, with the voided draft, directly back to me at the Yates Petroleum Corporation address and I will return to you a direct check.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt / Land Technician

/sp

Enclosure(s)

Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this 16th day of February, 2004, but Effective September 21, 2004, between James M. Alexander, dealing in his sole a	nd
separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATIO	N-
10% AND MYCO INDUSTRIES, INC10%, as Lessee, WITNESSETH:	
1. Lessors in consideration of <u>Ten and No/100</u>	
) 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 investigati	ng,
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 descri	oed
land in Eddy County, New Mexico to-wit:	/
Township 25 South, Range 26 East, NMPM	- 1

- 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 three 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.
- saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which 3. The togames to be paid by Lessee are. (a) on oil, 114 of that produced and saved from said tains, the same to be derivered at the went of to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 of 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 are or hefore 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
- 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, permate 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 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 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 not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease, and the entire accreage constituting such unit or on or production of oil and gas from land covered by this lease whether of hot the well of wel after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit. 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 agre
- 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 he production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset of and production or portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or all obligations as to the acreag covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines 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 so the order by Lessee of any obligation arising hereafter shall not work a forefutive of termination of this lease for cause a termination of revision of the state created nereby hor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrante and agrees to defend the title to said hand 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
- 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 there from 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.

 Articles 11 through 12 of this Oil and Gas Lease are included in Exhibit A.

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

James M. Alexander

INDIAIDNAL ACKNOWLEDGMENT

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	By, Deputy When recorded return to	at o'clock M., and duly recorded in Book Page of the records of this office.	Cov.	Dated		ТО		Oil and Gas Lease FROM	No.	Producers 88 Rev. (Year Lease) 5-96
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EXHIBIT A

Exhibit A to that certain Oil and Gas Lease covering T25S R26E, Sec 17, NW4NE4, E2E2, Eddy County, New Mexico.

11. Subject to the right of election reserved to Lessor to take its share of production in kind, the royalties to be paid by Lessee are twenty-five percent (25%) of eight-eighths (8/8ths) of: (a) the greater of the market value at the well or the amount realized from the sale of oil and liquid petroleum products recovered at the well and (b) the market value of gas produced from the Leased Premises determined as follows: (i) at the well for gas sold at the well, (ii) at the point of sale for gas sold or used off the Leased Premises or (iii) on gas delivered to a processing plant, the market value at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on oil, gas and related hydrocarbons, the royalty shall never be less than twenty-five percent (25%) of the gross amount realized by Lessee from such sale. Royalty is to be paid on all payments received by Lessee under or as a result of a gas purchase contract, including, but not limited to reservation charges and, subject to credit to Lessee when gas for which payment has been made earlier is eventually produced, take-or-pay or contract settlement proceeds and amounts paid for gas not taken. Lessee shall have free use of oil and gas from said land for operations on the Leased Premises, and the royalty on oil and gas shall be computed after deducting any production so used. The royalties payable under this Lease shall be free and clear of costs or deductions for exploration, drilling, development, and production, including but not limited to, costs of marketing, dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons.

If there is a gas well on the Leased Premises or on land pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from the Leased Premises or on land pooled therewith sufficient to maintain this Lease in full force and effect, this Lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon this Lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to Five Dollars (\$5.00) per net acre covered by this Lease which payment shall be made to Lessor at P.O. Box 58, Abilene, Texas 79604, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment may be made on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the Leased Premises under all the terms and provisions of this Lease (but only for so long as the well continues to be capable of producing in paying quantities); however, this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years after the end of the primary term. Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well.

12. Notwithstanding any other provisions hereof at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to Lessor, unless Lessee is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and commencement of another. "Completion" shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the Leased premises or on lands pooled therewith.

S.) ///

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

plear send check was



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

April 26, 2004

James M. Alexander P. O. Box 58 Abilene, TX 79604

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Mr. Alexander:

Thank you for your response to our recent lease renewal offer. At this time, we are not able to accept the lease form and terms you provided. Enclosed please find two (2) copies of Oil and Gas Lease Form 342P, which we will accept. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you, per your instructions.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

/sp Enclosure(s)

OIL & GAS LEASE

THIS AGREEMENT made this <u>26th</u> day of <u>April, 2004</u> but effective <u>September 21, 2004</u> between James M. Alexander, dealing in his sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 therein 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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
as oil or gas is produced from said land or from land with which said land is pooled. 3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,
delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunde in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written undesignations 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 the 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. The 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. 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this leas shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 deductin 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 an 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 an 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at it option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his setate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligation hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply of make such payments.
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 governments 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 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 is option may discharge any tax, mortgage or other lien upon said land, and in the event lesse does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's right 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.

INDIAIDAPL ACKNOWLEDGMENT

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	By, Deputy	County Clerk	This instrument was filed for record on the day of	Dated, 20			ТО		FROM	Oil and Gas Lease	No	Producers 88 Rev. (Year Lease) 5-96
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Shirley Pruitt

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated April 26, 2004, by and between James M. Alexander, dealing in his sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON

S. P. YATES CHAIRMAN OF THE BOARD

RANDY G. PATTERSOI SECRETARY DENNIS G. KINSEY

September 23, 2004

Brett Guitar Witherspoon P. O. Box 100635 Fort Worth, TX 76185

Re: Oil& Gas Lease Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to our telephone conversation of September 3, 2004, Yates Petroleum Corporation would like to work with you to compile a lease form acceptable to the Guitar family members and our corporation.

Our objection to the counter-offer of Marilyn Galusha is the one-year shut-in. The current lease form provides for a two-year shut-in and amending to one-year is not reasonable. This is a wildcat area and there is no existing infrastructure. If we decide to drill, it could easily take over one year just to get pipeline in to the area.

Concerning James Alexander's counter-offer, we have reviewed amended Paragraph 11 to Exhibit A and discussed it with the other two departments affected, accounting and marketing. The first paragraph in Paragraph 11 appears to be ambiguous and contradictory to other paragraphs in the lease. Paragraph 4 allows the same deductions as royalties due the United States. However, item 11 also states "royalty shall never be less than twenty-five percent of the gross amount realized by Lessee...." The language is confusing and needs clarification. For your information, the Yates believe in paying royalty owners on the same basis as they get paid. As to the second paragraph of Paragraph 11, we will agree to \$5.00 per net acre shut-in. However, we will require amending "this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years" to consecutive years. Please consider striking the last sentence of Item 11. In Item 12, we request amending from "below the deepest producing horizon" to "below the deepest depth drilled". We believe it is fair to let us keep all the formations we drill and then determine the most viable order to produce the well.

May we hear from you soon concerning this matter? If you have questions, please call me at (505) 748-4356.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

/s

LEASE NAME ALEXANDER, JAMES M. LEASE NUMBER - NM-000403-002513-D ACCT. LEASE 270385-001 PROSPECT.....000000 ACQ CODE....
COUNTY #1....EDD EDDY
COUNTY #2....
NM NEW MI BOOK.. 431 PAGE.. 974 REC DATE... 10/05/2001 BOOK.. PAGE.. REC DATE... 0/00/0000 LESSEE OF RECORD.... OUR NET BASE ACRES..... ACREAGES LSE GROSS LEASE NET 200.00 4.17 TOTAL.....
DEVELOPED...
UNDEVELOPED... 200.00 4.17 NO TOTALIZE .. LEGAL DESCRIPTION INFORMATION: P RNG SEC LOCATION ABSTRACT # LSE GRS LSE NET TWP RNG SEC 25S 26E 17 200.00 01 4.17 NW4NE4, E2E2 TOTAL ACREAGE 200.00 4.17 OWNERSHIP INFORMATION:

OWNER# WORKING INTEREST OWNER	GWI	OTHÈR CO LSE	EXPIRED
5000 ABO PETROLEUM CORPORATION 640010 MYCO INDUSTRIES, INC. 994100 YATES DRILLING COMPANY	.10000000 .10000000 .10000000		Ele
999900 YATES PETROLEUM CORPORATION TOTAL INTEREST	.7000000 1.00000000		4
SPECIAL FEATURES/WELL CROSS REFERENCE			V

HELD BY PROD		SURFACE DAMAGES	POOLINGOIL	GAS
HELD BY UNIT	,	MINIMUM ROYALTY	REWORK DAYS	
SHUT-IN PROV 2 '	TWO YR	RENEWAL OPTION	MULTI-TRACT	
PUGH CLAUSE P	PUGH	LESSER INTEREST	SLIDING ROYALTY.	
REASMT OBLIG		CONT. DRILLING Y		
UNIT CLAUSE				

DELAY RENTAL/SHUT-IN INFORMATION:

RENTAL PAID BY RENTAL PER ACRE RENTAL AMOUNT/TYPE BANK FEE TOTAL RENTAL COMPANY SHARE RENTAL DUE DATE PAYMENT FREQUENCY	SHUT-IN AMOUNTBANK FEETOTAL SHUT-IN
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105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd. Plano, TX 75093-4698 Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander CCP.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk & 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383

P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 60 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha 6 P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



.x		AFE NO.	04-542-0
MATE	AUTHORITY FOR EXPENDITURE	AFE DATE	10/29/04
W////DETE	NEW DRILLING, RECOMPLETION & RE-ENTRY	7.11 2 37.11 2	AFEND (rev 6/98)
	NEW DRILLING, RECOMPLETION & RE-ENTRY ORTION AFE Type: Well Objective: Well Type:	AFE STATUS:	10-29-04
		X Original	. •
105 South Foul	RTH STREET	⊢ –	
ARTESIA, NEW M		Revised	
TELEPHONE (505	Re-entry Injector	Final	
		Supplemental	
LEASE NAME	Guitar BFL Com. #1 PROJ'D DEPTH	12,000'	
COUNTY	Eddy STATE	New Mexico	
FIELD	HORIZON	Morrow	
LOCATION	Section 17 T25S-R26E, 990' N & 1980' E		
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
PROGNOSIS: Nev	v well drilled to 12,000' to test all formations		
		· · · · · · · · · · · · · · · · · · ·	
INTANOIDI E DOUI	INO COCTO	DDV HOLF	COMBIDANELL
INTANGIBLE DRILL		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	35,0	
920-110	Location, Right-of-Way		70 35,000
920-120	Drilling, Footage Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,0	647,000
920-130	m III - lalaka Marka Marka	25.00	
920-140	Drilling Water, Fasline Rental	35,0	
920-150	Drilling Mud & Additives	45,0	
920-160	Mud Logging Unit, Sample Bags	30,0	
920-170	Cementing - Surface Casing & deep intermediate	75,0	75,000
920-180	Drill Stem Testing, OHT		60,000
920-190	Electric Logs & Tape Copies	425.0	
920-200	Tools & Equip. Rntl., Trkg. & Welding Control of Well-Insurance	125,0 5,0	
920-205		* * * - * - * - 	
920-210	Supervision & Overhead	50,0	50,000
920-230	Coring, Tools & Service		90,000
920-240	Bits, Tool & Supplies Purchase Cementing - Production Casing	80,0	
920-350	~		40,000 30,000
920-410	Completion Unit - Swabbing		
920-420 920-430	Water for Completion		5,000
920 -4 30 920-440	Mud & Additives for Completion Cementing - Completion		1,000
920-440	Elec Logs Testing Etc. Completion		20,000
920-460	Table 9 Equip Dental Eta Completion		50,000
920-470	Stimulation for Completion	1	100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges - Completion		10,000
920-510	Dita Tools & Supplies Completion		1,500
920-500	Contingency for Completion		1,500
	* * * * * * * * * * * * * * * * * * * *		
	TOTAL INTANGIBLE DRILLING COSTS	1,190,0	00 1,449,000
TANGIBLE EQUIPM	MENT COSTS:		
930-010	Christmas Tree & Wellhead	5,0	00 30,000
930-020	Casing 13 3/8" @ 400'	11,0	
	Casing 13 3/8" @ 400' 9 5/8" @ 1,800' 7" @ 8,600'	27,0	00 27,000
	7" @ 8,600' 4 1/2" 12,000'	108,0	00 108,000
	4 1/2" 12 000°	1	85,500
930-030	1 ubing 2 3/8" @ 11,800"		49,000
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.		75,000
940-640	Trucking & Construction Costs		15,000
	TOTAL TANGIBLE FOLUBATION OF COMME	151,0	00 415,500
TOTAL COOTS	TOTAL TANGIBLE EQUIPMENT COSTS		
TOTAL COSTS		1,341,0	1,864,500
	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHA LAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RA		
Prepared By	Operations		
1	ah Mullen Approval		1
<u> </u>			
	DLEUM CORPORATION	20.55	.875%
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YATES PETROLEUM CORPORATION	20.551875%
BY DATE	
YATES DRILLING COMPANY	10.793125%
BY DATE	
ABO PETROLEUM CORPORATION	10.793125%
DATE	
MYCO INDUSTRIES, INC.	10.793125%

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM G ANITA GRISSOM GUITAR, SOLE TRUSTEE	UITAR, REVOCABLE LIVING TRUST,	2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDI	≣R	0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MARI	LYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	•
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY:	DATE	
KELLY WOODS LEACH	DATE	0.193750%

U.S. Postal Servicern CERTIFIED MAIL. RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) For delivery information visit our website at www.usps.com.	Postage A Fees Certified Fee Recept Fee (Endorsament Required) Restructed Delivery Fee (Endorsament Required) Total Postage & Fees \$ \$	Sent To James M. & Jerri Alexander Street, Antako. Box 58 or Po Box No. City, State Abutente, TX 79604 See Reverse for Instructions
	Ce Return R (Endorsement Potal Posta	Sent To J. Street, April Or P.O Box N. Chy, State/A

SENDER: COMPLETE THIS SECTION	COMPLETE	COMPLETE THIS SECTION ON DELIVERY
Complete items 1, 2, and 3. Also complete item # if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or orr the front if space permits.	g 0	A. Signatule X. M. B. M. M. M. M. M. M. Addiessee B. Régeived by (Printed Name) M. H. M. M. H. M.
1. Article Addressed to:	D. is delivery	D. is delivery address different from item 1? L.J. Yes If YES, enter delivery address below:
James M. & Jeni Alexander	Sus	Je
P.O. Box 38 Abilene, TX 79604	3. Service Type CT Certified Mail CD Togethered CD Togethered Mail	pe d Mail D Express Mail red PE Return Receipt for Merchandise
	4. Restricted	eny?
2. Article Number (Transfer from service label)	7002 2030 0	7002 2030 0001 8263 7393
PS Form 3811, February 2004	Domestic Return Receipt	102595-02-M-1540

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

S. P. YATES CHAIRMAN OF THE BOARD JOHN A. YATES PRESIDENT

PEYTON YATES
EXECUTIVE VICE PRESIDENT

RANDY G. PATTERSON SECRETARY DENNIS G. KINSEY TREASURER

November 30, 2004

James M. & Jerri Alexander P O Box 58 Abilene, TX 79604

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mr. & Mrs. Alexander:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North 1/2 of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a 1/4 royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s)

Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

	THIS AGREEMEN	NT made this	30th	_ day of <u>November</u> , 2	2004, and Effe	ctive Novembe	r 30, 2004, be	tween Jame	s M. and J	erri Alexaı	nder, husban	ıd and wife ,	as
Lessor	(whether one or ma	ore), and YATES PETR	OLEUM CORP	ORATION-70%; Y	ATES DRIL	ING COMPA	ANY-10%, A	BO PETRO	LEUM CO	RPORATI	ON-10% A	ND SHARBP	ŧО
OIL L	IMITED COMPA	NY-10%, as Lessee, WI	TNESSETH:										
	1. Lessors in consi	deration of Ten and No/1	100						***********	Doll	lars (\$ <u>10.0</u>	0)	in
hand pa	aid, of the royaltie	s herein provided and or	f the agreements	of Lessee herein con	ntained, hereby	grants, leases	and lets excl	usively unto	Lessee for	the purpose	e of investiga	ating, explorir	ng,
prospec	ting, drilling and m	ining for and producing o	oil and gas, laying	pipe lines, building r	roads, tanks, po	wer stations, to	elephone lines	and other str	uctures there	on and on,	over and acre	oss lands own	ied
or clain	ned by Lessor adjac	ent and contiguous theret	to, to produce, sav	e, take care of, treat,	transport, and	own said produ	ucts, and housi	ng its employ	ees, the foll	lowing desc	ribed land in		
Eddy	County, _	New Mexico)	_ to-wit:									
				Township 25 South		st, NMPM							
				Section 17: NW/4N									

- 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 three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 a 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 quality and the parties entitled thereto on or before the date on the late of purchase; the lates of lates of the lates of lates of the lates of lates of lates of the lates of lates 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 operations for the drilling of a well for oil or gas have theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor to any modifications interest, which have been approved by the New Mexico on Conservation Contains of other lawtin 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 States of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from such operations are prosecuted with no cessation of more than 60 consecutive days, and it they result in the production of ou and gas, so long increaster as on or gas is produced from said iand, 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 covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines 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 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
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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

Tomas M. Alawandan

James M. Alexander	Jerri Alexander

INDIVIDUAL ACKNOWLEDGMENT

STATE OF)					
COUNTY OF)ss)					
This instrument was acknowledged before me this_		day	of			, 2004,
by James M. and Jerri Alex	ander					
My commission expires				Notary Public		
		ACKNOW	LEDGMENT			
STATE OF)					
COUNTY OF)ss.					
This instrument was acknowledged before me this_by						
for						
My commission expires				Nota	ry Public	
				1100	., 1 400	
		INDIVIDUAL AC	KNOWLEDGMENT			
STATE OF)					
COUNTY OF)ss.)					
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This instrument was acknowledged before me this_ By			DI			2004,
My commission expires						
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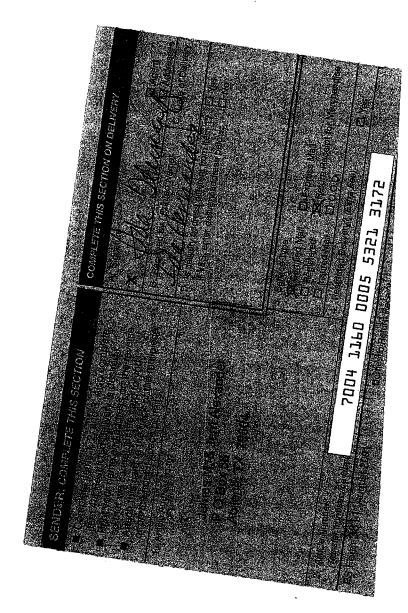
U.S. Postal Service...

CERTIFIED MAIL.... RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our wabsite at www.usps.com.

For delivery information visit our washing the contract of the formation visit our vi



Guitar BFL Com #1

C. A.

Township 25 South, Range 26 East, NMPM Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Martha Janes Rhodes

P O Box 58

Abilene, TX 79604

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

0.781250% 9/21/01

Previous Lease dated:

Expiration:

9/20/04

2.5

l ease Renewa	l and	Corresponde	ence Timeline

se Renewal and Correspondence Ti	meline
2/13/04	Offer letter sent to renew previous lease:
	Terms: 3-year term
	\$100.00 bonus / acre
	1/4 royalty
2/26/04	Letter of acceptance received as per terms offered.
2/27/04	Lease documents & bank draft sent as per terms accepted in offer letter
4/28/04	Received signed lease, containing several modifications not acceptable to Yates management.
4/29/04	Responded with cover letter not accepting modified lease. Sent a compromise lease form, acceptable to Yates management.
9/21/04	No response from Ms. Rhodes - lease expired.
11/10/04	Sent AFE to participate in the drilling of the Guitar BFL Com #1.
11/12/04	Received certified receipt of sent AFE.
11/30/04	Final offer sent: Option 1: Sign AFE to participate in drilling of well Option 2: Enclosed Yates lease form (no modifications) 3-year term \$100.00 bonus / acre 1/4 royalty
12/6/04	Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

FEB 1 6 2004

February 13, 2004

Martha Jane Rhodes P. O. Box 58 Abilene, TX 79604

> RE: Oil & Gas Lease <u>Township 25 South, Range 26 East, NMPM</u> Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Ms. Rhodes:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 4.1667 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on March 15, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,

Yates Petroleum Corporation

Shirley Pruitt Land Technician

/sp

AGREED and ACCEPTED this 23 day of FERUARY, 2004

Martha Jane Rhodes



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 27, 2004

Martha Jane Rhodes P. O. Box 58 Abilene, TX 79604

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Ms. Rhodes:

Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$416.67 which is full bonus consideration of \$100.00 per acre for your 4.1667 net mineral acre interest.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and <u>send it for collection through your bank</u>, <u>together with the lease to the address below:</u>

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

Or you may void the draft and send the executed and notarized lease, with the voided draft, directly back to me at the Yates Petroleum Corporation address and I will return to you a direct check.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

/sp

Enclosure(s)

Producers 88'Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this	23rd	day of <u>February</u>	_, 2004, but Effective Septe	mber 21, 2004, between	Martha Jane Rhodes, de	aling in her sole
and separate property, as Lessor (whe	ther one or more), and	YATES PETROLEUM	1 CORPORATION-70%;	YATES DRILLING	COMPANY-10%, ABO	PETROLEUM
CORPORATION-10% AND MYCO INDU	I STRIES, INC10% , as Lo	ssee, WITNESSETH:				
1. Lessors in consideration of Ten an	d No/100		*******************************		Dollars (\$	10.00
) in hand paid, of the royalties herei	n provided and of the agree	ments of Lessee herein of	ontained, hereby grants, leas	es and lets exclusively	unto Lessee for the purpose	of investigating,
exploring, prospecting, drilling and mining	or and producing oil and g	as, laying pipe lines, bui	lding roads, tanks, power sta	tions, telephone lines a	nd other structures thereon	and on, over and
across lands owned or claimed by Lessor adja	acent and contiguous thereto	o, to produce, save, take	are of, treat, transport, and o	wn said products, and he	ousing its employees, the fol	lowing described
land in Eddy County,	New Mexico	to-wit:				
	_					
		nship 25 South, Range				
	Sect	ion 17: NW/4NE/4, E/2	E/2			

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 three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The regatives to be paid by bessee are: (a) on oil, 1/4 of that produced and saved from said land; the same to be delivered at the wells of to the credit of Lessor into the pipe line to the wells may be connected, Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field whose produced on the date purchase; (b) on gas, including casing head 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 there from the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such sale; while there is a gas well 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 a therefore 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 paying quantities. Payment or tender of said shutsing 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 different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before the date said payment is different to the parties entitled thereto on or before Il have free pass of oil, gas, coal and water from spid land, except water from Lessor's wells, for all egerations herounder, and the coyalty on oil and gas shad a Shut in gas well will not serve to extend the term of this lease for than

- (1) year after the date said well is shut in.

 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. 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 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 commenced.

 Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms better from the dissolved by Lessee by instrument filled for record in the 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 covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or all obligations as to the acreage surrendered.
- e 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land
- 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 he land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing gas in paying quantities.

 9. Lessor hereby warrants and agree to leave 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,
- 9. Lessor hereby warrants and agreed that 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
- 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 there from 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. anghodes

March Martha Jane Rhodes

By When recorded return to Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	at o'clock M., and duly recorded in Book records of this office. County Clerk	Dated 20 No. Acres County, NM Term County, NM	TO	Producers 88 Rev. (Year Lease) 5-96 NoOil and Gas Lease FROM
Public	VisioN			
				My commission expires
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			·ss(COUNTY OF
			(30 STATS
Public	Notary		.,	My commission expires
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John	Motary Public		SHE J. TAYLOR Ommission Expires Une 19, 2004	My commission expires
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,2004,	Motary Cublic	reff Jo Kep The	Sie and separate property Sie J. TAYLOR Public, State of Texas II Commission Expires	COUNTY OF This instrument was acknowledged before me By: Martha Jane Rhodes, dealing in her so By: Martha Jane Rhodes, dealing in her so My Commission expire My Commission expire
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EXHIBIT A

Exhibit A to that certain Oil and Gas Lease covering T25S R26E, Sec 17, NW4NE4, E2E2, Eddy County, New Mexico.

11. Subject to the right of election reserved to Lessor to take its share of production in kind, the royalties to be paid by Lessee are twenty-five percent (25%) of eight-eighths (8/8ths) of: (a) the greater of the market value at the well or the amount realized from the sale of oil and liquid petroleum products recovered at the well and (b) the market value of gas produced from the Leased Premises determined as follows: (i) at the well for gas sold at the well, (ii) at the point of sale for gas sold or used off the Leased Premises or (iii) on gas delivered to a processing plant, the market value at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on oil, gas and related hydrocarbons, the royalty shall never be less than twenty-five percent (25%) of the gross amount realized by Lessee from such sale. Royalty is to be paid on all payments received by Lessee under or as a result of a gas purchase contract, including, but not limited to reservation charges and, subject to credit to Lessee when gas for which payment has been made earlier is eventually produced, take-or-pay or contract settlement proceeds and amounts paid for gas not taken. Lessee shall have free use of oil and gas from said land for operations on the Leased Premises, and the royalty on oil and gas shall be computed after deducting any production so used. The royalties payable under this Lease shall be free and clear of costs or deductions for exploration, drilling, development, and production, including but not limited to, costs of marketing, dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons.

If there is a gas well on the Leased Premises or on land pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from the Leased Premises or on land pooled therewith sufficient to maintain this Lease in full force and effect, this Lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon this Lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to Five Dollars (\$5.00) per net acre covered by this Lease, which payment shall be made to Lessor at P.O. Box 58, Abilene, Texas 79604, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment may be made on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the Leased Premises under all the terms and provisions of this Lease (but only for so long as the well continues to be capable of producing in paying quantities); however, this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years after the end of the primary term. Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well.

12. Notwithstanding any other provisions hereof at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to Lessor, unless Lessee is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and commencement of another. "Completion" shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the Leased premises or on lands pooled therewith.

Martha Jane Phade

Thirty (30) Banking Days From Sight Subject
To Approval Of Title With Lease Attached
ARTESIA, NEW MEXICO
February 27, 2004

PAY TO THE
ORDER OF
Martha Jane Rhodes, dealing in her sole and separate property

\$416.67

Four Hundred Sixteen and 67/100
VALUE RECEIVED AND CHARGE TO ACCOUNT OF
WITH EXCHANGE

TO: First National Bank of Artesia
Artesia, New Mexico 83210
Acct. of Yates Petroleum Corporation

Shirley Pruitt, Land Technician

FIRST NATIONAL BANK/ARTESIA ARVENA, MEN MEXICO 88210

DATE: Apr11 29, 206-

M9 33341

YOUR DATE AND/OR NUMBER

DESCRIPTION

DUE

CUSTOMER

AMOUNT

OUR

CHARGE

TOTAL

CUSTOMER

AMOUNT

OUR

CHARGE

TOTAL

RECEIVED FROM

NAME & ADDRESS OF PAYER



Tates Petroleum Shirley Pruitt

2 - NOTICE TO CUSTOMER

NCOMING COLLECTION

PLEASE BRING THIS NOTICE TO COLLECTION DEPARTMENT



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

April 29, 2004

Martha Jane Rhodes P. O. Box 58 Abilene, TX 79604

Re: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Mrs. Rhodes:

Thank you for your response to our recent lease renewal offer. At this time, we are not able to accept the lease form and terms you provided. Enclosed please find two (2) copies of Oil and Gas Lease Form 342P, which we will accept. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you, per your instructions.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt

Land Technician

/sp Enclosure(s)

Martha Jane Rhodes

OIL & GAS LEASE

THIS AGREEMENT made this 29th day of April, 2004, but effective September 21, 2004 between Martha Jane Rhodes, dealing in her sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of of the gas used,
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (c) and at any time when this lease in not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 is shall 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. The payment or tender of royalties and 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after said the same control to the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee has received written notice thereof by certified copies thereof) as are necessary to enable lessee to make proper payment. 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 am
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunde in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 o 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. Then 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 net oil or gas acreage 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 instrumen 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well o wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights or 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 governmenta 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 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 is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.

INDIVIDUAL ACKNOWLEDGMENT

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	When recorded return to	By, Deputy	County Clerk	at o'clock M., and duly recorded in Book Page of the records of this office.	Cres Countries C	Dated 20		ТО		Lease FROM	Oil and Gas	No.	Producers 88 Rev. (Year Lease) 5-96
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Shirley Pruitt

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated April 26, 2004, by and between James M. Alexander, dealing in his sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- 13. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

LEASE NAME RHODES, MARTHA JANE LEASE NUMBER - NM-000403-002513-E PROSPECT.....000000 ACCT. LEASE 270386-001 ACQ CODE..... BOOK.. 431 PAGE.. 959 REC DATE... 10/05/2001 BOOK.. PAGE.. REC DATE... 0/00/0000 COUNTY #1....EDD EDDY COUNTY #2.... PAGE. 10,
REC DATE... 0,

9/21/2001 RECORD STATUS.. CM COMPLETE LEASE RECORD
EFFECTIVE DATE... 9/21/2001 LEASE TYPE....X FEE LEASE
EXPIRATION DATE... 9/20/2004 ACQUISITION DATE... 9/21/2001
PRIMARY TERM... 3 YR LEASE/RENTAL STAT... PDU PAID UP LEASE
ORIGINAL LESSOR... MARTHA JANE RHODES, DEALING IN HER SOLE AND SEPARATE PROPERT
ORIGINAL LESSEE... YPC
ACQUIRED - HOW....
- FROM...
LESSEE OF RECORD... LSE GROSS LEASE NET OUR NET ACREAGES BASE ACRES..... TOTAL.....
DEVELOPED.... 200.00 4.17 TOTAL ORRI..... UNDEVELOPED... 200.00 4.17 LEGAL DESCRIPTION INFORMATION: LOCATION ABSTRACT # LSE GRS LSE NET SEO TWP RNG SEC 25S 26E 1 NW4NE4, E2E2 01 200.00 17 4.17 TOTAL ACREAGE 200.00 4.17 EXPIRED OWNERSHIP INFORMATION: OWNER# WORKING INTEREST OWNER GWI OTHER CO LSE 5000 ABO PETROLEUM CORPORATION .10000000 640010 MYCO INDUSTRIES, INC. 994100 YATES DRILLING COMPANY 999900 YATES PETROLEUM CORPORATION .10000000 .10000000 .7000000 TOTAL INTEREST 1.00000000 SPECIAL FEATURES/WELL CROSS REFERENCE: HELD BY PROD...
HELD BY UNIT...
SHUT-IN PROV... 2 TWO YR
PUGH CLAUSE.... P PUGH SURFACE DAMAGES... POOLING..OIL GAS MINIMUM ROYALTY...
RENEWAL OPTION...
LESSER INTEREST... REWORK DAYS.....
NULTI-TRACT.... SLIDING ROYALTY. REASMT OBLIG... CONT. DRILLING.... Y UNIT CLAUSE....

DELAY RENTAL/SHUT-IN INFORMATION:

RENTAL PAID BY...

RENTAL PER ACRE...

RENTAL AMOUNT/TYPE...

BANK FEE...

TOTAL RENTAL...

COMPANY SHARE...

RENTAL DUE DATE...

COMPANY SHORE...

RENTAL DUE DATE...

O/00/0000

PAYMENT FREQUENCY...

BY SHUT-IN PAID BY...

TOTAL SHUT-IN DECEMBER OF THE PAID BY...

SHUT-IN PAID BY...



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM

Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am

Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 60 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander CCP.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk (2) 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383
Abilene, TX 79608-5383

Brett Guitar Witherspoon & P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 66 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha & P.O. Box 1438
Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320

Prepared By

ΒY

BY

Jeremiah Mullen

YATES DRILLING COMPANY

MYCO INDUSTRIES, INC.

ABO PETROLEUM CORPORATION

YATES PETROLEUM CORPORATION



AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type: Well Objective: Well Type:

AFE NO. AFE DATE

20.551875%

10.793125%

10.793125%

10.793125%

AFE STATUS:

04-542-0 10/29/04

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	10	29-no
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105 South Fou	RTH STREET X New Drilling X Oil X Development X	Original	
ARTESIA, NEW N	December Vices Evolution	Revised	
TELEPHONE (50		Final	
		Supplemental _	
	Guitar BFL Com. #1 PROJ'D DEPTH 12,00		
LEASE NAME		Mexico	
COUNTY	Eddy STATE New HORIZON Morr		·
FIELD	Section 17 T25S-R26E, 990' N & 1980' E	<u> </u>	
LOCATION			
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
DDOCNOSIS: Ma	w well drilled to 12,000' to test all formations		
PROGNOSIS. INC.	W Well diffied to 12,000 to test all formations		
	. W.O. O.O.T.O.	DDV HOLE	COMPID WELL
INTANGIBLE DRIL		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000 35,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage	647 000	647.000
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
920-140	Drilling Water, Fasline Rental	35,000	35,000
920-150	Drilling Mud & Additives	45,000	45,000
920-160	Mud Logging Unit, Sample Bags Cementing - Surface Casing & deep intermediate	30,000	30,000
920-170		75,000	75,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	125,000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service		00.000
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion	.	1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion	.	20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges - Completion		10,000
920-510	Bits, Tools & Supplies - Completion		1,500
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	1,190,000	1,449,000
TANGIBLE EQUIP	MENT COSTS:		
930-010	Christmas Tree & Wellhead	5,000	30,000
930-020	Cosing 42 3/9" @ 400'	44 000	11,000
330-020	9 5/8" @ 1,800'		27,000
	7" @ 8 600'	400 000	108,000
	7" @ 8,600' 4 1/2" 12,000'	·	85,500
930-030	Tubing 2.2/8" @ 41.800'		49,000
930-040	malan O Ona alai Marianana		40,000
940-010	Dumping Equipment	•	
940-020	Storage Excilities	† -	15,000
940-030	Congretion Equip Cloudings Mice	 	75,000
940-640	Trucking & Construction Costs	 	15,000

	TOTAL TANGIBLE EQUIPMENT COSTS	151,000	415,500
TOTAL COSTS		1,341,000	1,864,500
4			<u> </u>
	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE ILLAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES S		NT WITH

Operations

Approval

DATE

DATE

DATE

DATE

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
	DATE:	07.00000070]
BY:	DATE	2.343750%
EARL B. GUITAR, SR. & ANITA GRISSOM G ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	•
JAMES M. ALEXANDER & JERRI ALEXAND	ER	0.781250%
BY:	DATE	
8Y:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MARI	LYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY:	DATE	
KELLY WOODS LEACH BY:	DATE	0.193750%

U.S. Postal Service CERTIFIED MAILTA RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) For delivery information visit our website at www.usps.com.	Postage \$ Certified Fee Certified Fee (Endorsement Required) Restricted Delivery Fee (Endorsement Required) Total Postage & Fees	Sent To Martha Jane Alexander Rhodes or Po Box No. Box No. Box No. Box So. Box	ก 3800, June 2002 See Reverse for Instructions
CENT CENT (Pomestr	Cert Return Rec drorsement R. Restricted Delly (Endorsement Re Total Postage &	Sent To Street, Apt. Ni or PO Box No. Gity, State, Zil	PS Form 3800, June 2002

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
 Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print vour name and address on the reverse 	A. Signature A. Charles Addressee
so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.	B. Received by (Printed Name)
1. Article Addressed to:	D. Is delivery address different from item 1? ☐ Yes If YES, enter delivery address below: . ☐ No
Martha Jane Alexander Rhodes	Gnitar
P.O. Box 58 Abilene, TX 79604	3. Service Type Certified Mall
	ery?
2. Article Number (Transfer from service label)	7002 2030 0001 8263 7430
PS Form 3811, February 2004 Domestic Return Receipt	urn Receipt 102595-02-M-1540
A CONTRACTOR OF THE CONTRACTOR	The state of the s

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

November 30, 2004

S. P. YATES CHAIRMAN OF THE BOARD JOHN A. YATES PRESIDENT

PEYTON YATES EXECUTIVE VICE PRESIDENT

RANDY G. PATTERSON SECRETARY DENNIS G. KINSEY TREASURER

Martha Jane Rhodes P O Box 58

Abilene, TX 79604

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Ms. Rhodes:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

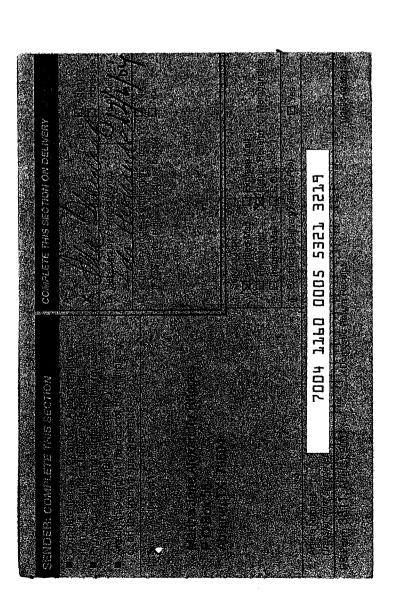
Form 345
Hall-Poorbaugh Press, Inc.
Roswell, New Mexico

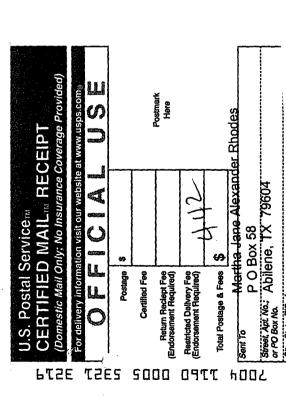
- 2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 inst 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 timmediate 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 an 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. The units formed by pooling as to any 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 hereumder 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 the pooled autions 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 the pooled unit may include, but it is not required to include, land or leases upon which a well capable of production of oil or gas in paying quantities has theret
- 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, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF			
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		day of,	2004,
oy			
My commission expires		Notary Public	
		·	
		ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
		day of	
for		as	
My commission expires			
		Notary Public	
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF)ss.		
COUNTY OF			
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Mr. commission coming			•
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Year Lease) 5-96 Gas		ores Strument was filed for record on day of o'clock M., and din Book records of this or recorded return to When recorded return to Yates Petroleum Corporation 105 South Fourth Street	
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Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Jeri Alexander Lott 9102 Vicksburg., #17 Lubbock, TX 79424

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

Previous Lease dated:

0.781250% 9/21/01

2.5

Expiration:

9/20/04

Lease Renewal and Correspondence Timeline

2/13/04 Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

2/20/04

Letter of Acceptance received as per terms offered.

2/20/04

Lease documents & bank draft sent as per terms accepted in offer letter

5/4/04

Received signed lease, containing several modifications, not acceptable

to Yates management.

5/4/04

Responded with cover letter not accepting modified lease. Sent a

compromise lease form, acceptable to Yates management.

9/21/04

No response from Mr. Lott - lease expired.

11/10/04

Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/12/04

Received certified receipt of sent AFE.

11/30/04

Final offer sent:

Option 1:

Sign AFE to participate in drilling of well

Option 2:

Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/6/04

Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 13, 2004

Jeri Alexander Lott 9102 Vicksburg Ave., #17 Lubbock, TX 79424

> RE: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mrs. Lott:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 4.1667 net mineral acres;
- A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- Offer will expire at office closing on March 15, 2004.
- Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,

Yates Petroleum Corporation

Shirley Pruitt Land Technician

/sp

Jeri A



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 20, 2004

Jeri Alexander Lott 9102 Vicksburg Ave., #17 Lubbock, TX 79424

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Ms.Lott:

Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$416.67 which is full bonus consideration of \$100.00 per acre for your 4.1667 net mineral acre interest.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and <u>send it for collection through your bank</u>, together with the lease to the address below:

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

Or you may void the draft and send the executed and notarized lease, with the voided draft, directly back to me at the Yates Petroleum Corporation address and I will return to you a direct check.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shuley fruits

Shirley Pruitt /Land Technician

/sp

Enclosure(s)

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this 14th day of February, 2004, but Effective September 21, 2004, between Jeri Alexander Lott, dealing in her sole and
separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-
10% AND MYCO INDUSTRIES, INC10%, as Lessee, WITNESSETH:
1. Lessors in consideration of Ten and No/100
) 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 <u>Eddy</u> County, <u>New Mexico</u> to-wit:
Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2

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 three 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.

paid by Lessee are: (a) on oil, 1/4 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 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 soused. 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, Lessee, at its option, is never given the right and power to poor of communicate accesses in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit. 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 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 of from which or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms better from the discoluted by Lessee by interpret filled for record in the 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 covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines 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 evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the
- 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 there from 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.

Articles 11 through 12 of this 0il and Gas Lease are included in Exhibit A.

N WITNESS WHEREOF, this instrument is executed on the Oute first above written.

Jeri Alexander Lott

1

When recorded return to Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	o'clock M. ded in Book records of t County Clerk	Dated, 20	ТО	NoOil and Gas Lease FROM
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2004,		To yeb	me this	COUNTY OF This instrument was acknowledged before a
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/	ens fr	79	and separate property	By: Jeri Alexander Lott, dealing in het sole My commission expires
, 2004,		- FIYW JO VED		This instrument was acknowledged before
			.ss (STATE OF Texas

INDIAIDANT ACKNOWLEDGMENT

EXHIBIT A

Exhibit A to that certain Oil and Gas Lease covering T25S R26E, Sec 17, NW4NE4, E2E2, Eddy County, New Mexico.

11. Subject to the right of election reserved to Lessor to take its share of production in kind, the royalties to be paid by Lessee are twenty-five percent (25%) of eight-eighths (8/8ths) of: (a) the greater of the market value at the well or the amount realized from the sale of oil and liquid petroleum products recovered at the well and (b) the market value of gas produced from the Leased Premises determined as follows: (i) at the well for gas sold at the well, (ii) at the point of sale for gas sold or used off the Leased Premises or (iii) on gas delivered to a processing plant, the market value at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on oil, gas and related hydrocarbons, the royalty shall never be less than twenty-five percent (25%) of the gross amount realized by Lessee from such sale. Royalty is to be paid on all payments received by Lessee under or as a result of a gas purchase contract, including, but not limited to reservation charges and, subject to credit to Lessee when gas for which payment has been made earlier is eventually produced, take-or-pay or contract settlement proceeds and amounts paid for gas not taken. Lessee shall have free use of oil and gas from said land for operations on the Leased Premises, and the royalty on oil and gas shall be computed after deducting any production so used. The royalties payable under this Lease shall be free and clear of costs or deductions for exploration, drilling, development, and production, including but not limited to, costs of marketing, dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons.

If there is a gas well on the Leased Premises or on land pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from the Leased Premises or on land pooled therewith sufficient to maintain this Lease in full force and effect, this Lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon this Lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to Five Dollars (\$5.00) per net acre covered by this Lease, which payment shall be made to Lessor at P.O. Box 58, Abilene, Texas 79604, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment may be made on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the Leased Premises under all the terms and provisions of this Lease (but only for so long as the well continues to be capable of producing in paying quantities); however, this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years after the end of the primary term. Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well.

12. Notwithstanding any other provisions hereof at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to Lessor, unless Lessee is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and commencement of another. "Completion" shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the Leased premises or on lands pooled therewith.

Jen Alexander Soll

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

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

ARTESIA, NEW MEXICO
February 20, 2004

ARTESIA, NEW MEXICO
February 20, 2004

ARTESIA, NEW MEXICO
February 20, 2004

February 20, 2004

Four Hundred Sixteen and 67/X00

Antesia, New Mexico 88210

Artesia, New Mexico 88210

Acct. of Yates Petroleum Corporation
Shirley Pruitt, Lapa Technician



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

May 4, 2004

Jeri Alexander Lott 9102 Vicksburg Ave., #17 Lubbock,TX 79424

Re: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Mrs. Lott:

Thank you for your response to our recent lease renewal offer. At this time, we are not able to accept the lease form and terms you provided. Enclosed please find two (2) copies of Oil and Gas Lease Form 342P, which we will accept. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you, per your instructions.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt **U**Land Technician

/sp Enclosure(s)

Jeri Alexander Lott

OIL & GAS LEASE

THIS AGREEMENT made this 4th day of May, 2004, but effective September 21, 2004 between Jeri Alexander Lott, dealing in her sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (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 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 shall 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. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. 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. "Pric
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Otivision of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but not change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his seate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 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 bereby warrants and agrees to defend the title to said land and agrees that lessee at is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.

INDIVIDUAL ACKNOWLEDGMENT

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	When recorded return to	By, Deputy	County Clerk	corded in Book, Pa	This instrument was filed for record on the day of 20,	No. Acres County, NM			ТО		FROM	Oil and Gas Lease	No.	Producers 88 Rev. (Year Lease) 5-96
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Shirley Pruitt

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated May 4, 2004, by and between Jeri Alexnader Lott, dealing in her sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- 13. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

DELAY RENTAL/SHUT-IN INFORMATION:

RENTAL PAID BY...
RENTAL PER ACRE...
RENTAL AMOUNT/TYPE...
BANK FEE ...
TOTAL RENTAL...
COMPANY SHARE...
RENTAL DUE DATE...
PAYMENT FREQUENCY...

•	-		**	
LEASE NUMBER - NM-000403-00	2513-F LEASE NAM	E LOTT, JERI ALEXANI)ER	
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PAYMENT FREQUENCY...
HBP WELL NAME...
MULT/COMB CHECKS



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 60 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander & P.O. Box 58 Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk (2) 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383

P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 669 102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha 6 P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



AUTHORITY FOR EXPENDITURE NEW DRILLING, RECOMPLETION & RE-ENTRY

AF	Е Туре:	We	Il Objective
X	New Drilling	X	Oil
	Recompletion	X	Gas
	Re-entry	Г	Injector

We	It Type:
X	Development
	Exploratory

AFE NO.	04-542-	
AFE DATE	10/29/0	
_	AFEND (rev 6/9	

AFE DATE	10/29/04
AFE STATUS:	AFEND (rev 6/98) 10-29-00
X Original	

105 SOUTH FO	Pecompletion Y Gas Evoloratory	Revised	
ARTESIA, NEW	WEARCOBE TO Prince The	-	
TELEPHONE (5	05) 748-1471 Re-entry Injector	Final	
	<u>l</u>	Supplemental _	
EASE NAME	Guitar BFL Com. #1 PROJ'D DEPTH 12,00	0'	
COUNTY	The state of the s	Mexico	
FIELD	HORIZON Morro		
	Section 17 T25S-R26E, 990' N & 1980' E	<u> </u>	
LOCATION	Section 17 1253-120E, 990 N & 1900 E		
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME	· · · · · · · · · · · · · · · · · · ·	
BRANCH CODE	BRANCH NAME		

PROGNOSIS: INC	w well drilled to 12,000' to test all formations		
			
NTANGIBLE DRII	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
	Drilling Water Faciling Pontal	35,000	35,000
920-140		45,000	45,000
920-150	Drilling Mud & Additives		
920-160	Mud Logging Unit, Sample Bags	30,000	30,000
920-170	Cementing - Surface Casing & deep intermediate	75,000	75,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	125,000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Flec Logs Testing Ftc - Completion		20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	China delice for Completion		100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges Completion		10,000
920-510	Bits, Tools & Supplies - Completion	 	1,500
920-500	Contingency for Completion		1,500
920-300			
	TOTAL INTANGIBLE DRILLING COSTS	1,190,000	1,449,000
TANGIBLE EQUIF	DAMENIT CORTE:		
	Christmas Tree & Wellhead	5,000	30 000
930-010			30,000
930-020	Casing 13 3/8" @ 400'	11,000	11,000
	9 5/8" @ 1,800'	27,000	27,000
	7" @ 8,600'	108,000	108,000
	4 1/2" 12,000'		85,500
930-030	Tubing 2 3/8" @ 11,800'	<u> </u>	49,000
930-040	Packer & Special Equipment	<u></u>	
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.		75,000
940-G40	Trucking & Construction Costs		15,000
	TOTAL TANGIBLE EQUIPMENT COSTS	454 000	AAE EOO
	TOTAL TANGIDEL EQUIT MENT 00010	151,000	415,500
TOTAL COSTS		1,341,000	1,864,500

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

Prepared By SV Jeremiah Mullen	Operations Approval
YATES PETROLEUM CORPORATION BY	20.551875%
YATES DRILLING COMPANY BY	10.793125%
ABO PETROLEUM CORPORATION	10.793125%
MYCO INDUSTRIES, INC.	10.793125%

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM G ANITA GRISSOM GUITAR, SOLE TRUSTEE	UITAR, REVOCABLE LIVING TRUST,	2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXAND	ER	0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MARI	LYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY	DATE	
KELLY WOODS LEACH BY:	DATE	0.193750%

J.S. Postal Service₁	CERTIFIED MAIL. RECEIPT Comestic Mail Only: No Insurance Coverage Provided)	For delivery information visit our website at www.usps.com		Postage \$	ستسر	ment Reciept Fee Herec	ad Delivery Fee ment Required)	Total Postage & Fees \$	1 1 1	et we. 9102 Vicksburg Ave., #17	Chy, Siate, 216-4 LUDDOCK, TX 79356	3800. June 2002
U.S. Posta		For delivery info		Ć,	Certified	Return Reciept Fee (Endorsement Required)	Restricted Delivery Fee (Endorsement Required)	Total Postage & Fe	Sent To	Street, Apt. No.; 9 or PO Box No.	City, State, ZIP+4 L	PS Form 3800, June 2002
	284	7	E98	56	TO	00	DEI]2	200	12		

COMPLETE THIS SECTION ON DELIVERY		D. is delivery address different from tem 1? LI Yes if YES, enter delivery address below:	Gm.tov	3. Service Type Certified Mail Express Mail Registered A. Return Receipt for Merchandise Insured Mail C.O.D.	4. Restricted Delivery? (Extra Fee) 🔲 Yes	7002 2030 0001 8263 7485	
SENDER: COMPLETE THIS SECTION	Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.	1. Article Addressed to:	Jeri Alexander Lott	9102 Vicksburg Ave., #17 Lubbock, TX 79356		2. Article Number (Transfer from service label)	7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7

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



CHAIRMAN OF THE BOARD

JOHN A. YATES

PRESIDENT

PEYTON YATES

EXECUTIVE VICE PRESIDENT

RANDY G. PATTERSON

SECRETARY

DENNIS G. KINSEY

105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

November 30, 2004

Jeri Alexander Lott 9102 Vicksburg Ave., #17 Lubbock, TX 79424

RE: Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Ms. Lott:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this	30th	day of November, 2004, and Effective November 30, 2004, between Jeri Alexander Lott, dealing in her sole and separate
property, as Lessor (whether one or more),	and YATES PETROI	LEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND
SHARBRO OIL LIMITED CO MPANY.	10%, as Lessee, WIT	NESSETH:
1. Lessors in consideration of Ten an	d No/100	Dollars (\$_10.00) in
hand paid, of the royalties herein provided	and of the agreements	s of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring,
prospecting, drilling and mining for and produ	icing oil and gas, layin	ng 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, sa	ave, take care of, treat, transport, and own said products, and housing its employees, the following described land in
Eddy County, New N	1exico	to-wit:
		Township 25 South, Range 26 East, NMPM
		Section 17: NW/ANF/A F/2F/2

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 three 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.

Containing 200.00 acres, more or less

- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 and avisable to do so in order property 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 an 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 given the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as a bowe provided as to oil 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 of promises are situated an instrument describing and designating the pooled are 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 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 production of oil or gas in paying quantities has theretofore been commenced. Operations for during on or production of oil or gas have theretofore been commenced. O
- 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, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 60 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 covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

Jeri Alexander Lott

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	_)		
COUNTY OF)ss)		
		day of	
by Jeri Alexander Lott			
My commission expires			
		Notary Public	
		ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
This instrument was acknowledged before me this_		day of	2004.
by for		as	
My commission expires			
		Notary Public	
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF))ss.		
COUNTY OF	,		
		day of	2004,
Ву			-
My commission expires			
		Notary Public	
		•	
		and the second s	
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Year Lease) 5-96 Gas		ord on this of this of	ion
[Feas		r reco	oorati Street 210
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Rev Oil		or Cour	etrolo South tesia,
13 88		trument was filed for recoday of o'clock M. records of t records of t records of t recorded return to	Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210
No. Oil an Lea		d d nustrum nustrum lustrum lu	Yates Petroleum Corpor 105 South Fourth Stre Artesia, NM 88210
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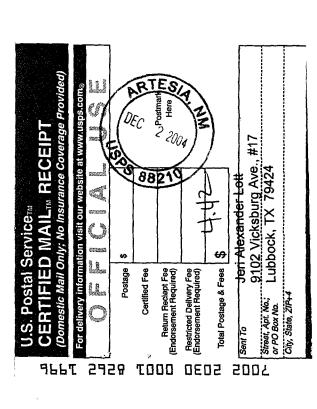
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Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

James Kelly Polk 12 Augusta

Abilene, TX 79606

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

2.5 0.781250%

Previous Lease dated:

10/5/01 (Estate of Mary Guitar Polk)

Expiration:

10/4/04

Lease Renewal and Correspondence Timeline

3/9/04 Offer

Offer letter sent to renew previous lease:

Estate of Mary Guitar Polk

c/o James K. Polk

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

4/5/04 Received signed acceptance to renew lease as per terms offered.

4/5/04

Sent lease documents and bank draft as per terms accepted.

10/28/04

Received executed lease as per term offered.

Also received Deed of Distribution from Estate to 3 heirs - need to void

this lease, send offer to each of 3 heirs.

10/28/04

Expired lease under the Estate of Mary Guitar Polk

11/5/04

Sent lease documents under the above agreed terms, 1/3 interest from

Estate of Mary Guitar Polk

Current

No response from Mr. Polk concerning lease

11/10/04

Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/16/04

Received certified receipt of sent AFE.

11/30/04

Final offer sent:

Option 1:

Sign AFE to participate in drilling of well

Option 2:

Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/2/04

Received certified receipt of sent final offer.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

March 9, 2004

Estate of Mary Guitar Polk c/o James K. Polk 12 Augusta Court Abilene, TX 79604

> RE: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Mr. Polk:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 12.5 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on April 9, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,

Yates Petroleum Corporation

Shirley Pruitt

Land Technician

/sp

AGREED and ACCEPTED this _____ day of ____

Estate of Mary Guitar Polk

James Kelly Polk, Executor



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

April 5, 2004

Estate of Mary Guitar Polk c/o James K. Polk 12 Augusta Court Abilene, TX 79604

Re: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mr. Polk:

Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$1250.00 which is full bonus consideration of \$100.00 per acre for your 12.5 net mineral acre interest.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and <u>send it for collection through your bank</u>, <u>together with the lease to the address below:</u>

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

Or you may void the draft and send the executed and notarized lease, with the voided draft, directly back to me at the Yates Petroleum Corporation address and I will return to you a direct check.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

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

ARTESIA, NEW MEXICO_

PAY TO THE ORDER OF

One Thousand Two Hundred Fifty and 00/100------VALUE RECEIVED AND CHARGE TO ACCOUNT OF

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

Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this 5th day of _April, 2004, but Effective October 5, 2004, between Estate of Mary Guitar Polk, James Kelly Polk,
Executor, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND
AYCO INDUSTRIES, INC10%, as Lessee, WITNESSETH:
1. Lessors in consideration of <u>Ten and No/100</u> Dollars (\$ <u>10.00</u>
) 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,
xploring, 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
cross 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
and in <u>Eddy</u> County, <u>New Mexico</u> to-wit:
Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2

- 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 three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 in area, and units proceed for gas hereunder shall not substantially exceed and 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 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 in the 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 may at its election exercise its pooling an 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 may at its election exercise its pooling option after commencing operations for or or policion of individual policions. The pooling is proported to com
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing 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
- 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 there from 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.

Estate of Mary G	IIIAF POIK		
/	1/	() 00	
By: 40	Kell	12ll	
James Kelly Polk,	Executor		

INDIVIDUAL ACKNOWLEDGMENT

STATE OF) ss.		
COUNTY OF		
This instrument was acknowledged before me thisBy:	day of	, 2004,
My commission expires		
	Notary Public	
	ACKNOWLEDGMENT	
STATE OF		
COUNTY OF Taylor)ss.		
This instrument was acknowledged before me this	th day of October	2004.
by James Kelly Polk as Executor of the Estate of Ma	lary Guitar Polk	
My commission expires	1 Dawkay	
DARLENE RAY Notary Public, State of Texas My Comm. Expires 11-14-2007	Notary Public	\
My Comm. Expires 11-1-	INDIVIDUAL ACKNOWLEDGMENT	<i>)</i>
STATE OF	INDIVIDUAL ACKNOWLEDGMENT	
)ss. COUNTY OF)		
	day of	2004.
By		2001,
My commission expires		
•	Notary Public	
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Year Lease) 5-96 Gas	, 20 County, NM led for record on the 20 M., and duly Page records of this office. Clerk Deputy define to	leum Corporation h Fourth Street ı, NM 88210
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No. Oil an Leg	d d d d d d d d d d d d d d d d d d d	
<u>a</u>	Dated No. Ac Term This in at recordec of the By	11 11

DEED OF DISTRIBUTION

JAMES KELLY POLK, Personal Representative of the Estate of MARY GUITAR POLK, DECEASED, under Cause No. PB-89-95 S, District Court of Eddy County, State of New Mexico, whose address is 12 Augusta, Abilene, Texas 79606 (herein called "Grantor"), as and for Distribution of real property from the Estate of MARY GUITAR POLK, DECEASED, and as evidence of the Grantees' title pursuant to 45-3-907 NMSA 1978, hereby GRANTS, ASSIGNS, TRANSFERS, AND CONVEYS to the following named persons, (herein called "Grantees"), in equal undivided interests, and as the sole and separate property of each, whose names and addresses are shown as follows, to wit:

James Kelly Polk 12 Augusta Abilene, Texas 79606

Ruth Ann Polk Caudle 5615 Preston Fairways Dallas, Texas 75202

Janis Lee Polk Harbour 4400 Arcady Dallas, Texas 75205

All of the right, title, ownership and/or interest of MARY GUITAR POLK, Deceased in, to, or under the following described property located in Eddy County, New Mexico, to wit:

See Exhibit "A" which is attached and incorporated by reference.

TO HAVE AND TO HOLD the above described property together with all and singular the rights, privileges and appurtenances thereto or in any wise belonging unto the Grantees, and their Heirs, Successors, Personal Representatives, and Assigns forever.

Page 1 of 2

McCormick Law Firm P O Box 1718 Carlsbad NM 88221-1718 This Deed and Conveyance is made pursuant to the Uniform Probate Code of the State of New Mexico.

The Grantor further conveys to the Grantees, in equal undivided interests, all other real property and real property interests of whatever kind or nature, including but not limited to, all Surface Rights, Water Rights, Oil, Gas, and other Minerals, Mineral Interests, Mineral Rights or Substances, Oil, Gas or Mineral Leasehold, Contract, Working Interests, Royalty Interests, Overriding Royalty Interests, Production Payment Interests, and all other Interests howsoever created, owned by the late MARY GUITAR POLK, as of the date of her death, located within the County of Eddy, State of New Mexico, without respect to whether the same be accurately or completely described herein, or whether described herein, or otherwise.

This Deed is executed and delivered from Grantor to Grantees without warranty of title, express or implied.

WITNESS MY HAND AND SEAL this 17 day of December, 2003.

JAMES KELLY POLK, Personal Representative

STATE OF TEXAS

Section 19 day of December 19

Page 2 of 2

Section 6:

NE/4NE/4; W 3/4 SE/4NE/4; E/2NE/4SE/4NE/4; W 3/4 NE/4SE/4; E/2NE/4NE/4SE/4; SW/4SE/4; N/2NW/4SE/4; SW/4NW/4SE/4: E/2SE/4NW/4SE/4; W/2SE/4SW/4: W/2SE/4SE/4SW/4: E/2NE/4SE/4SW/4; W 3/4 NE/4SW/4: E/2NE/4NE/4SW/4; S/2SE/4NW/4;

NW/4SE/4NW/4; SW/4NW/4; N/2NW/4SW/4;

SE/4NW/4SW/4

Section 7: Lot 4 (SW/4SW/4); SE/4SW/4

N/2NE/4: N/2SE/4NE/4; W/2NW/4: Section 7:

E/2SW/4SE/4

Section 12: NW/4NW/4

Section 18: Lot 1 (NW/4NW/4)

TOWNSHIP 24 SOUTH, RANGE 29 EAST Section 20: W/2NW/4NE/4; NE/4NW/4NE/4; N/2SE/4NW/4NE/4

Section 21: S/2SE/4

Section 28: N/2NE/4

TOWNSHIP 25 SOUTH, RANGE 26 EAST Section 17: N/2NE/4; SE/4NE/4; E/2SE/4

Section 20: E/2NE/4; SW/4NE/4

Section 26: N/2NW/4; SE/4NW/4

Section 27: NE/4NE/4

TOWNSHIP 26 SOUTH, RANGE 27 EAST

Section 23: SW/4NE/4

Section 23: SE/4NW/4; E/2SW/4; SE/4

Lots 20 and 22, Block 5, of the Original Town of Loving, Eddy County, New Mexico

ALL of the Grantor's right, title, and interest in and to the surface estate only in and to the following lots, tracts, or parcels of land located in the County of Eddy, State of New Mexico:

.

Lot 14 in Block 102
Lot 5 in Block 103
Lot 9 in Block 105
Lot 4 in Block 114

RECEPTION NO: 0313684 STATE OF NEW MEXICO, COUNTY OF EDDY RECORDED 12/22/2003 3:37 FM BOOK 0534 PAGE 0327 W YOUTO JEAN BLENDEN, COUNTY CLERK



LNERGY LEASE RECORD SHEET USER-TAMMYV WS-QPADF NOJ 9:40:04 3/08/2002

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ROSPECT00000	G.			ACCT. LEASE 2	71251-001
CQ CODE					
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TATE	10/04/2004	AC	QUISITION	DATE: 9/25/20	01
RIMARY TERM	3 YR	LE	ASE/RENTAL	STATPDU P	AID UP LEASE
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- FROM				TOTAL BONUS	E 100.00 1250.00
ESSEE OF RECORD					
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01 255 26E 17 NW4NE4, E2S2			200.00	12.50
	TOTAL	ACREAGE	200.00	12.50
OWNERSHIP INFORMATION:				CO

OWNER#	WORKING INTEREST OWNER	GWI	OTHER CO LSE
640010 994100	ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES ORILLING COMPANY YATES PETROLEUM CORPORATION TOTAL INTEREST	.1000000 .10000000 .10000000 .7000000	

SPECIAL FEATURES/WELL CROSS REFERENCE:

HELD BY PROD. SURFACE DAMAGES... POOLING.OIL GAS HELD BY UNIT... MINIMUM ROYALTY... REWORK DAYS... SHUT-IN PROV. 2 TWO YR RENEWAL OPTION... MULTI-TRACT... PUGH CLAUSE... B VERT/HRZ LESSER INTEREST... SLIDING ROYALTY. REASMT OBLIG... CONT. DRILLING... Y

DELAY RENTAL/SHUT-IN INFORMATION:

RENTAL PAID BY	SHUT-IN PAID BY
RENTAL PER ACRE	SHUT-IN PER ACRE
RENTAL AMOUNT/TYPE	SHUT-IN AMOUNT
BANK FEE	BANK FEE
TOTAL RENTAL	
COMPANY SHARE	
RENTAL DUE DATE 0/00/0	
PAYMENT FREQUENCY	PAYMENT PREQUENCY
	HBP WELL NAME
	MULT/COMB CHECKS

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

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

November 5, 2004

James Kelly Polk 12 Augusta Abilene, TX 79606

Re: Oil and Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Mr. Polk:

Yates Petroleum Corporation would like to extend an offer to lease your mineral interest in the captioned acreage. I have taken the liberty of enclosing two (2) copies of a Paid-up Oil and Gas Lease, Three-year (3) term providing for a 1/4 royalty, covering your interest in the captioned lands. Subject to approval of title, payment will be made to you upon receipt of the executed oil and gas lease at \$100.00 per acre for the 4.167 net mineral acres owned by you.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public and return to this office. Upon receipt of the properly executed lease we will issue a check in the amount of \$416.70 to you.

This offer will expire November 19, 2004 if we have not received your executed lease. If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

Shirley Pruitt 0

YATES PETROLEUM CORPORATION

Shirley Kruit

Land Technician

/sp Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS	AGREEMENT made this	5th	day of!	November	, 2004, between James Kelly Polk, dealing in his sole and separate property, as
Lessor (whe	ther one or more), and YA	TES PETROLEUM CORI	ORATION-70	%; YATES D	RILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10%;
AND MYC	O INDUSTRIES, INC10	0%, as Lessee, WITNESSE	ΓH:		
1. Le	ssors in consideration of]	Ten and No/100			Dollars (\$ 10.00) in
hand paid, o	of the royalties herein pro-	vided and of the agreement	s of Lessee her	ein contained,	hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring,
prospecting,	drilling and mining for and	l producing oil and gas, layir	ng pipe lines, bui	ilding roads, ta	nks, power stations, telephone lines and other structures thereon and on, over and across lands owned
or claimed b	y Lessor adjacent and cont	iguous thereto, to produce, s	ave, take care of	f, treat, transpo	rt, and own said products, and housing its employees, the following described land in
Eddy	County,	New Mexico	to-wit:		
			Township '	25 South De	ange 26 Feet NMPM

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 three 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.

Section 17: NW/4NE/4 E/2E/2

- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 an area, and units pooled for gas hereunder shall not substantially exceed an area (40 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. 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 drolling on or growthin the provided of the provided of the provided of the provided of t
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- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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	writte	a.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	s. day of	2004
By: James Kelly Polk, dealing in his sole and separate p		, 2004,
My commission expires	Notary Public	-
	ACKNOWLEDGMENT	
STATE OF)		
)ss.		
This instrument was acknowledged before me thisby	day of	2004,
My commission expires	Notary Public	
	rotary i done	
	INDIVIDUAL ACKNOWLEDGMENT	
STATE OF)	^	
COUNTY OF)		
This instrument was acknowledged before me thisBy	day of	2004,
My commission expires	Notary Public	
	•	
Producers 88 Rev. (Year Lease) 5-96 NoOil and Gas Lease FROM TO	Dated No. Acres No. Acres Term This instrument was filed for record on the day of at o'clock at o'clock At o'clock Tecorded in Book Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	

Shirley Pruitt



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd.
Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander CCP.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk (2) 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 64 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha & P.O. Box 1438
Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE

10/29/04

PET	ROLEUM NEW DRILLING, RECOMPLETION & RE-ENTRY PORRY AFE Type: Well Objective: Well Type: AI	EE STATUS:	AFEND (rev 6/98)
LUR!		FE STATUS:	16 01 0
105 SOUTH FOU	X New Drilling X Oil X Development X		
ARTESIA, NEW I		Revised	
TELEPHONE (50	5) 748-1471 Re-entry Injector	Final _	
	L.	Supplemental	
LEASE NAME	Guitar BFL Com. #1 PROJ'D DEPTH 12,00	00'	
COUNTY		Mexico	
FIELD	HORIZON Morr	ow	
LOCATION	Section 17 T25S-R26E, 990' N & 1980' E		-
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		·
BRANCH CODE	BRANCH NAME		
PROGNOSIS: Ne	w well drilled to 12,000' to test all formations		
INTANGIBLE DRIL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Chalsing Domnit 9 Local Econ	3,000	3,000
920-110	Location Dight of Mov	35,000	35,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
920-140	Drilling Water Cooling Pontal	35,000	35,000
920-150	Drilling Mud & Additives	45,000	45,000
920-160	Mud Logging Unit Sample Rage	30,000	30,000
920-170	Cementing - Surface Casing & deep intermediate	75,000	75,000
920-180	Drill Stem Testing, OHT	·	,
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	125,000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion		20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges - Completion		10,000
920-510	Bits, Tools & Supplies - Completion	-	1,500
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	1,190,000	1,449,000
TANGIBLE EQUIP	MENT COSTS:		
930-010	Christmas Tree & Wellhead	5,000	30,000
930-020	Casing 13 3/8" @ 400'	11,000	11,000
	9 5/8" @ 1.800'	27,000	27,000
	7" @ 8,600'	108,000	108,000
	4 1/2 12,000		85,500
930-030	Tubing 2 3/8" @ 11,800'		49,000
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.	.	75,000
940-640	Trucking & Construction Costs		15,000
	TOTAL TANGIBLE EQUIPMENT COSTS	151,000	415,500
TOTAL COSTS	***************************************	1,341,000	1,864,500
APPROVAL OF	$^{ extsf{T}}$ THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE $^{ extsf{T}}$	THE JOINT ACCOU	NT WITH

TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By SV Jeremiah Mullen	Operations Approval
YATES PETROLEUM CORPORATION BY	20.551875%
YATES DRILLING COMPANY BY	10.793125%
ABO PETROLEUM CORPORATION BY	10.793125%
MYCO INDUSTRIES, INC. BY	10.793125% DATE

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
	OM GUITAR, REVOCABLE LIVING TRUST,	2.343750%
ANITA GRISSOM GUITAR, SOLE TRUS		2.01070070
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEX		0.781250%
		0.70123070
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
		0
BY	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
		0.70123076
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, I	MARILYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
		0.23373070
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON	72-7-1-1	0.293750%
BY:	DATE	0.20070070
	DATE	
KELLY WOODS LEACH BY:	DATE	0.193750%

CERTIFIED MAIL, RECEIPT

Consiste Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.a.s.c. coms

Cortiled Fee

Cortiled Fee

Return Required)

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Cortiled Colorement Required

Cortiled Coloreme

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
 Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse 	Implete A. Signature Sed. A Signature Sed.
so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.	B. Received by (Printed Name) G. p
1. Ártičie Addressed to:	©. Is delivery address different from item 1? ☐ Yes (If YES, enter delivery address below: ☐ No
James Kelly Polk	Gutar
Abilene, TX 79604	3. Service Type The Certified Mail
	ery?
2. Article Number (Transfer from service label)	7002 2030 0001 8263 7416
PS Form 3811, February 2004	Domestic Return Receipt 102595-02-1M-1540

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

S. P. YATES CHAIRMAN OF THE BOARD JOHN A. YATES

November 30, 2004

James Kelly Polk 12 Augusta Abilene, TX 79606

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mr. Polk:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS .	AGREEMENT made thi	s <u>30th</u>	day of <u>November</u> ,	, 2004, and Effecti	ve November 30, 200	4, between James Kel	ly Polk, dealing in l	ais sole and s	separate
property, as l	Lessor (whether one or i	nore), and YATES PETRO	LEUM CORPORAT	ΓΙΟΝ-70%; YATI	ES DRILLING COM	PANY-10%, ABO PE	TROLEUM CÓRPO	RATION-10	% AND
SHARBRO C	OIL LIMITED COMP.	ANY-10%, as Lessee, WITN	VESSETH:						
1. Less	sors in consideration of	Ten and No/100					Dollars (\$_	10.00) in
	,	vided and of the agreement			•	•	• •	0 0,	
prospecting, d	rilling and mining for an	d producing oil and gas, layir	ng pipe lines, building	roads, tanks, powe	r stations, telephone lii	es and other structures t	thereon and on, over a	nd across land	is owned
or claimed by	Lessor adjacent and con	tiguous thereto, to produce, s	ave, take care of, treat	t, transport, and ow	n said products, and ho	using its employees, the	following described l	and in	
Eddy	County,	New Mexico	to-wit:						
			Township 25 Sout		<u>NMPM</u>				
			Section 17: NW/4						
			Containing 200.00	acres, more or les	S				

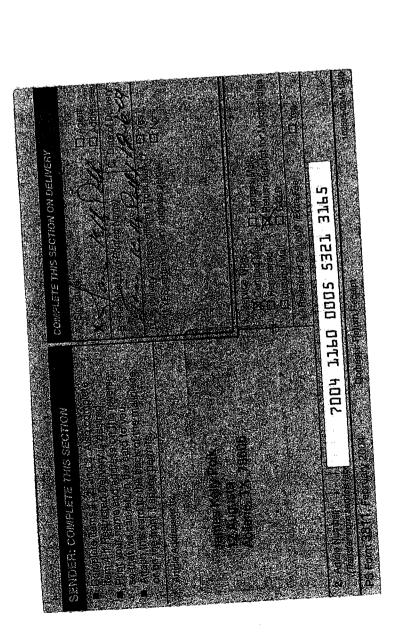
- 2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 the lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.
- 4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not as production from a gas pooled unit, and 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, Lessea it is option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender th
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

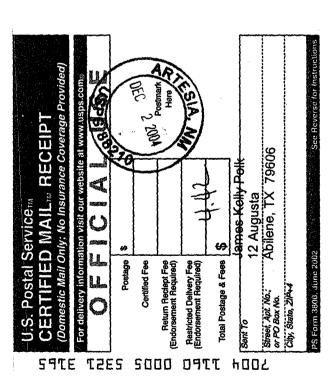
IN WITNESS WHEREOF, this instrument is executed on the date first above written

James Kelly Polk

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	_)	•	
COUNTY OF)ss)		
		day of	_, 2004,
My commission expires	 - · · · ·	Notary Public	-
		ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
		day of	
		as	
W			
My commission expires		Notary Public	-
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF))ss.		
COUNTY OF)		
•			2004,
My commission expires		Notary Public	_
		Nothing I won't	
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Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Marilyn Guitar Galusha Trust

P O Box 1438 Abilene, TX 79604

Net Acres in N/2 Spacing Unit Percent Working Interest in Unit

1.875 0.585938%

Previous Lease dated:

9/21/01

Expiration:

9/20/04

Lease Renewal and Correspondence Timeline

2/13/04 Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

2/23/04 Received signed acceptance to renew lease as per terms offered.

2/25/04 Sent lease documents and bank draft as per term accepted.

4/23/04 Received executed lease with several modifications and amendments.

4/23/04 Sent letter to explain that terms added are not acceptable to Yates

management. Sent modified compromise lease form.

Several phone conversations - no compromise reached.

9/21/04 No response from Ms. Galusha - lease expired.

11/10/04 Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/12/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/8/04 Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 13, 2004

Marilyn Guitar Galusha Trust P. O. Box 1438 Abilene, TX 79604

> RE: Oil & Gas Lease Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Ms. Galusha:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 3.125 net mineral acres;
- A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- Offer will expire at office closing on March 15, 2004.
- Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,

Yates Petroleum Corporation

Shirley Pruitt Land Technician

/sp

AGREED and ACCEPTED this 18 day of February, 2004

Marilyn Guitar Galusha Trust



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 25, 2004

Marilyn Guitar Galusha P. O. Box 1438 Abilene, TX 79604

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Ms.Galusha:

Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$312.50 which is full bonus consideration of \$100.00 per acre for your 3.125 net mineral acre interest.

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and <u>send it for collection through your bank</u>, <u>together with the lease to the address below:</u>

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

Or you may void the draft and send the executed and notarized lease, with the voided draft, directly back to me at the Yates Petroleum Corporation address and I will return to you a direct check.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATIOI

Shirley Pruitt //
Land Technician

/sp

Enclosure(s)

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT m	ade this <u>18th</u>	day of <u>Februa</u>	ary, 2004, bu	t Effective September 2	l, 2004, between M	arilyn Guitar Galusha, 1	Trustee of the Marilyn
Guitar Galusha Trust, as	Lessor (whether one	or more), and YATES I	PETROLEUM (CORPORATION-70%;	YATES DRILL	ING COMPANY-10%,	ABO PETROLEUM
CORPORATION-10% AND	MYCO INDUSTRIES,	, INC10%, as Lessee, WIT	NESSETH:				
) in hand paid, of the n							
exploring, prospecting, drilling							
across lands owned or claimed	by Lessor adjacent and	contiguous thereto, to produc	ce, save, take care	of, treat, transport, and o	wn said products, a	nd housing its employees,	the following described
land inEddy	County,N	ew Mexico	_to-wit:			•	

Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2

- 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 three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 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 3. The royalites to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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.

Lessec stall have from use of oil, gas, ocal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty off oil and gas shall be computed after deducting any so used. A SHUT IN GAS WELL WILL NOT SERVE TO EXTEND THE TENTO OF This lease for more than one year After The date Said well is SHUT IN.

4. Lessec, 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 Lessec'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 promote fire conservation of on and gas in and antitier and that have because the new safe presents of the safe provided that should governmental authority 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 of illing were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or on or production of oil and gas from land covered by this lease whether of not the well of 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 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. 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 thereofs should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 60 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 covering any portion or portions of the above described premises and thereby surrender this lease as
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land
- 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 The figure of either party fereinter may be assigned it whole of in part, and the provisions factor shall extend to their neits, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and capable of producing as in paying quantities. 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 subcopated 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
 - 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 there from 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.

Marilyn Guitar Galusha, Trustee of the

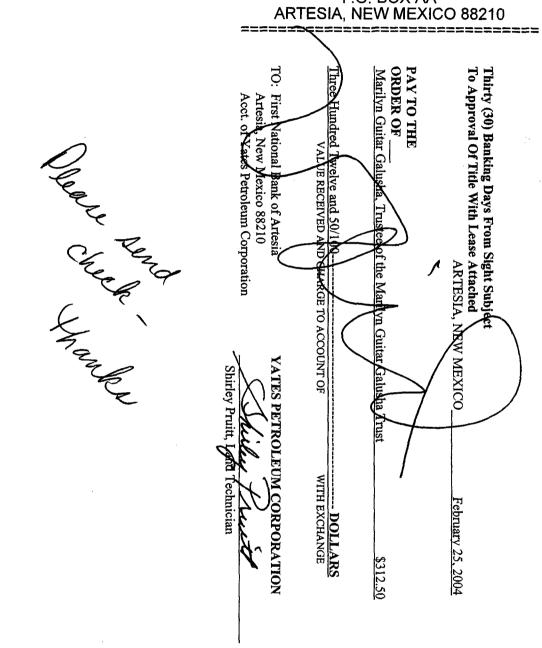
Cuitar Galusha Trust

Marilyn Guitar Galusha Trust

Exhibit "A"

- Notwithstanding anything else to the contrary herein, payment of shut-in Gas Well Royalties will not be permitted to maintain this Lease in force for a period greater than one year beyond the primary term, at which time this Lease shall automatically terminate.
- 12. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the new Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a Well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one Well and the commencement of another. "Completion" shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a Well has been completed as a producing Well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the Leased premises or on lands pooled therewith.
- 13. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, separation, stabilization, manufacturing, measuring or marketing the oil gas, or other hydrocarbons covered by this lease.

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





105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

April 23, 2004

Marilyn Guitar Galusha P. O. Box 1438 Abilene, TX 79604

Re: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Ms. Galusha:

Thank you for your response to our recent lease renewal offer. At this time, we are not able to accept the lease form and terms you provided. Enclosed please find two (2) copies of Oil and Gas Lease Form 342P, containing a two (2) year shut-in provision, which we will accept. Also, the lease form you mailed to us was not notarized. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you, per your instructions.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM-CORPORATIO

Shirley Pruitt Land Technician

/sp Enclosure(s) LNDR07

•	·	
JEASE NUMBER - NM-000403-002513-K	LEASE NAME GALUSHA, MARILYN GUITAR, TRUST	
PROSPECT000000	ACCT. LEASE 270392-001	
ACQ CODEEDD EDDY COUNTY #1EDD EDDY COUNTY #2	BOOK 431 PAGE 968 REC DATE 10/05/ BOOK PAGE REC DATE 0/00/	/2001 /0000
DRIGINAL LESSEEYPC	RECORD STATUS CM COMPLETE LEASE RECORD LEASE TYPEX FEE LEASE ACQUISITION DATE. 9/21/2001 LEASE/RENTAL STATPDU PAID UP LEASE R GALUSHA TRUST, MARILYN GUITAR GALUSHA, TRUSTE	
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5000 ABO PETROLEUM CORPORATION 640010 MYCO INDUSTRIES, INC. 994100 YATES DRILLING COMPANY 999900 YATES PETROLEUM CORPORATIO TOTAL INTERE	.10000000 .10000000 .10000000 N .70000000 ST 1.00000000	ry Yp
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TRANSACTION REPORT

NOV-19-2004 FRI 02:11 PM

FOR: YATES PETROLEUM LAND	505748	84572		
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NOV-19 02:11 PM 13256771399	33"	2 SEND	OK	689

TOTAL :

33S PAGES:

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

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

September 23, 2004

Brett Guitar Witherspoon P.O. Box 100635 Fort Worth, TX 76185

Re: Oil& Gas Lease Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less **Eddy County, New Mexico**

Mr. Witherspoon:

Pursuant to our telephone conversation of September 3, 2004, Yates Petroleum Corporation would like to work with you to compile a lease form acceptable to the Guitar family members and our corporation.

Our objection to the counter-offer of Marilyn Galusha is the one-year shut-in. The current lease form provides for a two-year shut-in and amending to one-year is not reasonable. This is a wildcat area and there is no existing infrastructure. If we decide to drill, it could easily take over one year just to get pipeline in to the area.

Concerning James Alexander's counter-offer, we have reviewed amended Paragraph 11 to Exhibit A and discussed it with the other two departments affected, accounting and marketing. The first paragraph in Paragraph 11 appears to be ambiguous and contradictory to other paragraphs in the lease. Paragraph 4 allows the same deductions as royalties due the United States. However, item 11 also states "royalty shall never be less than twenty-five percent of the gross amount realized by Lessee...." The language is confusing and needs clarification. For your information, the Yates believe in paying royalty owners on the same basis as they get paid. As to the second paragraph of Paragraph 11, we will agree to \$5.00 per net acre shut-in. However, we will require amending "this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years" to consecutive years. Please consider striking the last sentence of Item 11. In Item 12, we request amending from "below the deepest producing horizon" to "below the deepest depth drilled". We believe it is fair to let us keep all the formations we drill and then determine the most viable order to produce the well.

May we hear from you soon concerning this matter? If you have questions, please call me at (505) 748-4356.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt

Land Technician

/s

Marilyn Guitar Galusha, Trustee

OIL & GAS LEASE

THIS AGREEMENT made this 23rd day of April 2004 but effective September 21, 2004 between Marilyn Guitar Galusha, Trustee of the Marilyn Guitar Galusha Trust, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 1/4th of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 shall 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. The payment or tender of royalties and shut-in royalty may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. 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 s
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executors or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 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 thereby warrante and agrees to defend the title to eaid land and agrees that lessee at is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written. Marilyn Guitar Galusha Trust

Shirley Pruitt

Term Term This instrument was filed for record on the day of, 20 at, 20 at	Oil and Gas Lease FROM
	This instrument was acknowledged before me this
	COUNTY OF
	STATE OF
OWLEDGMENT	INDIAIDAFF YCKN
Notary Public	My commission expires
, 2004, by Marilyn Guitar Galusha.	Trustee of the Marilyn Civitar Galusha Trust
edoutes retines maineld vd MOC	This instrument was acknowledged before me this asy of
	STATE OF Texas)ss.
OMFEDGWEAL	CORPORATION ACK
-	
Notary Public	
	My commission expires
, 2004, by	This instrument was acknowledged before me this
	COUNTY OF
	STATE OF

INDIAIDAAL ACKNOWLEDGMENT

SE

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated April 23, 2004, by and between Marilyn Guitar Galusha, Trustee of the Marilyn Guitar Galusha Trust, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexic

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitte maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time Lease shall automatically terminate.
- 13. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a prora unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest produc horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more t one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Compleshall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
 - 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purificat dehydration, separation, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarb covered by this lease.



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander CCP.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk & 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 669102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha & P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



105 SOUTH FOURTH STREET

AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

AF	Е Туре:	We	eli Objecti
X	New Drilling	X	Oil
Г	Recompletion	X	Gas
	Re-entry		Injecto

We	II Type:
X	Development
	Exploratory
_	Exploratory

AFE NO. 04-542-0 AFE DATE 10/29/04

AFE STATUS:	10-29-04
X Original	, ,
Revised	
Final	
Supplemental	

ARTESIA, NEW I TELEPHONE (50	Do. anto.		Exploratory	RevisedFinal	
				Supplemental	
EASE NAME	Guitar BFL Com. #1		PROJ'D DEPTH	12,000'	
COUNTY	Eddy	<u> </u>	STATE	New Mexico	
FIELD			HORIZON	Morrow	
OCATION	Section 17 T25S-R26E, 990' N	& 1980' E			
DIVISION CODE	100 DIVISION NAME		Oil & Gas Division		
DISTRICT CODE BRANCH CODE	BRANCH NAME				
PROGNOSIS: Ne	w well drilled to 12,000' to test	all formations			
NTANGIBLE DRIL	LING COSTS:			DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees			3,000	3,000
920-110	Location, Right-of-Way			35,000	35,000
920-120	Drilling, Footage				
920-130	Drilling, Daywork & fuel	50 days @ \$11,300/c	lay + \$45K for mob	647,000	647,000
920-140	Drilling Water, Fasline Rental			35,000	35,000
000 450	Dailling Advad O Additions			45 000	45,000

920-100	Staning, Ferritt & Legal Fees	0,000	0,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
920-140	Drilling Water, Fasline Rental	35,000	35,000
920-150	Drilling Mud & Additives	45,000	45,000
920-160	Mud Logging Unit, Sample Bags	30,000	30,000
920-170	Cementing - Surface Casing & deep intermediate	75,000	75,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	125,000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion		20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges - Completion		10,000
920-510	Bits, Tools & Supplies - Completion		1,500
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	1,190,000	1,449,000
TANGIBLE EQU	IPMENT COSTS:		
930-010	Christmas Tree & Wellhead	5,000	30,000

Casing 13 3/8" @ 400'
9 5/8" @ 1,800'
7" @ 8,600'
4 1/2" 12,000'

Tubing 2 3/8" @ 11,800'
Packer & Special Equipment 930-020 11,000 11,000 27,000 27,000 108,000 108,000 85,500 930-030 49,000 930-040 Pumping Equipment 940-010 Storage Facilities 940-020 15,000 Separation Equip., Flowlines, Misc. 940-030 75,000 940-640 **Trucking & Construction Costs** 15,000 **TOTAL TANGIBLE EQUIPMENT COSTS** 151,000 415,500 **TOTAL COSTS** 1,341,000 1,864,500

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

Prepared By SV Jeremiah I	Mullen	Operatio Approva	
YATES PETROLE	EUM CORPORATION		20.551875%
BY		DATE	
YATES DRILLIN			10.793125%
BY		DATE	
ABO PETROLEUM	F1		 10.793125%
BY		DATE	
MYCO INDUSTRI	ES, INC.		 10.793125%
BY		DATE	

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM G ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXAND	ER	0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BA:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MAR	ILYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY	DATE	
KELLY WOODS LEACH BY:	DATE	0.193750%

U.S. Postal Servicenn
CERTIFIED MAIL. RECEIPT
Gomestic Mail Only; No Insurance Coverage Provided)
For delivery information visit our website at www.usps.comp
For delivery information visit our website at www.usps.comp
Certified Fee
Return Reclaim Security
For delivery Information visit our website at www.usps.comp
For delivery Information visit our website at website at well and website at website at well and website at we

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY	DELIVERY
 Complete Items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse 	A Signature Holes	MK - Agent
so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if soace nemits.	B. Received by (Printed Name)	C. Date of Delivery
1. Article Addressed to:	D. is delivery address different from item 1? 📮 Yes if YES, enter delivery address below: 🗖 No	n item 1? 🃮 Yes below: 🗖 No
Marilyn Guitar Galusha	Can Say	
F.O. sox 1438 Abilene, TX 79604	3. Service Type CD Certified Mail	Express Mail Receipt for Merchandise C.O.D.
	4. Restricted Delivery? (Extra Fee)) D Yes
2. Article Number 3. 478 Sept. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1.	ובקבם נסטט יסבלם	751.5

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



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

105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

November 30, 2004

Marilyn Guitar Galusha P O Box 1438 Abilene, TX 79604

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM Section 17: N/2

Eddy County, New Mexico

Ms. Galusha:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a 1/4 royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this	30th	day of November, 20	04, and Effective N	ovember 30, 2004	, between Mari	lyn Guitar Galusi	na, Trustee o	f the Maril	yn Guitar
Galusha Trust, as Lessor (whether one or mor	e), and YATES PE	TROLEUM CORPOR	ATION-70%; YA	TES DRILLING	COMPANY-1	10%, ABO PETR	OLEUM CO	RPORAT	ION-10%
AND SHARBRO OIL LIMITED CO MPAN	Y10%, as Lessee,	, WITNESSETH:							
1. Lessors in consideration of Ten and I	No/100						Dollars (\$_	10.00) in
hand paid, of the royalties herein provided an prospecting, drilling and mining for and produci					•	•	•		
or claimed by Lessor adjacent and contiguous th	ereto, to produce, sa	ave, take care of, treat, tr	ansport, and own sa	aid products, and h	ousing its empl	oyees, the followin	g described la	ind in	
Eddy County, New Me	xico	to-wit:							
		Township 25 South, Section 17: NW/4NE Containing 200.00 ac	/4, E/2E/2	<u>1PM</u>					

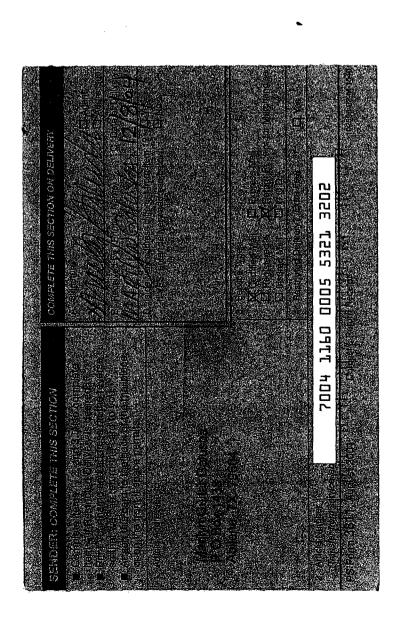
- 2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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.
- ee, 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 strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the commettion of wells
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without
- 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 navment for all
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

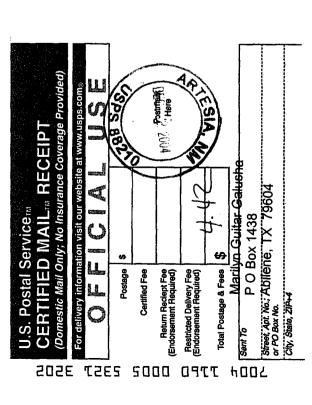
IN WITNESS WHEREOF, this instrument is executed on the date first above written

Marilyn Guitar Galusha Trust

INDIVIDUAL ACKNOWLEDGMENT

STATE OF			
COUNTY OF)ss)		
		day of	, 2004,
by			
My commission expires			
		Notary Public	
		ACKNOWLEDGMENT	
STATE OF)		
COUNTY OF)ss.		
			2004
by Marilyn Guitar Galusha		day ofasTrustee	
for the Marilyn Guitar Galusha Tr	ust		
My commission expires			
		Notary Public	;
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
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By			
My commission expires			
		Notary Public	;
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Year Lease) 5-96 Gas		County, NM coord on the 20 County, NM M., and duly age of this office	uo
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Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

i . 10.

Eddy County, New Mexico

Mineral Owner:

Pressley H. Guitar P O Box 5383 Abilene, TX 79608

Net Acres in N/2 Spacing Unit

1.875

Percent Working Interest in Unit

0.585938%

Previous Lease dated:

9/25/01

Expiration:

9/24/04

Lease Renewal and Correspondence Timeline 2/13/04 Offer

Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

9/1/04 Sent revised offer letter & compromise lease form.

9/25/04 No response from Mr. Guitar - lease expired

11/10/04 Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/12/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/16/04 Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

February 13, 2004

Pressley H. Guitar P. O. Box 2365 Big Spring, TX 79721

RE: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Eddy County, New Mexico

Mr. Guitar:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 3.125 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on March 15, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,
Yates Petroleum Corporation
Shirley Prutt
Shirley Pruitt
Land Techniciat

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	.

MARTIN YATES, III 1913-1985 RANK W. YATES 1936 - 1986



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

September 1, 2004

Pressley H. Guitar P. O. Box 2365 Big Spring, TX 79721

Re: Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

S. P. YATES

JOHN A. YATES

PEYTON YATES RANDY G. PATTERSON

DENNIS G. KINSEY

Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less **Eddy County, New Mexico**

Mr. Guitar:

February 13, 2004 Yates Petroleum Corporation extended an offer to re-new your lease in the captioned acreage. That offer has expired, however, we are still interested in renewing your lease subject to the following:

- 1. A Paid-up Three (3) year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 3.125 net mineral acres owned by you;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire September 15, 2004 at office closing;
- Title acceptable to Yates Petroleum Corporation.

I have taken the liberty of enclosing two (2) copies of Oil and Gas Lease Form 342P. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you in the amount of \$312.50 as full bonus payment of \$100.00 per acre for the 3.125 net mineral acres owned by you.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

Shirley Prutt

Shirley Pruitt 0

Land Technician

/sp

OIL & GAS LEASE

THIS AGREEMENT made thislst_day ofSeptember, 2004, but effective September 25, 2004 between Pressley H. Guitar, dealing in his sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (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 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 shall 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. The payment or tender of royalties and 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after see has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. 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 re
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesee of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 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 is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.
Pressley H. Guitar

INDIAIDAT YCKNOMFEDGWENT

	By When recorded return to Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	strument was filed for recorday of M., d in Book records of the County Clerk	Dated 20	TO	Oil and Gas Lease FROM	Producers 88 Rev. (Year Lease) 5-96 No.
		Notary Public				
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Shirley Pruitt

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated September 1, 2004 by and between Pressley H. Guitar, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- 13. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

LNDR07

•	LEASE NUMBER - NM-000	403-002513-Y	LEASE NAMÉ	GUITAR, PRESSL	EY H.		
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105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street

Artesia, NM 88210

Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander P.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 Brett Guitar Witherspoon & P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 6C 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha & P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320 LEASE NAME COUNTY

DIVISION CODE

DISTRICT CODE

FIELD LOCATION



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

				AFE NO.	04-542-0
1		Y FOR EXP	ENDITURE	AFE DATE	10/29/04
RTH STREET MEXICO 8821 5) 748-1471	X New Drilling	Well Objective: X Oil X Gas Injector	Well Type: X Development Exploratory	AFE STATUS: X Original Revised Final Supplemental	afend (rev 6/98 10-29-0
Guitar BFL	. Com. #1		PROJ'D DEPTH	12,000'	
Eddy			STATE	New Mexico	
			HORIZON	Morrow	
Section 17	T25S-R26E, 990' N & 1980	' E			
100	DIVISION NAME		Oil & Gas Division		
	DISTRICT NAME				

BRANCH CODE BRANCH NAME PROGNOSIS: New well drilled to 12,000' to test all formations INTANGIBLE DRILLING COSTS: DRY HOLE COMP'D WELL 3.000 3,000 Staking, Permit & Legal Fees 920-100 920-110 Location, Right-of-Way 35,000 35,000 920-120 Drilling, Footage & fuel 920-130 Drilling, Daywork 647,000 647,000 35,000 35,000 Drilling Water, Fasline Rental 920-140 920-150 **Drilling Mud & Additives** 45,000 45,000 30,000 30,000 920-160 Mud Logging Unit, Sample Bags 920-170 Cementing - Surface Casing 75,000 75,000 Electric Logs & Tape Copies 920-180 920-190 60,000 60,000 Tools & Equip. Rntl., Trkg. & Welding 125,000 125,000 920-200 920-205 Control of Well-Insurance 5,000 5,000 Supervision & Overhead ... 50,000 50,000 920-210 920-230 Coring, Tools & Service Bits, Tool & Supplies Purchase 80,000 80,000 920-240 Cementing - Production Casing 920-350 40,000 30,000 Completion Unit - Swabbing 920-410 920-420 Water for Completion 5,000 Mud & Additives for Completion 1.000 920-430 920-440 Cementing - Completion Elec. Logs, Testing, Etc. - Completion 20,000 920-450 920-460 Tools & Equip. Rental, Etc. - Completion 50,000 920-470 Stimulation for Completion 100,000 Supervision & O/H - Completion 920-480 1,500 Additional LOC Charges - Completion 920-490 10,000 920-510 Bits, Tools & Supplies - Completion 1,500 920-500 Contingency for Completion TOTAL INTANGIBLE DRILLING COSTS 1,190,000 1,449,000 TANGIBLE EQUIPMENT COSTS: 930-010 Christmas Tree & Wellhead 5,000 30,000 Casing 13 3/8" @ 400' 930-020 11,000 11,000 9 5/8" @ 1,800' 27,000 27,000 7" @ 8,600' 4 1/2" 12,000' 2 3/8" @ 11,800' 108,000 108,000 85,500 930-030 49,000 930-040 Packer & Special Equipment 940-010 Pumping Equipment 940-020 Storage Facilities 15,000 Separation Equip., Flowlines, Misc. 940-030 75,000 940-640 **Trucking & Construction Costs** 15,000 TOTAL TANGIBLE EQUIPMENT COSTS 151,000 415,500 **TOTAL COSTS** 1,341,000 1,864,500

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

Prepared By SV	Jeremiah Mullen	Operations Approval	
	PETROLEUM CORPORATION		20.551875%
YATES BY	DRILLING COMPANY		10.793125%
ABO P	ETROLEUM CORPORATION	DATE	10.793125%
MYCO BY	INDUSTRIES, INC.	DATE	10.793125%

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

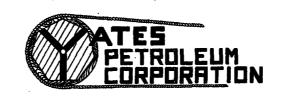
SHARE

EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE BY: DATE JAMES M. ALEXANDER & JERRI ALEXANDER BY: DATE BY: DATE BY: DATE BY: DATE MARTHA JANE ALEXANDER RHODES BY: DATE JERI ALEXANDER LOTT BY: DATE JAMES KELLY POLK BY: DATE RUTH ANN POLK CAUDLE BY: DATE JANIS LEE POLK HARBOUR BY: DATE MARILYN GUITAR GALUSHA TRUST, MARILYN GUITAR GALUSHA, TRUSTEE BY: DATE JOHN GUITAR WITHERSPOON JR. BY: DATE BRETT GUITAR WITHERSPOON BY: DATE WENDE WITHERSPOON MORGAN BY: DATE WHITTEN GUITAR WITHERSPOON DATE	MURCHISON OIL & GAS, INC.		37.500000%
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U.S. Postal Servicera CERTIFIED MAILTA RECEIPT Domestic Mail Only; No Insurance Coverage Provided)	For delivery information visit our website at www.usps.com	Postage \$	Wied Fee	Clept Fee Head Fee Feet Head Feet Feet Feet Feet Feet Feet Feet Fee	tequired)	3 & Fees \$	Pressley Hudson Guitar	Street, Apt. No.: P.O. box 5383 or Po Box No. Civ., State, 2194 Abiletre, TX 79608-5383	in and and
U.S. Postal CERTIFIE (Domestic Mail	For delivery inform	Postage	Certified Fee	Return Reclept Fee (Endersement Required)	Restricted Delivery Fee (Endorsement Required)	Total Postage & Fees	Sent To Pre-	Street, Apt. No.: P.O. or PO Box No. City, State, ZIP-4 ADI	2000 Smil 0000 mag 300

SENDER: COMPLETE THIS SECTION	N COMPLETE THIS SECTION ON DELIVERY
 Complete Items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the malipiece; or on the front if space permits. 	plete werse ilpiece
1. Article Addressed to:	If YES, enter delivery address below:
To the second se	Gustar
Pressley nuction collid P.O. box 5383 Abilene, TX 79608-5383	3. Service Type CP Certified Mall
	4. Restricted Delivery? (Extra Fee)
2. Article Number (Transfer from service label)	7002 2030 0001 8263 7461
PS Form 3811, February 2004	Domestic Return Receipt

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



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

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

S. P. YATES

November 30, 2004

Pressley H. Guitar P O Box 2365 Big Spring, TX 79721

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mr. Guitar:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

/sv Enclosure(s)

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

Hall-Poorbaugh Press, Inc. Roswell, New Mexico

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between Pressley H, Guitar, dealing in his sole and separate
property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND
SHARBRO OIL LIMITED COMPANY-10%, as Lessee, WITNESSETH:
1. Lessors in consideration of Ten and No/100 Dollars (\$ 10.00) in
hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring
prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned
or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in
Eddy County, New Mexico to-wit:
Township 25 South, Range 26 East, NMPM
Section 17: NW/4NE/4, E/2E/2
a - 4 t. t 200 00

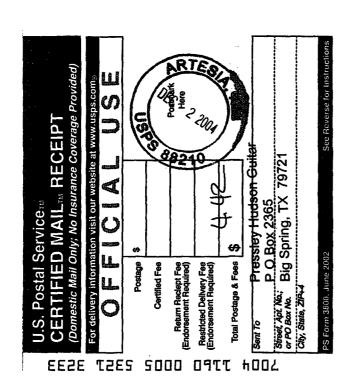
- 2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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, hereinafher 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 in sme a640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or pennit 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 as to a serve with gas units. The pooling in one or more instances shall not exchasts the rights of the Lessee hereunder to pool this lease or protion 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 production of oil and gas from land covered by this lease in paying quantities has theretofore been
- 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 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. 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. It is production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and believe to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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

Pressley I	I. Guitar
------------	-----------

INDIVIDUAL ACKNOWLEDGMENT

)ss					, ,
This instrument wa	as acknowledged befo	re me this		day of			, 2
.by	Pressley H. G	huitar					
My commission ex	xpires						
					Notary Pub	olic	
			ACKN	OWLEDGMENT			
STATE OF							
COUNTY OF)ss.)					
This instrument wa	as acknowledged befo	ere me this		day of			2
by				as			
for							·
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96				. 20	led for record on the 20 M., and duly Page records of this office.	Deputy	
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[eas] වි	M. M. sage		rn to orati treet
Year Lease) 5-96	as				i for	erk	reture or
11 111	il and G Lease FROM	<u> </u> 2.				ty C	rded um (Four
Producers 88 Rev. (Oil and Gas Lease FROM				This instrument was filed for record on the day of 20 11 o'clock M., and duly ecorded in Book Page 15the records of this office	County Clerk	When recorded return to Yates Petroleum Corporation 105 South Fourth Street
881					y of o'cl Book		hen s Pet)5 Sc
lcers				Sires	This instrument day of at o'clo		W Yate 10
No.				Dated No. Acres	is in ridec	x	
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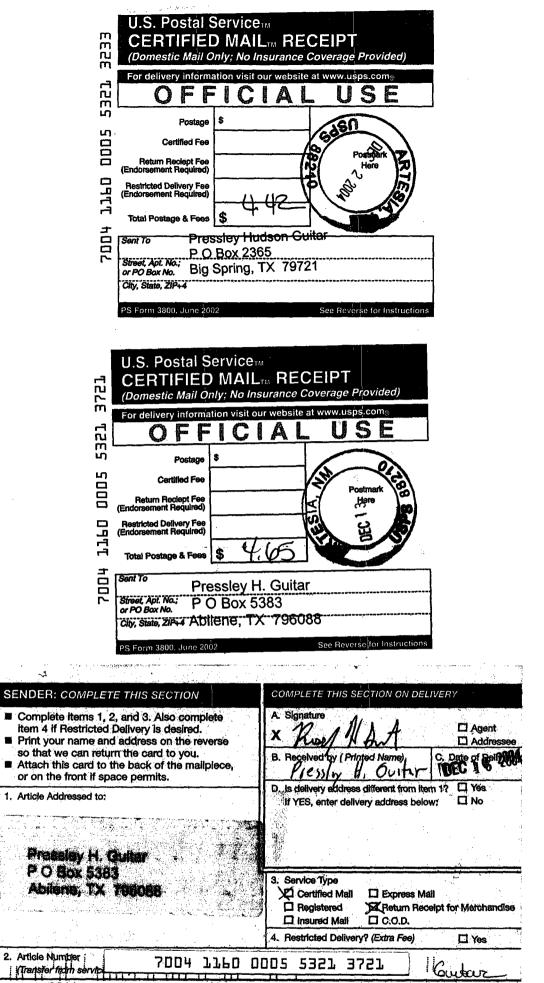
ICE REQUESTED

12 lay middress DRefused Attenpled - Not Known No Such Street LINumber Pressley H. Guitar

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Wacant Oillegible

D No Mail Receptocle



PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012

Net Acres in N/2 Spacing Unit Percent Working Interest in Unit

0.292969%

Previous Lease dated:

11/1/01

0.9375

Expiration:

10/31/04

Lease Renewal and Correspondence Timeline

3/9/04

11/10/04

Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

4/8/04 Letter of acceptance received as per terms offered.

4/8/04 Lease documents & bank draft sent as per terms accepted in offer letter

5/11/04 No response from sent documents. Sent cover letter with compromise

lease form, acceptable to Yates management.

11/1/04 No response from Mr. Witherspoon - lease expired.

Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/19/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/3/04 Received certified receipt of final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

March 9, 2004

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012

RE: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mr. Witherspoon:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 1.5626 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on April 9, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,

Yates Petroleum Corperation

Shirley Pruitt

/sp

AGREED and ACCEPTED this

5 74 day of _

, 2004

John Guitar Witherspoon, J



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

May 11, 2004

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012

> Re: Oil & Gas Lease <u>Township 25 South, Range 26 East, NMPM</u> Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to my telephone conversation on May 7, 2004 with Mr. Brett Guitar Witherspoon, enclosed please find two (2) copies of Oil and Gas Lease Form 342P. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you in the amount of \$156.26 as full bonus payment of \$100.00 per acre for the 1.5626 net mineral acres owned by you.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

/sp Enclosure(s)

ARTESIA, NEW MEXICO 88210

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

ARTESIA, NEW MEXICO_

PAY TO THE ORDER OF

John Guitar Witherspoon, dealing in his sole and separate property

One Hundred Fifty-six and 25/100-----VALUE RECEIVED AND CHARGE TO ACCOUNT OF

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

OIL & GAS LEASE

THIS AGREEMENT made this 11th day of May, 2004, but effective November 1, 2004 between John Guitar Witherspoon, Jr., dealing in his sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-10%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (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 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 i shall 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. The payment or tender of royalties and 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 on amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee to make proper payment. 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 the gas sales contract entered into in good faith by lessee and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunde in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, leases, minera 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 net oil or gas acreage 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 instrumen 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well o wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but not change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee of part or parts hereof shall properly comply of make such payments.
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 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 is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.
John Gultar Witherspoon, Jr.

INDIVIDUAL ACKNOWLEDGMENT

When recorded return to Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	strument was filed for recorday of	Dated 20	TO	NoOil and Gas Lease
•	Notary Public			
				My commission expires
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		(COUNTY OF
	,	.22.		STATE OF
	OMFEDGMENT	INDIAIDAYF YCKN		
	Notary Public			My commission expires
	, 2004, by	lo yab	owledged before me this	This instrument was ackn
		.82((COUNTY OF
				FATE OF
	OMTEDOMENT	CORPORATE ACKN		
	Notary Public			
				My commission expires
	, 2004, by	day of trate property	ed before me this	This instrument was acknowledge.
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		ss(<i>1</i>		SEXEL OF LEXES

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated May 11, 2004, by and between John Guitar Witherspoon, Jr., dealing in his sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210

Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander & P.O. Box 58 Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk (2) 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 Brett Guitar Witherspoon & P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 66 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha & P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

F	E Type:	We	ll Obje
(New Drilling	X	Oil
	Recompletion	X	Gas
	Re-entry		Injec

Well Type:					
X	Development				
	Exploratory				

AFE NO. AFE DATE

1,190,000

1,449,000

04-542-0 10/29/04

F	E STATUS:	10-29-0
	Original	
٦	Revised	

LUR!	AFE Type: Well Objective: Well Type:	AFE STATUS:	10-07-09
105 South Fou	RTH STREET X New Drilling X Oil X Development	X Original	
ARTESIA, NEW N	Recompletion Y Gos Evalement	Revised	
TELEPHONE (50	1 De autor 1 Imigator	Final	
, , , , , , , , , , , , , , , , , , , ,		Supplemental	
LEASE NAME	Guitar BFL Com. #1 PROJ'D DEPTH 12	2,000'	
COUNTY		ew Mexico	
FIELD		lorrow	
LOCATION	Section 17 T25S-R26E, 990' N & 1980' E		
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
	w well drilled to 12,000' to test all formations		
THOUSE INC.			
INTANGIBLE DRIL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
920-140	Drilling Water, Fasline Rental	35,000	35,000
920-150	Drilling Mud & Additives	45,000	45,000
920-160	Mud Logging Unit, Sample Bags		30,000
920-170	Cementing - Surface Casing & deep intermediate	75,000	75,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies		60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding		125,000
920-205	Control of Well-Insurance		5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion		20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		1,500
920-490	Additional LOC Charges - Completion		10,000
920-510	Bits, Tools & Supplies - Completion		1,500
920-500	Contingency for Completion		

TOTAL INTANGIBLE DRILLING COSTS

TANGIBLE EQUIPM	MENT COST	'S:		
930-010	Christmas 7	Free & Wellhead	5,000	30,000
930-020	Casing	13 3/8" @ 400'	11,000	11,000
		9 5/8" @ 1,800'	27,000	27,000
		7" @ 8,600'	108,000	108,000
		4 1/2" 12,000'		85,500
930-030	Tubing	2 3/8" @ 11,800'		49,000
930-040	Packer & S	pecial Equipment		
940-010	Pumping E	quipment		
940-020	Storage Fa	cilities		15,000
940-030	Separation	Equip., Flowlines, Misc.		75,000
940-640	Trucking &	Construction Costs		15,000
	TOTAL TA	NGIBLE EQUIPMENT COSTS	151,000	415,500
TOTAL COSTS			1,341,000	1,864,500

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

Prepared By SV Jeremiah Mullen	Operations Approval	
YATES PETROLEUM CORPORATION		20.551875%
BY	DATE	
YATES DRILLING COMPANY		10.793125%
BY	DATE	
ABO PETROLEUM CORPORATION		10.793125%
BY	DATE	
MYCO INDUSTRIES, INC. BY	DATE	10.793125%

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
	SATT.	07.000007/0
BY:	DATE	0.0427500/
EARL B. GUITAR, SR. & ANITA GRISSOM G ANITA GRISSOM GUITAR, SOLE TRUSTEE	UITAR, REVOCABLE LIVING TRUST,	2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXAND	ER	0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MARI	LYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY:	DATE	
KELLY WOODS LEACH	DATE	0.193750%
	UATE	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
 Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. 	X Signature Agent X Addressee B. Received by Reinted Names. C. Date of Delivery
Attach this card to the back of the mailpiece, or on the front if space permits.	
1. Article Addressed to:	If YES, enter delivery address below: ☐ No
John Guitar Witherspoon, Jr.	Go far
/404 Lemonwood Drive Fort Worth, TX 76133-7012	Service Type Becertified Mail Express Mail Registered Refletum Receipt for Merchandise Insured Mail
	4. Restricted Delivery? (Extra Fee)
2. Article Number 7005 (Transfer from service label)	7002 2030 0001 8263 7508
PS Form 3811, February 2004 Domestic F	Domestic Return Receipt 102595-02-M-1540

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

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

November 30, 2004

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mr. Witherspoon:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

	THIS AGREEME	NT made this	30th	day of November, 2004	, and Effective N	Vovember 30, 200	04, between Jo	hn Guitar W	itherspoon, Jr.,	dealing in his	sole and
separa	te property, as Le	ssor (whether one or mo	ore), and YATE	S PETROLEUM CORPO	RATION-70%;	YATES DRIL	LING COMP	ANY-10%, A	BO PETROLE	UM CORPOR	ATION-
10% A	ND SHARBRO C	OLL LIMITED CO MP.	ANY10%, as I	essee, WITNESSETH:							
hand p	aid, of the royaltie	s herein provided and o	of the agreement	s of Lessee herein containe	ed, hereby grants	s, leases and lets	exclusively un	nto Lessee for	the purpose of	investigating, e	exploring,
prospe	cting, drilling and n	nining for and producing	oil and gas, layin	ng pipe lines, building roads	, tanks, power sta	ations, telephone	lines and other	structures ther	eon and on, over	and across lan-	ds owned
or clain	ned by Lessor adja	ent and contiguous there	eto, to produce, s	ave, take care of, treat, trans	sport, and own sa	id products, and	housing its emp	oloyees, the fol	lowing described	l land in	
Eddy	County, _	New Mexic	:0	to-wit:							
				Township 25 South, Ran		<u>IPM</u>					
				Section 17: NW/4NE/4	F/2F/2						

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 three 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.

Containing 200.00 acres, more or less

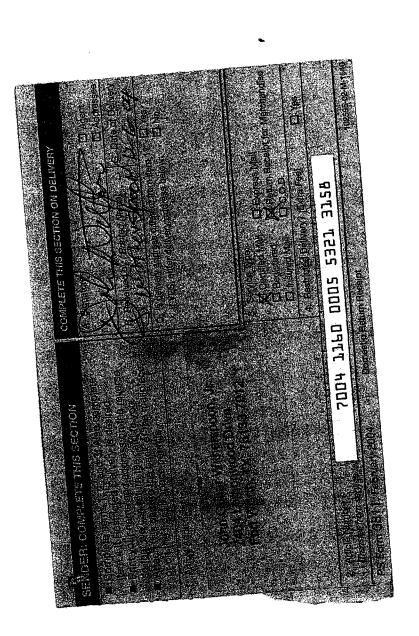
- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 an acea him area, and units pooled for gas hereunder shall not substantially exceed an area (40 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 a bowe provided as to oil 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 unit may include, but it is not required to include, land or leases upon which a well capable of production of oil or gas in paying quantities has theretofore been completed or upon which oper
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender th
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

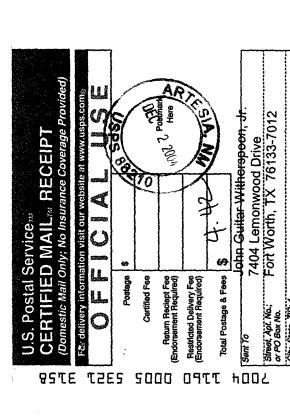
IN WITNESS WHEREOF, this instrument is executed on the date first above written

John Guitar Witherspoon, Jr.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	_)	·	•
COUNTY OF)ss)		
		day of	
by John Guitar Witherspoon	<u>, Jr</u> .		
Market State and			
My commission expires		Notary Public	
		ACKNOWLEDGMENT	
STATE OF	_))ss.		
COUNTY OF	_)		
This instrument was acknowledged before me this		day of	2004.
by		as	
for			
My commission expires			
wy commission expires	//	Notary Public	
		BIDBUIDUAL ACKNOWLEDOMENT	
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF))ss.		
COUNTY OF	_)		
This instrument was acknowledged before me this_		day of	2004,
Ву			
My commission expires		Notary Public	
		·	
9			<u> </u>
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Rev		lent was of o'clock ook	esia,
88 8 s		trument was filed for recoday of o'clock M, records of t records of t records of t recorded return to	Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210
licer:			Yate 11
NoOil an Leg			Yates Petroleum (105 South Fou Artesia, NM
		Datec No. A Terr This i at record of the By	





Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Brett Guitar Witherspoon P O Box 100635 Fort Worth, TX 76185

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

Previous Lease dated:

0.292969%

11/1/01 10/31/04

0.9375

Expiration: 10/3

Lease Renewal and Correspondence Timeline 3/9/04 Offer

Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

5/7/04

Phone conversation with Shirley Pruitt concerning lease terms.

Additional provisions added to lease form.

5/11/04

Compromise lease form with amendments sent.

Undated

Compromise lease from returned with many more revisions and

amendments. Lease form reviewed by supervisors from land, accounting, and marketing departments. Lease

form unacceptable to Yates management.

9/3/04

Phone conversation with Shirley Pruitt - negotiations to agree on a

lease form acceptable to both Mr. Guitar and Yates

management.

9/23/04

Second compromised lease form sent.

11/5/04

Letter of explanation sent, concerning the terms of Mr. Guitar lease

not acceptable to Yates management.

11/10/04

Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/16/04

Received certified receipt of sent AFE.

11/24/04

Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2:

Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

March 9, 2004

Brett Guitar Witherspoon P. O. Box 100635 Fort Worth, TX 76185

RE: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mr. Witherspoon:

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 1.5626 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on April 9, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Very truly yours,

Yates Petroleum Corporation

Thank you.

Shirley Pruitt
Land Technician

/sp
AGREED and ACCEPTED this ______ day of _______, 2004

Brett Guitar Witherspoon



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

May 11, 2004

Brett Guitar Witherspoon P. O. Box 100635 Fort Worth, TX 76185

> Re: Oil & Gas Lease <u>Township 25 South, Range 26 East, NMPM</u> Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to our telephone conversation on May 7, 2004, enclosed please find two (2) copies of Oil and Gas Lease Form 342P. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you in the amount of \$156.26 as full bonus payment of \$100.00 per acre for the 1.5626 net mineral acres owned by you.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt Land Technician

/sp Enclosure(s)

OIL & GAS LEASE

THIS AGREEMENT made this 11th day of May, 2004, but effective November 1, 2004 between Brett Guitar Witherspoon, dealing in his sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4th of the gas used,
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (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 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 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. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of 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 or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. 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
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesee of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. 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 net oil or gas acreage 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, 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, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence reads or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. 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 royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 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 is 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 to apply royalties and shut-in royalties payable 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, 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 or 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 shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.
Brett Guitar Witherspoon

When recorded return to Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	No. AcresCounty, NM Term This instrument was filed for record on the day of 20 at o'clock Page of the records of this office.		ТО	Producers 88 Rev. (Year Lease) 5-96 No. Oil and Gas Lease FROM
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		ss((STATE OF Texas

Se

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated May 11, 2004, by and between Brett Guitar Witherspoon, dealing in his sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this day of February , 2004, but Effective September 21, 2004, between James M. Alexander, dealing in his sole and 16th separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND MYCO INDUSTRIES, INC.-10%, as Lessee, WITNESSETH: 1. Lessors in consideration of Ten and No/100----) 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 New Mexico

Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2

- 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 three 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.
- 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the life into the life in which The royalties to be paid by Lessee are. (a) on oil, the wells may be connected; Lesses may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such sale; while there is a gas well on the market value at the well of 1/4 of the gas so sold of used, provided that one gas well of this lease or on acreage pooled therewith but gas is not being sold or used. Lessee may pay of fender as royalty, on or before unless (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 permits 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 inserts 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
- 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 pooled for gas institutions shart not substantially exceed in area out acres each puts of the creation of units larger than those specified, units thereafter created 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 completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, produced 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 that pro rata portion of the oil and gas, or either of them, produced from 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. 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 cease from any cause, this lease shall not terminate it Lessee commences operations for durling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby d 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
- 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 there from 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.

 Articles 11 through 12 of this 011 and Gas Lease are included in Exhibit A.

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

James M. Alexander

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	By, Deputy When recorded return to	This instrument was filed for record on the day of 20 at o'clock M., and duly recorded in Book Page of the records of this office.	Dated , 20 No. Acres County, NM	TO	FROM	NoOil and Gas Lease
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INDIAIDAAT ACKNOWLEDGMENT

EXHIBIT A

Exhibit A to that certain Oil and Gas Lease covering T25S R26E, Sec 17, NW4NE4, E2E2, Eddy County, New Mexico.

11. Subject to the right of election reserved to Lessor to take its share of production in kind, the royalties to be paid by Lessee are twenty-five percent (25%) of eight-eighths (8/8ths) of: (a) the greater of the market value at the well or the amount realized from the sale of oil and liquid petroleum products recovered at the well and (b) the market value of gas produced from the Leased Premises determined as follows: (i) at the well for gas sold at the well, (ii) at the point of sale for gas sold or used off the Leased Premises or (iii) on gas delivered to a processing plant, the market value at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on oil, gas and related hydrocarbons, the royalty shall never be less than twenty-five percent (25%) of the gross amount realized by Lessee from such sale. Royalty is to be paid on all payments received by Lessee under or as a result of a gas purchase contract, including, but not limited to reservation charges and, subject to credit to Lessee when gas for which payment has been made earlier is eventually produced, take-or-pay or contract settlement proceeds and amounts paid for gas not taken. Lessee shall have free use of oil and gas from said land for operations on the Leased Premises, and the royalty on oil and gas shall be computed after deducting any production so used. The royalties payable under this Lease shall be free and clear of costs or deductions for exploration, drilling, development, and production, including but not limited to, costs of marketing, dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons.

If there is a gas well on the Leased Premises or on land pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from the Leased Premises or on land pooled therewith sufficient to maintain this Lease in full force and effect, this Lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon this Lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to Five Dollars (\$5.00) per net acre covered by this Lease which payment shall be made to Lessor at P.O. Box 58, Abilene, Texas 79604, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment may be made on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the Leased Premises under all the terms and provisions of this Lease (but only for so long as the well continues to be capable of producing in paying quantities); however, this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years after the end of the primary term. Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well.

12. Notwithstanding any other provisions hereof at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to Lessor, unless Lessee is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and commencement of another. "Completion" shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the Leased premises or on lands pooled therewith.

Tom and J.B.:

Chuck asked me to send this lease to each of you. Please review the first paragraph of Item 11 under Exhibit A to see if we can live with this clause. Tom, please give your opinion and send to J.B. in marketing. J.B., please give your opinion and return Tuesday if possible, to Susan Vierra in the Land Dept. Thank you, Shirley

Tom Krowchak

J.B. Lee Comme

Susan,

The revenue distribution system can accommodate the language in the first paragraph of item 11. I am confused as to whether gas royalties are based on gross proceeds or not. The last sentence in the first paragraph of item 11 does not exclude transportation or processing deductions. Also paragraph 4 allows the same deductions as royalties due the United States. However item 11 also states "...royalty shall never be less than twenty-five percent of the gross amount realized by Lessee...". Please interpret for me...thanks,

Jan Krauld

I agree with Jom. Paragraph I of Item // is contradictory and ambiguous. Need now language.

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

JOHN A. YATES PEYTON YATES RANDY G. PATTERSON SECRETARY DENNIS G. KINSEY TREASURER

S. P. YATES

November 5, 2004

Brett Guitar Witherspoon P O Box 100635 Fort Worth, TX 76185

RE:

Oil & Gas Lease

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Containing 200.00 acres, more or less

Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to our previous telephone conversation and in reference to letter dated September 23, 2004 from Shirey Pruitt, concerning the renewal of your minerals in the above captioned acreage, the following items are unacceptable to Yates management.

Yates Petroleum Corporation, etal had accepted lease terms as negotiated containing:

1) Standard Yates Petroleum Corporation lease form: 342P, Paid-up

- - Three (3) year term
 - 1/4 royalty
 - \$100.00 net acre bonus consideration
- Two year shut-in (two consecutive years)
- Pugh clause, at the end of the primary term, acreage not included within prorated spacing unit would expire, 3) And minerals rights below the deepest producing horizon would expire.
- Royalty shall be delivered free of all costs of transportation, compression, processing, Treatment, purification, dehydration, separation, stabilization, manufacturing, measuring, or marketing.

Your counter offer was unacceptable because:

- A one-year shut-in (as proposed by Marilyn Galusha) was unacceptable with Yates Petroleum Corporation management.
- A two-year cumulative shut-in was unacceptable.
- Language concerning Royalty payments was unacceptable (please refer to letter dated September 23, 2004).

Land Technician, Shirley Pruitt has tried for several months to negotiate and resolve the lease requirements of the Guitar family members in a manner that would also be acceptable with the management of Yates Petroleum Corporation. In your case, lease negotiations began on March 9, 2004 and as of November 2004 a compromise has not been reached.

Should you wish to further pursue the renewal of your lease or if you should have any questions, I can be reached at 505-748-4400.

Very truly yours,

YATES PETROLEUM GORPORATION

Susan Vierra

Associate Landman

/sv

Enclosure(s)

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

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

September 23, 2004

Brett Guitar Witherspoon P. O. Box 100635 Fort Worth, TX 76185

Re: Oil& Gas Lease Township 25 South, Range 26 East, NMPM Section 17: NW/4NE/4, E/2E/2 Containing 200 acres, more or less Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to our telephone conversation of September 3, 2004, Yates Petroleum Corporation would like to work with you to compile a lease form acceptable to the Guitar family members and our corporation.

Our objection to the counter-offer of Marilyn Galusha is the one-year shut-in. The current lease form provides for a two-year shut-in and amending to one-year is not reasonable. This is a wildcat area and there is no existing infrastructure. If we decide to drill, it could easily take over one year just to get pipeline in to the area.

Concerning James Alexander's counter-offer, we have reviewed amended Paragraph 11 to Exhibit A and discussed it with the other two departments affected, accounting and marketing. The first paragraph in Paragraph 11 appears to be ambiguous and contradictory to other paragraphs in the lease. Paragraph 4 allows the same deductions as royalties due the United States. However, item 11 also states "royalty shall never be less than twenty-five percent of the gross amount realized by Lessee...." The language is confusing and needs clarification. For your information, the Yates believe in paying royalty owners on the same basis as they get paid. As to the second paragraph of Paragraph 11, we will agree to \$5.00 per net acre shut-in. However, we will require amending "this Lease may not be maintained by shut-in payments more than two (2) (cumulative) years" to consecutive years. Please consider striking the last sentence of Item 11. In Item 12, we request amending from "below the deepest producing horizon" to "below the deepest depth drilled". We believe it is fair to let us keep all the formations we drill and then determine the most viable order to produce the well.

May we hear from you soon concerning this matter? If you have questions, please call me at (505) 748-4356.

Very truly yours,

YATES PETROLEUM CORPORATION

ley Pruitt

Land Technician

/s



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street

Artesia, NM 88210

Murchison Oil & Gas, Inc. 60 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander P.O. Box 58
Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk & 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 669102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha 6 P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

MYCO INDUSTRIES, INC.

ВУ

AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type:		We	Il Objective:	Well Type:		
X	New Drilling	X	Oil	X	Development	
Γ	Recompletion	X	Gas		Exploratory	
	Re-entry		Injector			

AFE NO. 04-542-0 AFE DATE 10/29/04

AFE DATE	10/29/04
AFE STATUS:	AFEND (rev 6/98) 10-29-0
X Original	
Revised	

10.793125%

TELEPHONE (50	5) 748-1471 Re-entry Injector	- Final -	
	<u>.</u>	Supplemental	
LEASE NAME	Guitar BFL Com. #1 PROJ'D DEPTH 12,0	00'	
COUNTY	Eddy STATE New	Mexico	
FIELD	HORIZON Mor	row	
LOCATION	Section 17 T25S-R26E, 990' N & 1980' E		
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
PROGNOSIS: Ne	w well drilled to 12,000' to test all formations		
INTANGIBLE DRIL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000 35,000	647,000
920-140	Drilling Water, Fasline Rental Drilling Mud & Additives	45,000	35,000 45,000
920-150 920-160	4.4.1.1.1.1.1.1.1.1.1.1.1.1.1.1.1.1.1.1		30,000
920-170	Mud Logging Unit, Sample Bags Cementing - Surface Casing & deep intermediate		75,000
920-180	Drill Stem Testing, OHT	1	
920-190	Electric Logs & Tape Copies	60,000	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	405 000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service	-	
920-240	Bits, Tool & Supplies Purchase	80,000	80,000
920-350 920-410	Cementing - Production Casing Completion Unit - Swabbing		40,000 30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion	1 1	20,000
920-460	Tools & Equip. Rental, Etc Completion		50,000
920-470	Stimulation for Completion		100,000
920-480 920-490	Supervision & O/H - Completion Additional LOC Charges - Completion	-	1,500 10,000
920-510	Dia Taria Consulta Consultina		1,500
920-500	Contingency for Completion		1,000
	TOTAL INTANOIDI E DDILLING GOOTG	1,190,000	1,449,000
	***************************************	1,190,000	1,449,000
TANGIBLE EQUIP		5.000	22.22
930-010 930-020	Christmas Tree & Wellhead	5,000	30,000 11,000
930-020	Casing 13 3/8" @ 400' 9 5/8" @ 1,800'		27,000
	7" @ 8,600'		108,000
	4 4400 40 4000		85,500
930-030	4 1/2" 12,000' Tubing 2 3/8" @ 11,800'		49,000
930-040	Packer & Special Equipment	1	
940-010	Pumping Equipment		
940-020	Storage Facilities	-	15,000
940-030 940-640	Separation Equip., Flowlines, Misc. Trucking & Construction Costs		75,000 15,000
340-040			
	TOTAL TANGIBLE EQUIPMENT COSTS	151,000	415,500
TOTAL COSTS		1,341,000	1,864,500
	THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE ULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES S		INT WITH
Prepared By SV Jeremi	Operations ah Mullen Approval		
AVARG DAMAY	OLEUM CORPORATION	00 55105	re
***************		20.55187	ン を
BY	DATE		
YATES DRIL	LING COMPANY	10.79312	.5%
BY	DATE		
	EUM CORPORATION	10.79312	59
	CONTONALION CONTONALION	10./9312	J.K.

DATE

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, SOLE TRUSTEE	JITAR, REVOCABLE LIVING TRUST,	2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDE	R	0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY:	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MARIL	YN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON	***************************************	0.293750%
BY:	DATE	
KELLY WOODS LEACH BY:		0.193750%
D.I.	DATE	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. ■ Print your name and address on the reverse	iplete A signature D. Agent D. Agent D. Addressee
so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.	B. Becaved by (Printed Name) C. Date
1. Article Addressed to:	## 7 FS, enter delivery address below:
Second Milks	
P.O. Box 100635	COUCEAL CONTROL
Fort Worth, TX 76185	Service Type **Contribod Mail
	☐ Registered KDReturn Receipt for Merchandise ☐ Insured Mail ☐ C.O.D.
	4. Restricted Delivery? (Extra Fee)
2. Article Number (Transfer from service label)	7002 2030 0001 8263 7423
PS Form 3811, February 2004	Domestic Return Receipt
FO FOITH SOIL, FEDINARY ZOUG	, i

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



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

PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

S. P. YATES CHAIRMAN OF THE BOARD JOHN A. YATES

Brett Guitar Witherspoon P O Box 100635 Fort Worth, TX 76185

RE:

Oil & Gas Lease

November 24, 2004

Township 25 South, Range 26 East, NMPM

Section 17: NW/4NE/4, E/2E/2 Containing 200.00 acres, more or less

Eddy County, New Mexico

Mr. Witherspoon:

Enclosed please find a copy of the letter sent to you on November 5, 2004. I apologize that you have never received this correspondence. Also enclosed you will find a letter dated September 23, 2004 from Shirley Pruitt, which explains in detail the reasons Yates Petroleum Corporation could not accept your counter lease terms.

At this point in time all previous offers have expired and further negotiations are off the table. Enclosed is our standard lease form. This lease, should you choose to lease your mineral interest, rather than participate in the drilling of the Guitar BFL Com #1, is non-negotiable.

We are asking that you either return this executed lease, as is, or return the executed AFE and Operating Agreement signature pages to participate in the drilling of the Guitar BFL Com #1, in order to avoid a force-pooling situation.

Thank you for your consideration.

Should you have any questions, I can be reached at 505-748-4400.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s)

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

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 three 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.

Containing 200.00 acres, more or less

- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewish 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 networks 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 one as with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be whether of the work of the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is production 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. 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, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved or 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	<u> </u>						
COUNTY OF)ss)						
This instrument was acknowledged before me this							, 2003,
by Brett Guitar Witherspoon							
My commission expires				Notary Pu	hlic		
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		A CKNON	/LEDGMENT				
STATE OF	`	ACKNOV	LEDGWIEN				
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COUNTY OF	_)						
This instrument was acknowledged before me this_by							
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My commission expires							
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STATE OF	ے						
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Year Lease) 5-96 Gas				led for record on the 20 M., and duly Page records of this office.		Deputy	_
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Rev. (Yea	0			iled	County Clerk	led r	ourth M 8
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No. Oil an Let			Dated No. Acres	This instrument was filed for record on the day of at o'clock M, and duly recorded in Book records of this office		 >	
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Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Wende Guitar Witherspoon Morgan

1720 Southwicke

Flower Mount, TX 75022

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

Previous Lease dated: Expiration:

0.9375 0.292969%

11/1/01

10/31/04

Lease Renewal and Correspondence Timeline

11/10/04

5/7/04 Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

11/1/04 No response from Ms. Morgan - lease expired.

Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/17/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/6/04 Received certified receipt of final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

May 11, 2004

Wende Witherspoon Morgan 1720 Southwicke Flower Mount, TX 75022

Re: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Containing 200 acres, more or less

Eddy County, New Mexico

Ms. Morgan:

Pursuant to my telephone conversation on May 7, 2004 with Mr. Brett Guitar Witherspoon, enclosed please find two (2) copies of Oil and Gas Lease Form 342P. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you in the amount of \$156.26 as full bonus payment of \$100.00 per acre for the 1.5626 net mineral acres owned by you.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt / Land Technician

/sp Enclosure(s)

OIL & GAS LEASE

THIS AGREEMENT made this 11th day of May, 2004, but effective November 1, 2004 between Wende Witherspoon Morgan, dealing in her sole and separate property, as Lessor (whether one or more), and YATES PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC10%, as 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 lesse 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 pipelines, 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
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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 Three years from this date (called "primary term") and as long thereafter.
as oil or gas is produced from said land or from land with which said land is pooled.
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 1/4th of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be 1/4th of the amount realized from such sale; (c) and at any time when this lease not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas 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 shut-in royalty equal to \$1.00 per net acre of lessor's gas 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 shall 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. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of 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, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after seceived written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary enable lessee to make proper payment. 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 argas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amou
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereund in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, leases, miner 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 Oil Conservation Division of the Energy at Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written undesignations 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 oproduction 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. The operations, which the net oil or gas acreage 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 sam 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this leas shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, addition 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 are 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 an 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 their heirs, executors, administrators, successors and assigns; but it change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights or 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, at it option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligation hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply of make such payments.
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 go 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 government 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 prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lesse 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 is option may discharge any tax, mortgage or other lien upon said land, and in the event lesses does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's right 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, 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 or 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 of 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 implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.
Wende Withersnoon Margan

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated May 11, 2004, by and between Wende Witherspoon Morgan, dealing in her sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- 13. Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM

Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am

Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra

105 South Fourth Street Artesia, NM 88210 Murchison Oil & Gas, Inc. 60 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander & P.O. Box 58

P.O. Box 58 Abilene, TX 79604 Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383 Abilene, TX 79608-5383 P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 66 9102 Vicksburg Ave., #17 Lubbock, TX 79356 Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha 6 P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320



ABO PETROLEUM CORPORATION

MYCO INDUSTRIES, INC.

AUTHORITY FOR EXPENDITURE

AFE NO. AFE DATE 04-542-0 10/29/04

105 SOUTH FOL ARTESIA, NEW!	Perompletion X Gas Exploratory	AFE STATUS: X Original Revised	AFEND (rev 6/98) 10-29-0
TELEPHONE (50	Do onto:	Final	
		Supplemental	
LEASE NAME		12,000'	
COUNTY	Zady	New Mexico	
FIELD		Моггоw	
LOCATION	Section 17 T25S-R26E, 990' N & 1980' E		
DIVISION CODE	100 DIVISION NAME Oil & Gas Division		<u></u>
DISTRICT CODE	DISTRICT NAME		
BRANCH CODE	BRANCH NAME		
PROGNOSIS: Ne	w well drilled to 12,000' to test all formations		
INTANGIBLE DRIL	LING COSTS:	DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	2 000	3,000
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork & fuel 50 days @ \$11,300/day + \$45K for mob	647,000	647,000
920-140	Drilling Water, Fasline Rental	35,000	35,000
920-150	Drilling Mud & Additives	45,000 30,000	45,000 30,000
920-160 920-170	Mud Logging Unit, Sample Bags Cementing - Surface Casing & deep intermediate		75,000
920-170	Drill Stom Tooting, OUT	1	
920-190	Electric Logs & Tape Copies	່ ຄາ ການໄ	60,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	425 000	125,000
920-205	Control of Well-Insurance	5,000	5,000
920-210	Supervision & Overhead	50,000	50,000
920-230	Coring, Tools & Service Bits, Tool & Supplies Purchase	00.000	80,000
920-240 920-350			40,000
920-330	Cementing - Production Casing Completion Unit - Swabbing		30,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc Completion		20,000
920-460 920-470	Tools & Equip. Rental, Etc Completion Stimulation for Completion		50,000
920-470 920-480	Supervision & O/H - Completion		100,000 1,500
920-490	Additional LOC Charges Completion		10,000
920-510	Bits, Tools & Supplies - Completion		1,500
920-500	Contingency for Completion		
	TOTAL INTANGIBLE DRILLING COSTS	1,190,000	1,449,000
TANGIBLE EQUIP	•••••		
930-010	Christmas Tree & Wellhead	5,000	30,000
930-020	Casing 13 3/8" @ 400'	11,000	11,000
	9 5/8" @ 1,800'	27,000	27,000
	7" @ 8,600'	108,000	108,000
930-030	4 1/2" 12,000' Tubing 2 3/8" @ 11,800'		85,500
930-040	Packer & Special Equipment	1	49,000
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.		75,000
940-640	Trucking & Construction Costs		15,000
	TOTAL TANGIBLE EQUIPMENT COSTS	151,000	415,500
TOTAL COSTS		1,341,000	1,864,500
	F THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHAR		
	ULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RAT		NI WIIH
Prepared By SV Jeremi	iah Mullen Operations Approval		
**************	OLEUM CORPORATION	20.55187	'5 %
BY	DATE		
YATES DRIL	LING COMPANY	10.79312	 25%

DATE

DATE

DATE

10.793125%

10.793125%

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

		Office
MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM (ANITA GRISSOM GUITAR, SOLE TRUSTEI	GUITAR, REVOCABLE LIVING TRUST,	2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANI	DER	0.781250%
PW:	DATE	
BY:		
BY/	DATE	F
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI ALEXANDER LOTT		0.781250%
BY	DATE	
JAMES KELLY POLK		0.781250%
BY:	DATE	
RUTH ANN POLK CAUDLE		0.781250%
BY:	DATE	
JANIS LEE POLK HARBOUR		0.781250%
BY:	DATE	
MARILYN GUITAR GALUSHA TRUST, MAF	RILYN GUITAR GALUSHA, TRUSTEE	0.584375%
BY:	DATE	
PRESSLEY HUDSON GUITAR		0.584375%
BY:	DATE	
JOHN GUITAR WITHERSPOON, JR.		0.293750%
BY:	DATE	
BRETT GUITAR WITHERSPOON		0.293750%
BY:	DATE	
WENDE WITHERSPOON MORGAN		0.293750%
BY:	DATE	
WHITTEN GUITAR WITHERSPOON		0.293750%
BY:	DATE	
KELLY WOODS LEACH		0.193750%
BY	DATE	

CERTIFIED MAILTIN RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) For delivery information visit our website at www.usps.com. For delivery information visit our website at website at well at well and website at well	PS Form 3800, June 2002 See Reverse for Instructions
C	PS Form 38

SENDER: COMPLETE THIS SECTION		MPLETE THIS SE	COMPLETE THIS SECTION ON DELIVERY	
 Complete Items 1, 2, and 3. Also complete Item 4 if Restricted Delivery is desired. Print vour name and address on the reverse 		A. Signature	Marco	☐ Agent ☐ Addressee
so that we can return the card to you. Attach this card to the back of the mailpiece or on the front if space permits.		Received by (Printed Name)		C. Date of Delivery
1. Article Addressed to:		is delivery address if YES, enter deliv	Is delivery address different from Item 1? ☐ Yes If YES, enter delivery address below: ☐ No.	% ×° □ □
Wende Witherspoon Morgan	<u>'</u>) Jew	·	
1720 Southwicke Flower Mound, TX 75022	3.8	3. Service Type	☐ Express Mail	
		☐ Registered ☐ Insured Mail	Discretum Receipt for Merchandise C.O.D.	for Merchandise
	4.	4. Restricted Delivery? (Extra Fee)	n (Extra Fee)	□ Yes
2. Article Number (Transfer from service label)	7002 20	30 0001	7002 2030 0001 8263 7492	
PS Form 3811 February 2004	Domestic Return Receipt	eceipt		102595-02-M-1540

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



105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210-2118

TELEPHONE (505) 748-1471

November 30, 2004

S. P. YATES CHAIRMAN OF THE BOARD JOHN A. YATES PRESIDENT

PEYTON YATES
EXECUTIVE VICE PRESIDENT

RANDY G. PATTERSON SECRETARY

DENNIS G. KINSEY
TREASURER

Wende Witherspoon Morgan 1720 Southwicke Flower Mount, TX 75022

RE:

Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Ms. Morgan:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

	THIS AGREEMENT 1	nade this	30th	day of November, 2004, and Effective November 30, 2004, between Wende Witherspoon Morgan, dealing in her sole and
separa	e property, as Lessor	(whether one or more	e), and YATES	PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-
10% A	ND SHARBRO OIL I	LIMITED COMPAN	Y-10% , as Less	see, WITNESSETH:
	1. Lessors in considera	tion of Ten and No/10	0	Dollars (\$ 10.00) in
hand pa	id, of the royalties he	rein provided and of	the agreements	of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring,
prospec	ting, drilling and minin	g for and producing oi	l and gas, laying	pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned
or clain	ed by Lessor adjacent	and contiguous thereto	, to produce, sav	ve, take care of, treat, transport, and own said products, and housing its employees, the following described land in
Eddy	County,	New Mexico		_ to-wit:
				Township 25 South, Range 26 East, NMPM
				Section 17: NW/4NE/4, E/2E/2

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 three 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.

Containing 200.00 acres, more or less

- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.
- 4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender th
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

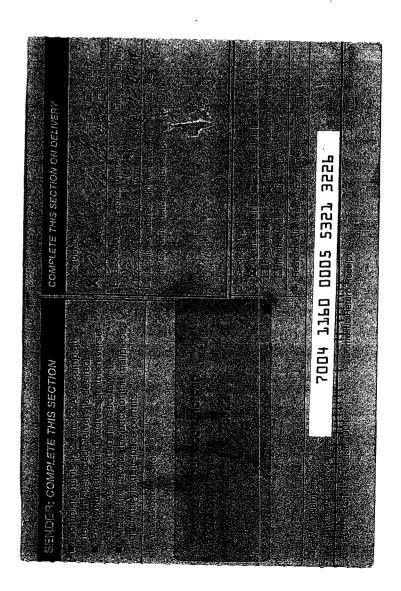
IN WITNESS WHEREOF, this instrument is executed on the date first above written.

Wende Witherspoon Morgan

INDIVIDUAL ACKNOWLEDGMENT

STATE OF	_)		
COUNTY OF)ss)		
This instrument was acknowledged before me this_ by Wende Witherspoon Mo		day of	, 2004,
by wende witherspoon into	ngan		
My commission expires			
		Notary Public	
		ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
This instrument was acknowledged before me this_		day of	2004,
by		as	
My commission expires			
		Notary Public	
		INDIVIDUAL ACKNOWLEDGMENT	
STATE OF			
COUNTY OF)ss.)		
This instrument was acknowledged before me this_		day of	2004,
Ву			
My commission expires			
		Notary Public	
9			
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ıcers		rres _ ay	Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210
No. Oil an Lea		Dated , 20 No. Acres County, NM Term This instrument was filed for record on the day of o'clock M., and duly recorded in Book records of this office of the County Clerk By County Clerk When recorded return to	,
		Date No. A This i at record of the By By	

U.S. Postal Service: CERTIFIED MAIL: RECEIPT (Domestic Mail Only; No Insurance Coverage Provided) For delivery information visit our website at www.usps.com.	Street W	Restricted Delivery Fee (Endorsement Required) Total Postace & Fees S.	Sant To Wende Witherspoon Morgan 1720 Southwicke	Street Act Not Tower Mount, TX 75022 or PO Box No. Chr. Stele. 2P4	PS Form 3800, June 2002 See Reverse for Instruction



Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mineral Owner:

Whitten Guitar Witherspoon 4508 Tall Meadow Lane Fort Worth, TX 76133

Net Acres in N/2 Spacing Unit

Percent Working Interest in Unit

Previous Lease dated:

Expiration:

0.9375

0.292969%

11/1/01

10/31/04

Lease Renewal and Correspondence Timeline

3/9/04 Offer letter sent to renew previous lease:

Terms:

3-year term

\$100.00 bonus / acre

1/4 royalty

5/7/04 Phone conversation requesting revised lease form.

5/11/04 Revised lease documents sent.

11/1/04 No response from Mr. Witherspoon - lease expired.

11/10/04 Sent AFE to participate in the drilling of the Guitar BFL Com #1.

11/15/04 Received certified receipt of sent AFE.

11/30/04 Final offer sent:

Option 1: Sign AFE to participate in drilling of well

Option 2: Enclosed Yates lease form (no modifications)

3-year term

\$100.00 bonus / acre

1/4 royalty

12/13/04 Received certified receipt of Final offer letter.



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

March 9, 2004

Whitten Guitar Witherspoon 4508 Tall Meadow Lane Fort Worth, TX 76133

RE: Oil & Gas Lease

<u>Township 25 South, Range 26 East, NMPM</u>

Section 17: NW/4NE/4, E/2E/2

Eddy County, New Mexico

Mr. Witherspoon:

Thank you.

Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

- 1. A Paid-up Three (3) Year Oil and Gas Lease;
- 2. A bonus consideration of \$100.00 per acre for the 1.5626 net mineral acres;
- 3. A royalty reservation of 1/4th of 8/8ths on all oil and gas produced from the leased lands;
- 4. Offer will expire at office closing on April 9, 2004.
- 5. Title acceptable to Yates Petroleum Corporation.

If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Very truly yours,
Yates Petroleum Corporation

Shirley Pruitt Land Technician

/sp AGREED and ACCEPTED this	day of	. 2004
		, 200 1
Whitten Guitar Witherspoon		



105 South Fourth Street Artesia, NM 88210 505-748-1471 FAX 505-748-4572

May 11, 2004

Whitten Guitar Witherspoon 4508 Tall Meadow Lane Fort Worth, TX 7613322

Re: Oil & Gas Lease
Township 25 South, Range 26 East, NMPM
Section 17: NW/4NE/4, E/2E/2
Containing 200 acres, more or less
Eddy County, New Mexico

Mr. Witherspoon:

Pursuant to my telephone conversation on May 7, 2004 with Mr. Brett Guitar Witherspoon, enclosed please find two (2) copies of Oil and Gas Lease Form 342P. If the enclosed meets with your approval, please execute the lease before a notary public and return to this office. Upon receipt of the properly executed and notarized lease, we will issue a direct check to you in the amount of \$156.26 as full bonus payment of \$100.00 per acre for the 1.5626 net mineral acres owned by you.

If you have any questions, please call me at (505) 748-4356. Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Shirley Pruitt

Land Technician

/sp Enclosure(s)

OIL & GAS LEASE

THIS AGREEMENT made this _ 11th day of
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 lesse 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 pipelines, 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 inCounty, New Mexico, to-wit:
Township 25 South, Range 26 East, N.M.P.M. Section 17: NW/4NE/4, E/2E/2
Said land is estimated to comprise 200.00 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
3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well,of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance
produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of
provided that on gas sold on or off the premises, the royalties shall be
4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereundary in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lesse of the obligation to pay royalties on actual production pursuant to the provisions or Paragraph 3 hereof.
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, 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 Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written undesignations 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. Their 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 un operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production sollocated 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 sam 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 at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this leas shall remain In force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well of wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. 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 deductin 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 an 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 an 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 their heirs, executors, administrators, successors and assigns; but n change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights or 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 wit 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, at it option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligation hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.
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 governments 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 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 is option may discharge any tax, mortgage or other lien upon said land, and in the event lesses does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's right 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, 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 or 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 of 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 of implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.
Articles 12, 13 and 14 of this Oil and Gas Lease are attached as Exhibit "A".
Executed the day and year first above written.
Whitten Guitar Witherspoon

INDIVIDUAL ACKNOWLEDGMENT

Yates Petroleum Corporation 105 South Fourth Street Artesia, NM 88210	When recorded return to	By, Deputy	County Clerk	of the records of this office.	his instrum	No. Acres County, NM			10			FROM	Oil and Gas Lease	No.	Producers 88 Rev. (Year Lease) 5-96
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Shirley Pruitt

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated May 11, 2004, by and between Whitten Guitar Witherspoon, dealing in his sole and separate property, as Lessor, and Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc., as lessee, covering lands in Eddy County, New Mexico.

- 12. Notwithstanding anything else to the contrary herein, payment of shut-in gas well royalties will not be permitted to maintain this Lease in force for a period greater than two consecutive years beyond the primary term, at which time this Lease shall automatically terminate.
- Notwithstanding any other provisions hereof, at the end of the primary term, all acreage not included in a proration unit as designated by the New Mexico Oil Conservation Division and all depths 100 feet below the deepest producing horizon shall be automatically eliminated from this Lease and revert to LESSOR, unless LESSEE is drilling a well on the leased premises or on lands pooled therewith, in which event the Lease will be held in its entirety as long as not more than one hundred twenty (120) days elapse between the completion of one well and the commencement of another. Completion shall be defined as (1) the date on which a dry hole is plugged or (2) the date certified to the New Mexico Oil Conservation Division as the date a well has been completed as a producing well, whichever be appropriate. "Commencement" shall be defined as the date drilling operations are commenced on the leased premises or on lands pooled therewith.
- 14. As an addition to the terms hereof, it is expressly agreed that all royalty to be paid hereunder shall be delivered to LESSOR free of all costs of transportation, compression, processing, treatment, purification, dehydration, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.



105 South Fourth Street Artesia, NM 88210

November 10, 2004

Working Interest Owners Addressee List Attached CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE:

Guitar BFL Com #1 well

Township 25 South, Range 26 East, NMPM

Section 17: 990' FNL & 1980'FEL Eddy County, New Mexico

Ladies and Gentlemen:

Yates Petroleum Corporation, as operator, proposes to drill the captioned well pursuant to the prognosis on the Authority for Expenditure (AFE) and invites you to participate.

Enclosed, please find two (2) copies of an AFE and one (1) copy of the Joint Operating Agreement (JOA) with one (1) additional signature page, covering the N/2 of Section 17.

If the AFE and JOA meet with your approval, please sign and return one (1) executed copy of the AFE and the executed and notarized signature page of the JOA to our office.

This well is on an accelerated scheduling and we request your immediate attention.

Should you have any questions, please do not hesitate contacting me at 505-748-4400.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra

Associate Landman

SV/am Enclosure(s)

GUITAR BFL COM #1 ADDRESSEE LIST

Yates Petroleum Corporation, et al Attn: Susan Vierra 105 South Fourth Street Artesia, NM 88210 Murchison Oil & Gas, Inc. 60 1100 Mira Vista Blvd. Plano, TX 75093-4698

Anita Grissom Guitar P.O. box 744 Abilene, TX 79605

James M. & Jerri Alexander & P.O. Box 58 Abilene, TX 79604

Martha Jane Alexander Rhodes P.O. Box 58 Abilene, TX 79604 James Kelly Polk 12 Augusta Abilene, TX 79604

Janis Lee Polk Harbour 4400 Arcady Dallas, TX 75202 Pressley Hudson Guitar & P.O. box 5383
Abilene, TX 79608-5383

Brett Guitar Witherspoon & P.O. Box 100635 Fort Worth, TX 76185

Whitten Guitar Witherspoon 3833 Arroyo Road Fort Worth, TX 76109 Jeri Alexander Lott 66 9102 Vicksburg Ave., #17 Lubbock, TX 79356

Ruth Ann Polk Caudle 5616 Preston Fairway Dallas, TX 75252

Marilyn Guitar Galusha 6 P.O. Box 1438 Abilene, TX 79604

John Guitar Witherspoon, Jr. 7404 Lemonwood Drive Fort Worth, TX 76133-7012 Wende Witherspoon Morgan 1720 Southwicke Flower Mound, TX 75022

Kelly Woods Leach 312 Greatview Circle Birmingham, AL 35226-2320

940-010

940-020

940-030 940-640

TOTAL COSTS

Pumping Equipment

Separation Equip., Flowlines, Misc.

TOTAL TANGIBLE EQUIPMENT COSTS

Trucking & Construction Costs

Storage Facilities



FE NO.	04-542-0
FE DATE	10/29/04
_	AFFND (nev 6/98)

15,000

75,000

15,000

415,500

1,864,500

151,000

1,341,000

	_				AFE NO.	04-542-0
MATE	5	AUTHORIT	TY FOR EXP	ENDITURE	AFE DATE	10/29/04
V//X///PET	ROLEUM	NEW DRILLI	NG, RECOMPLETI	ON & RE-ENTRY		AFEND (rev 6/98)
COR	<u>PORAT</u> ION	AFE Type:	Well Objective:	Well Type:	AFE STATUS:	10-29-04
105 SOUTH FO	MICTU STREET	X New Drilling	X Oil	X Development	X Original	
ARTESIA. NEW		Recompletion	X Gas	Exploratory	Revised	
TELEPHONE (5		Re-entry	Injector		Final	
	,				Supplemental	
LEASE NAME	Guitar BFL Com	n. #1		PROJ'D DEPTH	12,000'	
COUNTY	Eddy			STATE	New Mexico	
FIELD				HORIZON	Morrow	
LOCATION	Section 17 T25S	S-R26E, 990' N & 198	0' E			
DIVISION CODE	100 D	IVISION NAME		Oil & Gas Division		
DISTRICT CODE	n	ISTRICT NAME				i

DISTRICT CODE BRANCH CODE **BRANCH NAME** PROGNOSIS: New well drilled to 12,000' to test all formations COMP'D WELL DRY HOLE INTANGIBLE DRILLING COSTS: 3,000 3,000 Staking, Permit & Legal Fees 920-100 35,000 35,000 920-110 Location, Right-of-Way 920-120 Drilling, Footage & fuel 647,000 647,000 50 days @ \$11,300/day + \$45K for mob 920-130 Drilling, Daywork 35,000 35,000 Drilling Water, Fasline Rental 920-140 45,000 45,000 920-150 Drilling Mud & Additives Mud Logging Unit, Sample Bags 30,000 30,000 920-160 75,000 920-170 Cementing - Surface Casing 75,000 Drill Stem Testing, OHT 920-180 Electric Logs & Tape Copies 60,000 60,000 920-190 125,000 125,000 Tools & Equip. Rntl., Trkg. & Welding 920-200 Control of Well-Insurance 5,000 5,000 920-205 Supervision & Overhead 50,000 50,000 920-210 920-230 Coring, Tools & Service 80,000 80,000 Bits, Tool & Supplies Purchase 920-240 920-350 Cementing - Production Casing 40,000 30,000 Completion Unit - Swabbing 920-410 920-420 Water for Completion 5,000 Mud & Additives for Completion 1,000 920-430 920-440 Cementing - Completion Elec. Logs, Testing, Etc. - Completion 20,000 920-450 920-460 Tools & Equip. Rental, Etc. - Completion 50,000 100,000 920-470 Stimulation for Completion Supervision & O/H - Completion 920-480 1,500 10,000 Additional LOC Charges - Completion 920-490 920-510 Bits, Tools & Supplies - Completion 1,500 920-500 Contingency for Completion TOTAL INTANGIBLE DRILLING COSTS 1,190,000 1,449,000 TANGIBLE EQUIPMENT COSTS: 930-010 Christmas Tree & Wellhead 5,000 30,000 930-020 Casing 13 3/8" @ 400' 11,000 11,000 9 5/8" @ 1,800' 27,000 27,000 7" @ 8,600' 4 1/2" 12,000' 2 3/8" @ 11,800' 108,000 108,000 85,500 930-030 49,000 Tubing 930-040 Packer & Special Equipment

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

SV Jeremiah Mullen	Approval	
YATES PETROLEUM CORPORATION		20.551875%
Y	DATE	
YATES DRILLING COMPANY		10.793125%
3Y	DATE	
ABO PETROLEUM CORPORATION		10.793125%
9 Y	DATE	
MYCO INDUSTRIES, INC.		10.793125%
BY.	DATE	

GUITAR BFL COM #1 T25S-R26E- SECTION 17 990' FNL & 1980' FEL EDDY COUNTY, NEW MEXICO AFE # 04-542-0 DATE: 11/8/04 Page 2

SHARE

MURCHISON OIL & GAS, INC. BY: DATE EARL B, GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE BY: DATE JAMES M. ALEXANDER & JERRI ALEXANDER BY: DATE MARTHA JANE ALEXANDER RHODES BY: DATE JERI ALEXANDER LOTT BY: DATE JAMES KELLY POLK BY: DATE RUTH ANN POLK CAUDLE BY: DATE JANIS LEE POLK HARBOUR BY: DATE MARILYN GUITAR GALUSHA TRUST, MARILYN GUITAR GALUSHA, TRUSTEE BY: DATE PRESSLEY HUDSON GUITAR BY: DATE JOHN GUITAR WITHERSPOON, JR. 0.2937509;
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE BY: DATE JAMES M. ALEXANDER & JERRI ALEXANDER BY: DATE MARTHA JANE ALEXANDER RHODES BY: DATE JERI ALEXANDER LOTT BY: DATE JAMES KELLY POLK BY: DATE RUTH ANN POLK CAUDLE BY: DATE JANIS LEE POLK HARBOUR BY: DATE JANIS LEE POLK HARBOUR BY: DATE MARILYN GUITAR GALUSHA TRUST, MARILYN GUITAR GALUSHA, TRUSTEE BY: DATE PRESSLEY HUDSON GUITAR BY: DATE JOHN GUITAR WITHERSPOON, JR. 0.2937509
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SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print vour name and address on the reverse	X X M M A Addressee
so that we can return the card to you. Attach this card to the back of the mailpide or on the front if space permits.	B. Received by (Printed Name) Create of Delivery
1. Article Addressed to:	D, is delivery address different (entitlem 1? L) Yes If YES, anter delivery address below. L No
Whitten Guitar Witherspoon	Gniter
Fort Worth, TX 76109	3. Service Type C Certified Mail C Express Mail Registered C Return Receipt for Merchandise C Insuired Mail C C C.D.
2. Article Number Transfer from service label) 7002 2	7. Newficied Collivery? (Extra Fee) C Yes
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MARTIN YATES, III 1912 - 1985 FRANK W. YATES 1936 - 1986



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

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

S. P. YATES

November 30, 2004

Whitten Guitar Witherspoon 4508 Tall Meadow Lane Fort Worth, TX 76133

RE: Guitar BFL Com #1

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

Mr. Witherspoon:

I have had several phone calls from many family members concerning either 1) lease options for mineral rights in the above captioned acreage or 2) participation in the drilling of the Guitar BFL Com #1.

You have been sent an AFE to participate in the drilling of the Guitar well as an unleased mineral owner. Also included with the AFE was the operating agreement covering the 320-acre spacing unit in the North ½ of section 17.

Since the receipt of the AFE and Operating Agreement, I have had several phone calls to discuss the possibility to lease your minerals rather than taking a working interest in this well. The renewal period has expired for your previous leases; therefore all previous negotiations are off the table.

Enclosed please find Yates Petroleum Corporation standard three (3) year paid up lease form, containing a ¼ royalty for your net mineral acre interest. Should you elect to execute this lease, as is, you will receive the \$100.00 per net acre bonus upon our receipt. The terms and conditions of the lease are not negotiable, as Yates Petroleum Corporation will be proceeding with the drilling of the Guitar well immediately.

Please return either the executed lease form, as is, or the executed AFE and Operating Agreement at your earliest convenience, as to avoid a force-pooling situation.

Should you have any questions, I can be reached at 505-748-4400.

Thank you for your consideration.

Very truly yours,

YATES PETROLEUM CORPORATION

Susan Vierra Associate Landman

/sv Enclosure(s) Producers 88 Rev. (3 Year Lease) 5-96 YPC Revised Form

(THREE YEAR PAID UP LEASE) OIL AND GAS LEASE

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

THIS AGREEMENT made this	30th_	day of November, 2004	, and Effective Novemb	er 30, 2004, between	n Whitten Guitar W	itherspoon, dealing in	his sole and
separate property, as Lessor (whether one or r	nore), and YATES I	PETROLEUM CORPO	RATION-70%; YATI	ES DRILLING COM	APANY-10%, ABO	PETROLEUM CORP	ORATION-
10% AND SHARBRO OIL LIMITED COME	ANY-10%, as Lesse	e, WITNESSETH:					
1. Lessors in consideration of Ten and N	0/100					Dollars (\$_10.00) in
hand paid, of the royalties herein provided and	of the agreements of	of Lessee herein contain	ed, hereby grants, lease	s and lets exclusively	y unto Lessee for the	purpose of investigatin	g, exploring,
prospecting, drilling and mining for and producing	g oil and gas, laying	pipe lines, building roads	, tanks, power stations,	elephone lines and of	her structures thereon	and on, over and across	lands owned
or claimed by Lessor adjacent and contiguous the	reto, to produce, save	e, take care of, treat, tran	sport, and own said prod	ucts, and housing its	employees, the follow	ing described land in	
Eddy County, New Mex	ico	to-wit:					
		Township 25 South, Ra	nge 26 East, NMPM				

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 three 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.

Section 17: NW/4NE/4, E/2E/2 Containing 200.00 acres, more or less

- 3. The royalties to be paid by Lessee are: (a) on oil, 1/4 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casing head 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 there from, the market value at the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 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 compilance with the spacing rules of the New Mexico oil Conservation Commisson, 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 heremuder 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 strata med not conform in size or area with the unit or units into which the lesses is pooled or combined as one 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 aumit and pooled unit which includes all or a portion of the land covered by this it is necessary and the pooled unit within includes all or a portion of the l
- 5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil and gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith. Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release covering any portion or portions of the above described premises and thereby surrender this lease as
- 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without
- 7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.
- 8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event by required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.
- 9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas there from 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.

Whitten Guitar Witherspoon

INDIVIDUAL ACKNOWLEDGMENT

STATE OF)		
COUNTY OF)		
	day of	, 2004,
by Whitten Guitar Witherspoon		
My commission expires		
	Notary Public	
	ACKNOWLEDGMENT	
STATE OF)		
COUNTY OF)		
	day ofas	
	as	
My commission expires	Notary Public	
	INDIVIDUAL ACKNOWLEDGMENT	
STATE OF)		
)ss.		
COUNTY OF)		
This instrument was acknowledged before me this By	day of	
My commission expires	Notary Public	
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U.S. Postal Servicera

CERTIFIED MIAIL RECEIPT

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Certified Fee

Return Reciept Fee

Endorsement Required)

Restricted Delivery Fee

Endorsement Required)

Fort Worth, TX 76133

City, State, ZiF-4

PS Form 3800, June 2002

See Reverse for Instructions

	of Namely C, Date of Delivery 1 2	C Express Mail C Actum Receipt for Merphandise C C.O.D. (Ctra Fee) C T. Vie	102595-02-M-1840
NO COMPLETE THIS SECTION ON DELIVERY	A. Signature A. Si	3. Service Type Contilled Mail Charess Registered Insured Mail Co.D. 4. Restricted Delivery? (Extra Fee)	Domestic Peturn Receipt
SENDER: COMPLETE THIS SECTION	Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the riverse so that your name and address on the riverse so that we can return the card to you. Attach this card to the back of the maliplece, or on the front it state permits. Article Addressed	2. Article propertient	PS Formi3811 February 2004