

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	2.5
Percent Working Interest in Unit	0.781250%
Previous Lease dated:	9/21/01
Expiration:	9/20/04

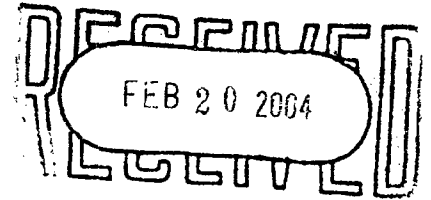
Lease Renewal and Correspondence Timeline

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.



FEB 18 2004

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

Mr. Alexander:

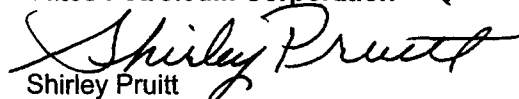
Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

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.

Very truly yours,  
Yates Petroleum Corporation

  
Shirley Pruitt  
Land Technician

/sp  
AGREED and ACCEPTED this 16 day of Feb, 2004

  
James M. Alexander



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:

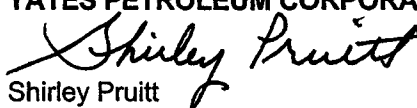
Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$416.67 which is full bonus consideration of \$100.00 per acre for your 4.1667 net mineral acre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

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and send it for collection through your bank, 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)

THIS AGREEMENT made this 16th day of February, 2004, but Effective September 21, 2004, 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, INC.-10%, as Lessee, WITNESSETH:**

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

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 this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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



Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_  
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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

By \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

of the \_\_\_\_\_

by \_\_\_\_\_ as \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

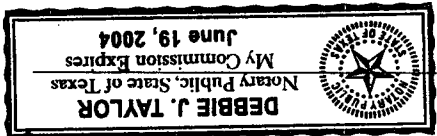
COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

ACKNOWLEDGMENT

My commission expires \_\_\_\_\_



*Debbie J. Taylor*  
Notary Public

By: James M. Alexander, dealing in his sole and separate property

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_ Texas \_\_\_\_\_

INDIVIDUAL 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 (90<sup>th</sup>) 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.



CUSTOMER'S DRAFT

Courtesy of  
THE FIRST NATIONAL BANK  
P.O. BOX 44

ARTESIA, NEW MEXICO 88210

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

ARTESIA, NEW MEXICO

February 20, 2004

PAY TO THE  
ORDER OF

James M. Alexander, dealing in his sole and separate property \$416.67

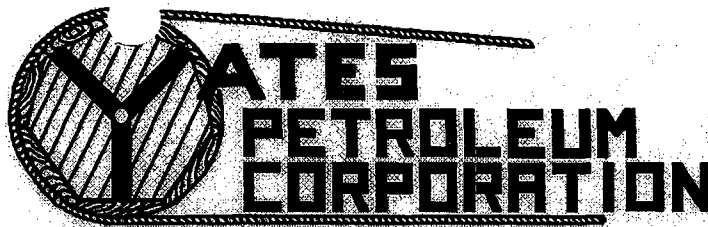
Four Hundred Sixteen and 67/100 DOLLARS  
VALUE RECEIVED AND CHARGE TO ACCOUNT OF WITH EXCHANGE

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

YATES PETROLEUM CORPORATION

*Shirley Pruitt*  
Shirley Pruitt, Land Technician

*Please send check  
to James M. Alexander*



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

A handwritten signature in cursive script that reads 'Shirley Pruitt'.

Shirley Pruitt  
Land Technician

/sp  
Enclosure(s)

# OIL & GAS LEASE

THIS AGREEMENT made this 26th day of April, 2004, but effective September 21, 2004, 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, INC.-10%**, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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.

James M. Alexander

Shirley Pruitt

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_

Term \_\_\_\_\_ County, NM

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.

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

Notary Public

by \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_

COUNTY OF \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
(ss. \_\_\_\_\_)

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

Notary Public

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

COUNTY OF \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
(ss. \_\_\_\_\_)

CORPORATION ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

Notary Public

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_  
James M. Alexander, dealing in his sole and separate property

COUNTY OF Taylor

STATE OF Texas )  
(ss. \_\_\_\_\_)

INDIVIDUAL ACKNOWLEDGMENT

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, separation, 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

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

September 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 NUMBER - NM-000403-002513-D

LEASE NAME ALEXANDER, JAMES M.

PROSPECT.....000000

ACCT. LEASE 270385-001

ACQ CODE.....

COUNTY #1.....EDD EDDY

COUNTY #2.....

STATE.....NM NEW MEXICO

LEASE DATE..... 9/21/2001

EFFECTIVE DATE..... 9/21/2001

EXPIRATION DATE..... 9/20/2004

PRIMARY TERM..... 3 YR

ORIGINAL LESSOR.....JAMES M. ALEXANDER, DEALING IN HIS SOLE AND SEPARATE PROPERT

ORIGINAL LESSEE.....YPC

ACQUIRED - HOW.....

- FROM.....

LESSEE OF RECORD.....

BOOK.. 431 PAGE.. 974 REC DATE... 10/05/2001

BOOK.. PAGE.. REC DATE... 0/00/0000

RECORD STATUS... CM COMPLETE LEASE RECORD

LEASE TYPE.....X FEE LEASE

ACQUISITION DATE.. 9/21/2001

LEASE/RENTAL STAT...PDU PAID UP LEASE

BONUS PER ACRE... 100.00

TOTAL BONUS..... 416.67

ACREAGES

LSE GROSS LEASE NET

OUR NET

BASE ACRES.....

TOTAL..... 200.00 4.17

DEVELOPED....

LESSOR MI.....

LESSOR RI..... .25000000

UNDEVELOPED.. 200.00 4.17

TOTAL ORRI.....

NO TOTALIZE..

LEASE NRI..... .75000000

LEGAL DESCRIPTION INFORMATION:

SEQ	TWP	RNG	SEC	LOCATION	ABSTRACT #	LSE GRS	LSE NET
----- LEGAL DESCRIPTION -----							
01	25S	26E	17			200.00	4.17
	NW4NE4, E2E2						
TOTAL ACREAGE						200.00	4.17

OWNERSHIP INFORMATION:

OWNER#	WORKING INTEREST	OWNER	GWI	OTHER CO LSE
5000	ABO	PETROLEUM CORPORATION	.10000000	
640010	MYCO	INDUSTRIES, INC.	.10000000	
994100	YATES	DRILLING COMPANY	.10000000	
999900	YATES	PETROLEUM CORPORATION	.70000000	
TOTAL INTEREST			1.00000000	

**EXPIRED**

ef

kp

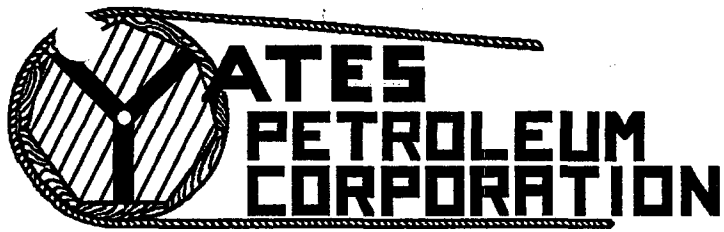
SPECIAL FEATURES/WELL CROSS REFERENCE:

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.... P PUGH	LESSER INTEREST...	SLIDING ROYALTY..	
REASMT OBLIG...	CONT. DRILLING.... Y		
UNIT CLAUSE....			

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.....	TOTAL SHUT-IN.....
COMPANY SHARE.....	COMPANY SHARE.....
RENTAL DUE DATE..... 0/00/0000	SHUT-IN DUE DATE..... 0/00/0000
PAYMENT FREQUENCY.....	PAYMENT FREQUENCY.....
	HBP WELL NAME..
	MULT/COMB CHECKS .....

LEASE NUMBER - NM-000403-002513-D



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**

A handwritten signature in black ink that reads 'Susan Vierra' with a stylized flourish at the end.

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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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

11-8-04



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

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

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 6/98)

10-24-04

AFE STATUS:

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

LEASE NAME  
COUNTY  
FIELD  
LOCATION

Guitar BFL Com. #1
Eddy
Section 17 T25S-R26E, 990' N & 1980' E

PROJ'D DEPTH  
STATE  
HORIZON

12,000'
New Mexico
Morrow

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME  
DISTRICT NAME  
BRANCH NAME

Oil & Gas Division

PROGNOSIS: New well drilled to 12,000' to test all formations

INTANGIBLE DRILLING 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	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 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'	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
940-040	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	
-------------------	-----------------	------------------------	--

YATES PETROLEUM CORPORATION	20.551875%
BY	DATE
YATES DRILLING COMPANY	10.793125%
BY	DATE
ABO PETROLEUM CORPORATION	10.793125%
BY	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.	37.500000%
BY: DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	
TOTAL	100.000000%

U.S. Postal Service<sup>TM</sup>  
CERTIFIED MAIL<sup>TM</sup> RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)

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Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 6.49



Sent To James M. & Jerri Alexander

Street, Apt. No. or PO Box No. Box 58

City, State/Zip+4 Abilene, TX 79604

PS Form 3800, June 2002

See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

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

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☒ Agent ☐

*Ada Hernandez* Addressee

B. Received by (Printed Name) *Ada Hernandez* Date of Delivery *NOV 12 2004*

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

*Gutbar*

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

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

Article Number 7002 2030 0001 8263 7393

2. Article Number  
(Transfer from service label)

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 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)

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between **James M. and Jerri Alexander, husband and wife** , 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**  
**Containing 200.00 acres, more or less**

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 M. Alexander**

**Jerri Alexander**



INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by \_\_\_\_\_ James M. and Jerri Alexander

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96

No.

Oil and Gas Lease

FROM

TO

Dated \_\_\_\_\_, 20

No. Acres \_\_\_\_\_

Term \_\_\_\_\_

County, NM

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.

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

7004 1160 0005 5321 3172

U.S. Postal Service<sup>TM</sup>

CERTIFIED MAIL<sup>TM</sup> RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

OFFICIAL USE

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	4.42
Total Postage & Fees \$	

Sent to

James M. & Jerril Alexander

P O Box 58

Street, Apt. No., or PO Box No.

Abilene, TX 79604

City, State, ZIP+4

PS Form 3800, June 2002

See Reverse for Instructions

Abilene, NM

Postmark Here

USPS 88270

SENDER: COMPLETE THIS SECTION

COMPLETE THIS SECTION ON DELIVERY

James M. & Jerril Alexander

Abilene, TX 79604

7004 1160 0005 5321 3172

**Guitar BFL Com #1**

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 2.5

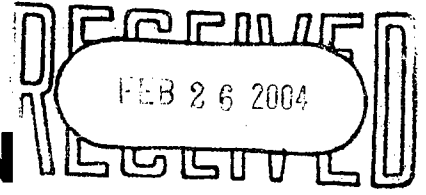
Percent Working Interest in Unit 0.781250%

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
2/26/04	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 16 2004

February 13, 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

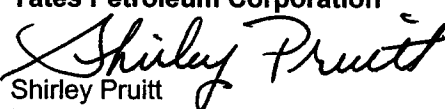
Ms. Rhodes:

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.

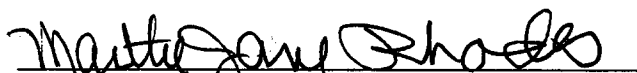
If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,  
Yates Petroleum Corporation  
  
Shirley Pruitt  
Land Technician

/sp

AGREED and ACCEPTED this 23 day of FEBRUARY, 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 send it for collection through your bank, 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)

THIS AGREEMENT made this 23rd day of February, 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, INC.-10%, as Lessee, WITNESSETH:

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

~~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 in 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. a shut in gas well will not serve to extend the term of this lease for more than one~~

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

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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.

Martha Jane Rhodes  
Martha Jane Rhodes

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_ County, NM

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

Notary Public

By \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_

day of \_\_\_\_\_

2004.

COUNTY OF \_\_\_\_\_

(ss. \_\_\_\_\_)

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

Notary Public

of the \_\_\_\_\_

by \_\_\_\_\_

as \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_

day of \_\_\_\_\_

2004.

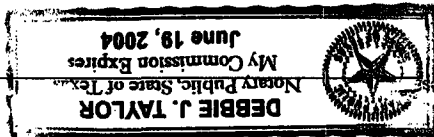
COUNTY OF \_\_\_\_\_

(ss. \_\_\_\_\_)

STATE OF \_\_\_\_\_

ACKNOWLEDGMENT

My commission expires \_\_\_\_\_



Notary Public

*Debbie J. Taylor*

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

Martha Jane Rhodes, dealing in her sole and separate property

This instrument was acknowledged before me this \_\_\_\_\_

26<sup>th</sup>

day of \_\_\_\_\_

April

2004.

COUNTY OF \_\_\_\_\_

Taylor

(ss. \_\_\_\_\_)

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL 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 (90<sup>th</sup>) 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 Phares*



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 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 DOLLARS  
WITH EXCHANGE

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

YATES PETROLEUM CORPORATION

Shirley Pruitt, Land Technician

FIRST NATIONAL BANK/ARTESIA  
ARTESIA, NEW MEXICO 88210

DATE: April 29, 2004

NO 33341

YOUR DATE AND/OR NUMBER	DESCRIPTION	DUE	CUSTOMER
Feb. 27, 04	Oil and Gas Lease-Draft	sight+30	AMOUNT
Payable To: Martha Jane Rhodes		bk days	OUR
		6-11-04	CHARGE
SPECIAL INSTRUCTIONS:	REMITTED ON	BY	TOTAL
	RETURNED		
	UNPAID ON		TOTAL

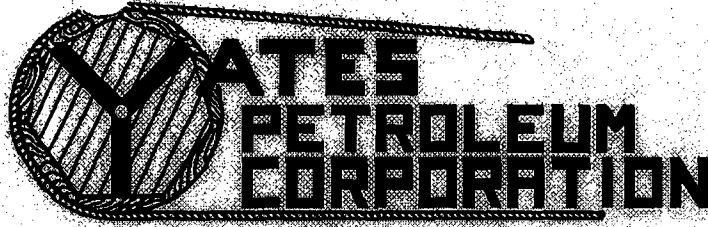
RECEIVED FROM

NAME & ADDRESS OF PAYER

Yates Petroleum  
Shirley Pruitt

2 - NOTICE TO CUSTOMER

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  
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

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)

# 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, INC.-10%, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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.

Martha Jane Rhodes

Shirley Pruitt

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

My commission expires \_\_\_\_\_

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

My commission expires \_\_\_\_\_

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

Martha Jane Rhodes, dealing in her sole and separate property

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_

Taylor

) ss.

COUNTY OF \_\_\_\_\_

day of \_\_\_\_\_

, 2004, by \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss.

CORPORATION ACKNOWLEDGMENT

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_

) ss.

COUNTY OF \_\_\_\_\_

by \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_

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, separation, 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**

A handwritten signature in black ink that reads 'Susan Vierra' with a long horizontal line extending to the right.

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. *6C*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

Anita Grissom Guitar *6C*  
P.O. box 744  
Abilene, TX 79605

James M. & Jerri Alexander *6C*  
P.O. Box 58  
Abilene, TX 79604

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

James Kelly Polk *6C*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *6C*  
P.O. box 5383  
Abilene, TX 79608-5383

Brett Guitar Witherspoon *6C*  
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 *6C*  
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  
TELEPHONE (505) 748-1471

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

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

AFE DATE

04-542-0
10/29/04

AFEND (rev 6/88)

10-29-04

AFE STATUS:

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

LEASE NAME  
COUNTY  
FIELD  
LOCATION

Guitar BFL Com. #1
Eddy
Section 17 T25S-R26E, 990' N & 1980' E

PROJ'D DEPTH  
STATE  
HORIZON

12,000'
New Mexico
Morrow

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME  
DISTRICT NAME  
BRANCH NAME

Oil & Gas Division

PROGNOSIS: New well drilled to 12,000' to test all formations

INTANGIBLE DRILLING 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	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 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'	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
940-040	Trucking & Construction Costs		15,000
TOTAL TANGIBLE EQUIPMENT COSTS		151,000	415,500

TOTAL COSTS

1,341,000	1,864,500
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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.	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 GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	

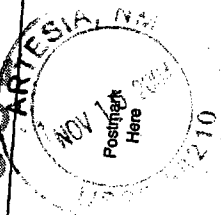
TOTAL100.000000%

U.S. Postal Service<sup>TM</sup>  
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**OFFICIAL USE**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	6.14



Sent To Martha Jane Alexander Rhodes  
Street, Apt. No., P.O. Box 58  
City, State, ZIP+4<sup>®</sup> Abilene, TX 79604

PS Form 3800, June 2002  
See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

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

2. Article Number  
(Transfer from service label)

7002 2030 0001 8263 7430

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature ☒ Agent ☐ Addressee  
Martha Rhodes  
B. Received by (Printed Name) NOV 1 2004  
Lisa Hernandez  
C. Is delivery address different from item 1? ☐ Yes ☐ No  
If YES, enter delivery address below:

Grifter

3. Service Type  
☐ Certified Mail ☐ Express Mail  
☐ Registered ☐ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.  
4. Restricted Delivery? (Extra Fee) ☐ Yes

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

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)

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between Martha Janae 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 SHARBRO OIL LIMITED CO MPANY.-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  
Containing 200.00 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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.

**Martha Jane Rhodes**

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by Martha Jane Rhodes

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas Lease

FROM

\_\_\_\_\_

TO

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dated \_\_\_\_\_, 20 \_\_\_\_\_

No. Acres \_\_\_\_\_

County, NM \_\_\_\_\_

Term \_\_\_\_\_

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.

\_\_\_\_\_ County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

SENDER: COMPLETE THIS SECTION

☐

POSTAGE WILL BE PAID BY ADDRESSEE

☐

NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES

☐

PERMIT NO. 1000  
ABILENE, TX 79604

☐

POSTAGE WILL BE PAID BY ADDRESSEE

☐

NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES

☐

PERMIT NO. 1000  
ABILENE, TX 79604

7004 1160 0005 5321 3219

COMPLETE THIS SECTION ON DELIVERY

☐

NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES

☐

PERMIT NO. 1000  
ABILENE, TX 79604

☐

NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES

☐

PERMIT NO. 1000  
ABILENE, TX 79604

7004 1160 0005 5321 3219

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OFFICIAL USE

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42

Sent To

Martha-Jane Alexander Rhodes

P O Box 58

Street, Apt. No.; Abilene, TX 79604

or PO Box No.

612E 12E5 5000 0911 1002

**Guitar BFL Com #1**

**Township 25 South, Range 26 East, NMPM**

**Section 17: N/2**

**Eddy County, New Mexico**

Mineral Owner:

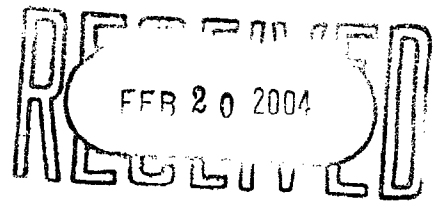
Jeri Alexander Lott  
9102 Vicksburg., #17  
Lubbock, TX 79424

Net Acres in N/2 Spacing Unit	2.5
Percent Working Interest in Unit	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
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:

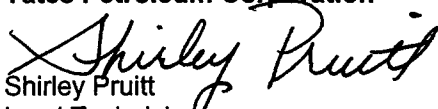
Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

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;
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 14 day of February, 2004

  
Jeri Alexander Lott



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:

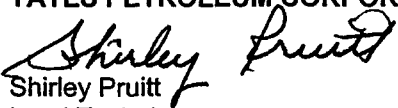
Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$416.67 which is full bonus consideration of \$100.00 per acre for your 4.1667 net mineral acre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

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and send it for collection through your bank, 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)

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, INC.-10%, as Lessee, WITNESSETH:

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

~~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 this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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.

  
Jeri Alexander Lott

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_

No. Acres \_\_\_\_\_ County, NM

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

By \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

of the \_\_\_\_\_

by \_\_\_\_\_ as \_\_\_\_\_

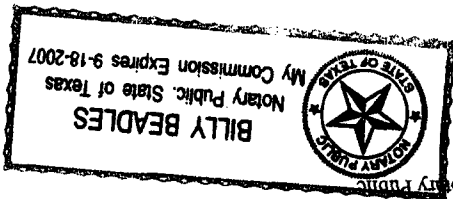
This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

ACKNOWLEDGMENT



My commission expires \_\_\_\_\_

9/18/2007

By: Jeri Alexander Lott, dealing in her sole and separate property

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL 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 (90<sup>th</sup>) 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.



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

PAY TO THE

ORDER OF

Jeri Alexander Lott, dealing in her sole and separate property

\$416.67

Four Hundred Sixteen and 67/100

DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

WITH EXCHANGE

TO: First National Bank of Artesia

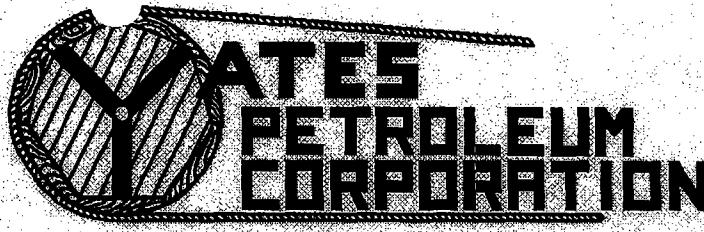
Artesia, New Mexico 88210

Acct. of Yates Petroleum Corporation

YATES PETROLEUM CORPORATION

*Shirley Pruitt*

Shirley Pruitt, Labor 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  
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

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  
Land Technician

/sp  
Enclosure(s)

## 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, INC.-10%**, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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.

Jeri Alexander Lott



Shirley Pruitt

## Oil and Gas Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_  
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.

County Clerk

By \_\_\_\_\_, Deputy

## When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ by \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

## INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

## CORPORATION ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day \_\_\_\_\_  
Jeri Alexander Lott, dealing in her sole and separate property

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_  
ss) \_\_\_\_\_  
Lubbock

## INDIVIDUAL ACKNOWLEDGMENT

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, separation, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

LEASE NUMBER - NM-000403-002513-F

LEASE NAME LOTT, JERI ALEXANDER

PROSPECT.....000000

ACCT. LEASE 270387-001

ACQ CODE.....

COUNTY #1.....EDD EDDY

BOOK.. 431 PAGE.. 971 REC DATE... 10/05/2001

COUNTY #2.....

BOOK.. PAGE.. REC DATE... 0/00/0000

STATE.....NM NEW MEXICO

LEASE DATE..... 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.....JERI ALEXANDER LOTT, DEALING IN HER SOLEA AND SEPARATE PROPE

ORIGINAL LESSEE.....YPC

ACQUIRED - HOW.....

BONUS PER ACRE... 100.00

- FROM.....

TOTAL BONUS..... 416.67

LESSEE OF RECORD....

ACREAGES

LSE GROSS

LEASE NET

OUR NET

BASE ACRES.....

TOTAL.....

200.00

4.17

LESSOR MI.....

DEVELOPED....

LESSOR RI..... .25000000

UNDEVELOPED..

200.00

4.17

TOTAL ORRI.....

NO TOTALIZE..

LEASE NRI..... .75000000

LEGAL DESCRIPTION INFORMATION:

SEQ

TWP RNG SEC

LOCATION

ABSTRACT #

LSE GRS

LSE NET

----- LEGAL DESCRIPTION -----

01

25S 26E 17

200.00

4.17

NW4NE4, E2E2

TOTAL ACREAGE

200.00

4.17

OWNERSHIP INFORMATION:

OWNER# WORKING INTEREST OWNER

GW

OTHER CO LSE

5000 ABO PETROLEUM CORPORATION

.10000000

640010 MYCO INDUSTRIES, INC.

.10000000

994100 YATES DRILLING COMPANY

.10000000

999900 YATES PETROLEUM CORPORATION

.70000000

TOTAL INTEREST 1.00000000

SPECIAL FEATURES/WEEL 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... P PUGH

LESSER INTEREST...

SLIDING ROYALTY.

REASMT OBLIG...

CONT. DRILLING.... Y

UNIT CLAUSE....

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.....

TOTAL SHUT-IN.....

COMPANY SHARE.....

COMPANY SHARE.....

RENTAL DUE DATE..... 0/00/0000

SHUT-IN DUE DATE..... 0/00/0000

PAYMENT FREQUENCY.....

PAYMENT FREQUENCY.....

HBP WELL NAME..

MULT/COMB CHECKS .....

LEASE NUMBER - NM-000403-002513-F

**EXPIRED**

efg

ky



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**

A handwritten signature in black ink that reads 'Susan Vierra' with a long horizontal line extending to the right.

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. *CL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *CL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *CL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *CL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *CL*  
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

11-8-04



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

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

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 6/98)

10-29-04

AFE STATUS:

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

LEASE NAME

Guitar BFL Com. #1

COUNTY

Eddy

FIELD

LOCATION

Section 17 T25S-R26E, 990' N & 1980' E

PROJ'D DEPTH

12,000'

STATE

New Mexico

HORIZON

Morrow

DIVISION CODE

100

DIVISION NAME

Oil & Gas Division

DISTRICT CODE

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
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	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 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'	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
940-040	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	
-------------------	-----------------	------------------------	--

YATES PETROLEUM CORPORATION	20.551875%
BY	DATE

YATES DRILLING COMPANY	10.793125%
BY	DATE

ABO PETROLEUM CORPORATION	10.793125%
BY	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.	37.500000%
BY: DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	

TOTAL 100.000000%

U.S. Postal Service<sup>TM</sup>  
CERTIFIED MAIL<sup>TM</sup> RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com).

OFFICIAL USE

Postage \$

Certified Fee

Return Receipt Fee  
(Endorsement Required)

Restricted Delivery Fee  
(Endorsement Required)

Total Postage & Fees \$

Postmark Here

8210

Sent To

Jeri Alexander Lott

Street, Apt. No., or PO Box No. 9102 Vicksburg Ave., #17

City, State, ZIP+4 Lubbock, TX 79356

PS Form 3800, June 2002 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.

Print your name and address on the reverse so that we can return the card to you.

Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:  
  
Jeri Alexander Lott  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☒ Agent ☐ Addressee

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

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

Signature

3. Service Type ☐ Certified Mail ☐ Express Mail ☐ Registered ☐ Return Receipt for Merchandise ☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

2. Article Number  
(Transfer from service label)

7002 2030 0001 8263 7485

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

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)

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 PETROLEUM CORPORATION-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% AND SHARBRO OIL LIMITED CO MPANY.-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**  
**Containing 200.00 acres, more or less**

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by Jeri Alexander Lott

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96  
\_\_\_\_\_  
No. \_\_\_\_\_  
\_\_\_\_\_  
Oil and Gas  
Lease  
\_\_\_\_\_  
FROM  
\_\_\_\_\_  
\_\_\_\_\_  
TO  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Dated \_\_\_\_\_, 20 \_\_\_\_\_  
No. Acres \_\_\_\_\_  
Term \_\_\_\_\_  
County, NM \_\_\_\_\_  
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.  
\_\_\_\_\_  
County Clerk  
By \_\_\_\_\_, Deputy  
When recorded return to  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

SENDER: COMPLETE THIS SECTION

COMPLETE THIS SECTION ON DELIVERY

1. Complete this form and attach it to the back of the mailpiece.

2. Attach this form to the back of the mailpiece.

3. Attach this form to the back of the mailpiece.

4. Attach this form to the back of the mailpiece.

5. Attach this form to the back of the mailpiece.

6. Attach this form to the back of the mailpiece.

7. Attach this form to the back of the mailpiece.

8. Attach this form to the back of the mailpiece.

9. Attach this form to the back of the mailpiece.

10. Attach this form to the back of the mailpiece.

7002 2030 0001 8262 1996

U.S. Postal Service<sup>TM</sup>  
CERTIFIED MAIL<sup>TM</sup> RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

OFFICIAL USE

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42

ARTESIA, NM  
DEC 2 2004  
Postmark Here

88210

Sent To

Jeri Alexander-Lott

9102 Vicksburg Ave., #17

Lubbock, TX 79424

City, State, ZIP+4

7002 2030 0001 8262 1996

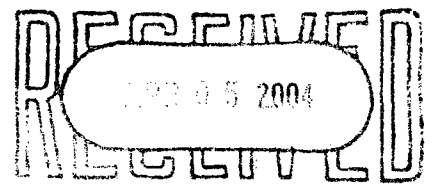
Guitar BFL Com #1  
Township 25 South, Range 26 East, NMPM  
Section 17: N/2  
Eddy County, New Mexico

Mineral Owner: James Kelly Polk  
12 Augusta  
Abilene, TX 79606

Net Acres in N/2 Spacing Unit 2.5  
Percent Working Interest in Unit 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 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.

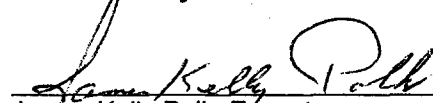
If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

Thank you.

Very truly yours,  
Yates Petroleum Corporation

  
Shirley Pruitt  
Land Technician

/sp  
AGREED and ACCEPTED this 31 day of March, 2004  
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  
Township 25 South, Range 26 East, NMPM  
Section 17: NW/4NE/4, E/2E/2  
Eddy County, New Mexico

Mr. Polk:

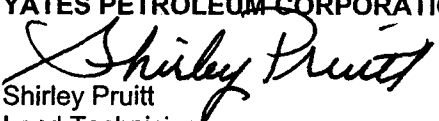
Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$1250.00 which is full bonus consideration of \$100.00 per acre for your 12.5 net mineral acre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

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and send it for collection through your bank, 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)

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

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

ARTESIA, NEW MEXICO April 5, 2004

PAY TO THE  
ORDER OF

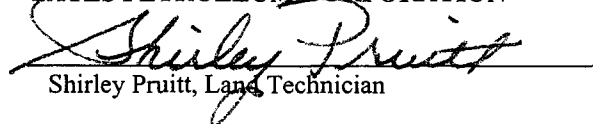
Estate of Mary Guitar Polk, James Kelly Polk, Executor

\$1250.00

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

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

YATES PETROLEUM CORPORATION

  
Shirley Pruitt, Land Technician



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 MYCO INDUSTRIES, INC.-10%, as Lessee, WITNESSETH:

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

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 this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 Guitar Polk**  
By: James Kelly Polk  
James Kelly Polk, Executor

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )

) ss.

COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By: \_\_\_\_\_

My commission expires \_\_\_\_\_

Notary Public

ACKNOWLEDGMENT

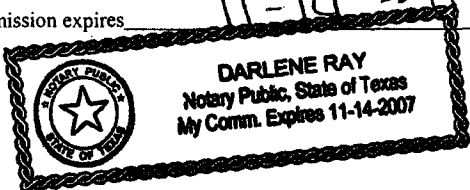
STATE OF Texas )

) ss.

COUNTY OF Taylor )

This instrument was acknowledged before me this 28th day of October, 2004,  
by James Kelly Polk as Executor of the Estate of Mary Guitar Polk

My commission expires 11-14-2007



Darlene Ray  
Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )

) ss.

COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By: \_\_\_\_\_

My commission expires \_\_\_\_\_

Notary Public

Producers 88 Rev. ( Year Lease) 5-96	
No. _____	
Oil and Gas Lease	
FROM _____	
TO _____	
Dated _____, 20____	
No. Acres _____	County, NM _____
Term _____	
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.	
By _____	County Clerk _____
By _____	Deputy _____
When recorded return to	
Yates Petroleum Corporation	
105 South Fourth Street	
Artesia, NM 88210	

**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<sup>th</sup> day of December, 2003.

James Kelly Polk  
**JAMES KELLY POLK, Personal Representative**

STATE OF TEXAS

)

) ss.

COUNTY OF TAYLOR

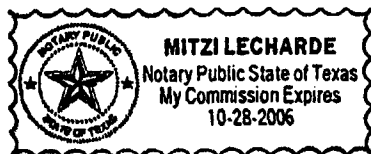
)

The foregoing instrument was acknowledged before me this 17<sup>th</sup> day of December, 2003 by **JAMES KELLY POLK**, Personal Representative of the Estate of **MARY GUITAR POLK, DECEASED**.

Mitzi Lecharde  
Notary Public

My Commission Expires:

10/28/2006



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

Section 7: N/2NE/4; N/2SE/4NE/4; W/2NW/4;  
S/2NE/4NW/4; NW/4NE/4NW/4;  
E/2NE/4NE/4NW/4; N/2SE/4NW/4;  
E 3/4 S/2SE/4NW/4; S/2NE/4SW/4;  
NE/4NE/4SW/4; NE/4NW/4SW/4; SW/4NW/4SW/4;  
E/2SE/4NW/4SW/4; SW/4SW/4SE/4;  
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: 0315684 STATE OF  
NEW MEXICO, COUNTY OF EDDY  
RECORDED 12/22/2003 3:37 PM  
BOOK 0534 PAGE 0327 *W. J. Blenden*  
JEAN BLENDE, COUNTY CLERK



LEASE NUMBER - NM-000403-002513-T LEASE NAME POLK, MARY GUITAR, ESTATE

PROSPECT.....000000 ACCT. LEASE 271251-001

ACQ CODE.....  
COUNTY #1.....EDD EDDY BOOK.. 442 PAGE.. 562 REC DATE... 12/31/2001  
COUNTY #2..... BOOK.. PAGE.. RSC DATE... 0/00/0000  
STATE.....NM NEW MEXICO  
LEASE DATE..... 9/25/2001 RECORD STATUS... CM COMPLETE LEASE RECORD  
EFFECTIVE DATE.....10/05/2001 LEASE TYPE.....X FEE LEASE  
EXPIRATION DATE.....10/04/2004 ACQUISITION DATE. 9/25/2001  
PRIMARY TERM..... 3 YR LEASE/RENTAL STAT...PDU PAID UP LEASE  
ORIGINAL LESSOR.....ESTATE OF MARY GUITAR POLK, JAMES KELLY POLK, EXECUTOR  
ORIGINAL LESSEE.....YPC  
ACQUIRED - HOW..... BONUS PER ACRE... 100.00  
- FROM..... TOTAL BONUS..... 1250.00  
LESSEE OF RECORD....

ACREAGES	LSE GROSS	LEASE NET	OUR NET	BASE ACRES.....
TOTAL.....	200.00	12.50		LESSOR MI.....
DEVELOPED....				LESSOR RI..... .25000000
UNDEVELOPED..	200.00	12.50		TOTAL ORRI.....
NO TOTALIZE..				LEASE NRI..... .75000000

LEGAL DESCRIPTION INFORMATION:

SEQ	TWP	RNG	SEC	LOCATION	ABSTRACT #	LSE GRS	LSE NET
				LEGAL DESCRIPTION			
01	25S	26E	17			200.00	12.50
	NW4NE4, R22E						
				TOTAL ACREAGE		200.00	12.50

OWNERSHIP INFORMATION:

OWNER#	WORKING INTEREST OWNER	GW	OTHER CO LSE
5000	ABO PETROLEUM CORPORATION	.10000000	
640010	MYCO INDUSTRIES, INC.	.10000000	
994100	YATES DRILLING COMPANY	.10000000	
999900	YATES PETROLEUM CORPORATION	.70000000	
	TOTAL INTEREST	1.00000000	

EXPIRED

ap  
kp

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		
UNIT CLAUSE....			

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.....	TOTAL SHUT-IN.....
COMPANY SHARE.....	COMPANY SHARE.....
RENTAL DUE DATE..... 0/00/0000	SHUT-IN DUE DATE..... 0/00/0000
PAYMENT FREQUENCY.....	PAYMENT FREQUENCY.....
	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  
TREASURER

November 5, 2004

James Kelly Polk  
12 Augusta  
Abilene, TX 79606

Re: Oil and 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. 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,  
YATES PETROLEUM CORPORATION

  
Shirley Pruitt  
Land Technician

/sp  
Enclosure(s)



THIS AGREEMENT made this 5th day of November, 2004, between **James Kelly Polk, 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, INC.-10%, as Lessee, WITNESSETH:**

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

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 this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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

STATE OF Texas)

COUNTY OF \_\_\_\_\_)

My commission expires \_\_\_\_\_

STATE OF \_\_\_\_\_ )

COUNTY OF \_\_\_\_\_)

My commission expires \_\_\_\_\_

STATE OF \_\_\_\_\_)

COUNTY OF \_\_\_\_\_)

My commission expires \_\_\_\_\_

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

## Oil and Gas Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres

County, NM

Term
------

This instrument was filed for record on the

day of \_\_\_\_\_, 20\_\_\_\_,

way of \_\_\_\_\_ M., and duly  
o'clock

\_\_\_\_\_ o'clock \_\_\_\_\_ IV., and duly  
 \_\_\_\_\_ recorded in Book \_\_\_\_\_ Page \_\_\_\_\_.

coluca III BOOK \_\_\_\_\_, I agree  
records of this office

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

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**

A handwritten signature in black ink that reads 'Susan Vierra' with a long horizontal flourish extending to the right.

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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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  
TELEPHONE (505) 748-1471

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

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.  
AFE DATE

04-542-0
10/29/04

AFEND (rev 6/98)  
10-29-04

AFE STATUS:

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

LEASE NAME  
COUNTY  
FIELD  
LOCATION

Guitar BFL Com. #1
Eddy
Section 17 T25S-R26E, 990' N & 1980' E

PROJ'D DEPTH  
STATE  
HORIZON

12,000'
New Mexico
Morrow

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME  
DISTRICT NAME  
BRANCH NAME

Oil & Gas Division

PROGNOSIS: New well drilled to 12,000' to test all formations

INTANGIBLE DRILLING 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	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 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'	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
940-040	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
-----------------------------------	------------------------

YATES PETROLEUM CORPORATION	20.551875%
BY DATE	
YATES DRILLING COMPANY	10.793125%
BY DATE	
ABO PETROLEUM CORPORATION	10.793125%
BY 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.	37.500000%
BY: DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	

TOTAL 100.000000%

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

For delivery information visit our website at [www.usps.com](http://www.usps.com)

OFFICIAL USE

Postage \$

Certified Fee

Return Receipt Fee (Endorsement Required)

Restricted Delivery Fee (Endorsement Required)

Total Postage & Fees \$ 6.49

Postmark Here  
NOV 10

Sent To James Kelly Polk

Street, Apt. No., or PO Box No. 12 Augusta

City, State, ZIP+4 Abilene, TX 79604

PS Form 3800, June 2002 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

1. Article Addressed to:  
  
James Kelly Polk  
12 Augusta  
Abilene, TX 79604

COMPLETE THIS SECTION ON DELIVERY

A. Signature X [Signature] ☐ Agent ☐ Addressee

B. Received by (Printed Name) C. Date of Delivery 11.12.04

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

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

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

2. Article Number (Transfer from service label) 7002 2030 0001 8263 7416

PS Form 3811, February 2004 Domestic Return Receipt 102595-02-10-1540

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 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)



THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between James Kelly Polk, 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**  
**Containing 200.00 acres, more or less**

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by \_\_\_\_\_ James Kelly Polk \_\_\_\_\_

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas Lease

FROM

\_\_\_\_\_

TO

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dated \_\_\_\_\_, 20 \_\_\_\_\_

No. Acres \_\_\_\_\_

County, NM \_\_\_\_\_

Term \_\_\_\_\_

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.

\_\_\_\_\_ County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

COMPLETE THIS SECTION ON DELIVERY

SENDER: COMPLETE THIS SECTION

- ☐ I am enclosing this money order or check in this envelope.
- ☐ I am enclosing this money order or check in this envelope.
- ☐ I am enclosing this money order or check in this envelope.
- ☐ I am enclosing this money order or check in this envelope.
- ☐ I am enclosing this money order or check in this envelope.

Signature: *James Kelly Polk*  
Date: *12/12/04*

Address:  
James Kelly Polk  
12 Augusta  
Abilene, TX 79606

Postage:  
Certified Fee  
Return Receipt Fee  
Restricted Delivery Fee  
Total Postage & Fees

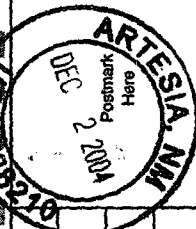
Address Number:  
7004 1160 0005 5321 3165

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	4.42



Sent To: James Kelly Polk  
12 Augusta  
Abilene, TX 79606  
City, State, ZIP+4

597E 12E5 5000 091T 4002

**Guitar BFL Com #1**

**Township 25 South, Range 26 East, NMPM**

**Section 17: N/2**

**Eddy County, New Mexico**

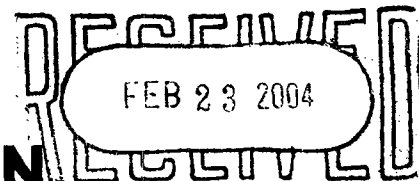
Mineral Owner:

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

Net Acres in N/2 Spacing Unit	1.875
Percent Working Interest in Unit	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

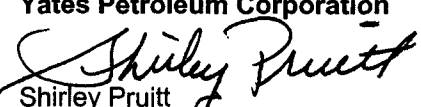
Ms. Galusha:

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;
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 18 day of February, 2004  
Marilyn Guitar Galusha Trust

  
Trustee



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:

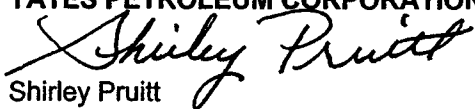
Enclosed are two (2) copies of our Paid-up Oil and Gas Lease, three (3) year term, providing for a 1/4 royalty, covering your interest in the captioned lands. Also enclosed is one (1) draft in the amount of \$312.50 which is full bonus consideration of \$100.00 per acre for your 3.125 net mineral acre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

If the above meets with your approval, please execute the Oil and Gas Lease before a Notary Public. Also endorse the draft and send it for collection through your bank, 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)

THIS AGREEMENT made this 18th day of February, 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, INC.-10%, as Lessee, WITNESSETH:

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

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

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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  
Marilyn Guitar Galusha, Trustee of the  
Marilyn Guitar Galusha Trust

Marilyn Guitar Galusha Trust

See Exhibit A

## **Exhibit "A"**

11 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

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

ARTESIA, NEW MEXICO

February 25, 2004

PAY TO THE  
ORDER OF

Marilyn Guitar Galusha, Trustee of the Marilyn Guitar Galusha Trust

\$312.50

Three Hundred Twelve and 50/100

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

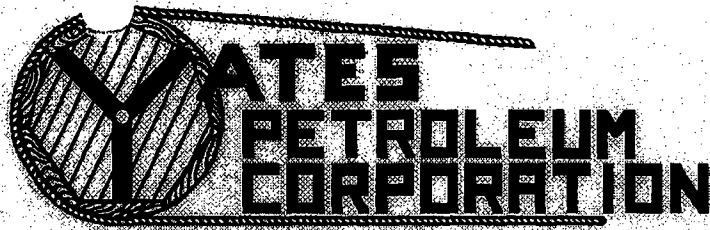
DOLLARS  
WITH EXCHANGE

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

YATES PETROLEUM CORPORATION

*Shirley Pruitt*  
Shirley Pruitt, Lead Technician

*Please send  
check -  
Thanks*



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  
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

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 CORPORATION**

Shirley Pruitt  
Land Technician

/sp  
Enclosure(s)

LEASE NUMBER - NM-000403-002513-K

LEASE NAME GALUSHA, MARILYN GUITAR, TRUST

PROSPECT.....000000

ACCT. LEASE 270392-001

ACQ CODE.....

COUNTY #1.....EDD EDDY

COUNTY #2.....

STATE.....NM NEW MEXICO

LEASE DATE..... 9/21/2001

EFFECTIVE DATE..... 9/21/2001

EXPIRATION DATE..... 9/20/2004

PRIMARY TERM..... 3 YR

ORIGINAL LESSOR.....MARILYN GUITAR GALUSHA TRUST, MARILYN GUITAR GALUSHA, TRUSTE

ORIGINAL LESSEE.....YPC

ACQUIRED - HOW.....

- FROM.....

LESSEE OF RECORD....

BOOK.. 431 PAGE.. 968 REC DATE... 10/05/2001

BOOK.. PAGE.. REC DATE... 0/00/0000

RECORD STATUS... CM COMPLETE LEASE RECORD

LEASE TYPE.....X FEE LEASE

ACQUISITION DATE. 9/21/2001

LEASE/RENTAL STAT...PDU PAID UP LEASE

BONUS PER ACRE... 100.00

TOTAL BONUS..... 312.50

ACREAGES	LSE GROSS	LEASE NET	OUR NET	BASE ACRES.....
TOTAL.....	200.00	3.12		LESSOR MI.....
DEVELOPED....				LESSOR RI..... .25000000
UNDEVELOPED..	200.00	3.12		TOTAL ORRI.....
NO TOTALIZE..				LEASE NRI..... .75000000

LEGAL DESCRIPTION INFORMATION:

SEQ	TWP	RNG	SEC	LOCATION	ABSTRACT #	LSE GRS	LSE NET
-----				LEGAL DESCRIPTION	-----		
01	25S	26E	17			200.00	3.12
	NW4NE4, E2E2						
	TOTAL ACREAGE					200.00	3.12

OWNERSHIP INFORMATION:

OWNER#	WORKING INTEREST	OWNER	GW	OTHER CO LSE
5000	ABO	PETROLEUM CORPORATION	.10000000	
640010	MYCO	INDUSTRIES, INC.	.10000000	
994100	YATES	DRILLING COMPANY	.10000000	
999900	YATES	PETROLEUM CORPORATION	.70000000	
TOTAL INTEREST			1.00000000	

EXPIRED

4p  
Kp

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.... P PUGH	LESSER INTEREST...	SLIDING ROYALTY.	
REASMT OBLIG...	CONT. DRILLING.... Y		
UNIT CLAUSE....			

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.....	TOTAL SHUT-IN.....
COMPANY SHARE.....	COMPANY SHARE.....
RENTAL DUE DATE..... 0/00/0000	SHUT-IN DUE DATE..... 0/00/0000
PAYMENT FREQUENCY.....	PAYMENT FREQUENCY.....
	HBP WELL NAME..
	MULT/COMB CHECKS .....

\*\*\*\*\*  
\* P. 01 \*  
\* TRANSACTION REPORT \*  
\* NOV-19-2004 FRI 02:11 PM \*  
\* FOR: YATES PETROLEUM LAND 5057484572 \*  
\* DATE START RECEIVER TX TIME PAGES TYPE NOTE M# DP \*  
\* NOV-19 02:11 PM 13256771399 33" 2 SEND OK 689 \*  
\* TOTAL : 33S PAGES: 2 \*  
\*\*\*\*\*



**FAX**

Date: 11-19-04  
Number of pages including cover sheet: 2

To: Marilyn  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Phone: \_\_\_\_\_  
Fax phone: \_\_\_\_\_

From: Shirley  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Phone: \_\_\_\_\_  
Fax phone: \_\_\_\_\_

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



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

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

September 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

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, INC.-10%, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 ~~thereby warrants and agrees to defend the title to said land and~~ agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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

Marilyn Guitar Galusha, Trustee

Shirley Pruitt

# Oil and Gas Lease

FROM

To

Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_

Term	County, NM
------	------------

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.

County Clerk

By \_\_\_\_\_, Deputy

## When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires.

This instrument was acknowledged before me this \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

## INDIVIDUAL ACKNOWLEDGMENT

My commission expires.

Trustee of the Marilyn Guitar Galusha Trust

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by Marilyn Guitar Galusha, as

STATE OF \_\_\_\_\_  
County of \_\_\_\_\_ ss. \_\_\_\_\_

## CORPORATION ACKNOWLEDGMENT

My commission expires.

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ ss) \_\_\_\_\_

## INDIVIDUAL ACKNOWLEDGMENT

Notary Public

Notary Public

Notary Public

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 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 the 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 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, separation, 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. *CL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *CL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *CL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *CL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *CL*  
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

11-8-04



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

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

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

AFE NO.	04-542-0
AFE DATE	10/29/04
AFEND (rev 6/98) 10-29-04	

AFE STATUS:	<input checked="" type="checkbox"/> Original
	<input type="checkbox"/> Revised
	<input type="checkbox"/> Final
	<input type="checkbox"/> 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: New well drilled to 12,000' to test all formations

INTANGIBLE DRILLING 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	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 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'	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
940-040	Trucking & Construction Costs		15,000
TOTAL TANGIBLE EQUIPMENT COSTS		151,000	415,500

TOTAL COSTS	1,341,000	1,864,500
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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.	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 GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	

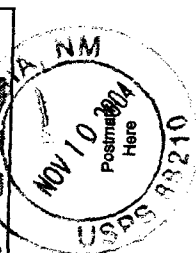
TOTAL 100.000000%

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL USE**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	10.49



Sent To Marilyn Guitar Galusha  
Street, Apt. No., P.O. Box No. P.O. Box 1438  
City, State, Zip+4 Abilene, TX 79604

PS Form 3800, June 2002 See Reverse for Instructions

7002 2030 0001 8263 7515

<b>SENDER: COMPLETE THIS SECTION</b>		<b>COMPLETE THIS SECTION ON DELIVERY</b>	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature <u>Marilyn Guitar Galusha</u> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p>Marilyn Guitar Galusha P.O. Box 1438 Abilene, TX 79604</p>		<p>B. Received by (Printed Name) _____ C. Date of Delivery <u>NOV 12 2004</u></p>	
<p>2. Article Number</p> <p>7002 2030 0001 8263 7515</p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below:</p>	
<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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

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 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)

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 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 SHARBRO OIL LIMITED CO MPANY.-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  
Containing 200.00 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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

Marilyn Guitar Galusha, Trustee

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )  
  
This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by \_\_\_\_\_  
  
My commission expires \_\_\_\_\_  
Notary Public

ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )  
  
This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by Marilyn Guitar Galusha as Trustee  
for the Marilyn Guitar Galusha Trust  
  
My commission expires \_\_\_\_\_  
Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )  
  
This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_  
  
My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96  
No. \_\_\_\_\_  
Oil and Gas  
Lease  
FROM  
\_\_\_\_\_  
TO  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_ County, NM  
Term \_\_\_\_\_  
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.  
\_\_\_\_\_  
County Clerk  
By \_\_\_\_\_, Deputy  
When recorded return to  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210



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<input checked="" type="checkbox"/> Red Stone	<input checked="" type="checkbox"/> Granite or Granite Panels
<input type="checkbox"/> Plaster Wall	<input type="checkbox"/> Plaster

7004 1160 0005 5321 3202

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**U.S. Postal Service<sup>TM</sup>**  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

For delivery information visit our website at [www.usps.com](http://www.usps.com)®

**OFFICIAL USE**

Postage \$

**Certified Fee**

Return Receipt Fee  
(Endorsement Required)

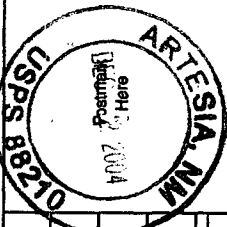
**Restricted Delivery Fee  
(Endorsement Required)**

### Total Postage & Fees

**Sent To**  
**Marilyn Guitar Galusha**  
**P O Box 1438**

Street, Apt. No.: Abilene, TX 79604  
or PO Box No.

City, State, ZIP+4



4.42

202E T2ES 5000 09TT 400Z

**Guitar BFL Com #1**

Township 25 South, Range 26 East, NMPM

Section 17: N/2

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 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 Pruitt  
Land Technician

/sp  
AGREED and ACCEPTED this \_\_\_\_\_ day of \_\_\_\_\_, 2004

\_\_\_\_\_  
Pressley H. Guitar

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



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

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

September 1, 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  
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 1/4<sup>th</sup> of 8/8ths on all oil and gas produced from the leased lands;
4. Offer will expire September 15, 2004 at office closing;
5. 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,

YATES PETROLEUM CORPORATION

Shirley Pruitt  
Land Technician

/sp

## OIL & GAS LEASE

THIS AGREEMENT made this 1st day of September, 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, INC.-10%, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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

Shirley Pruitt

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_  
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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_

by \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

Pressley H. Guilar, dealing in his sole and separate property

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL ACKNOWLEDGMENT

**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, separation, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

LEASE NUMBER - NM-000403-002513-Y LEASE NAME GUITAR, PRESSLEY H.

PROSPECT.....000000

ACCT. LEASE 271298-001

ACQ CODE.....

COUNTY #1.....EDD EDDY

COUNTY #2.....

STATE.....NM NEW MEXICO

LEASE DATE..... 9/25/2001

EFFECTIVE DATE..... 9/25/2001

EXPIRATION DATE..... 9/24/2004

PRIMARY TERM..... 3 YR

ORIGINAL LESSOR.....PRESSLEY H. GUITAR, DEALING IN HIS SOLE & SEPARATE PROPERTY

ORIGINAL LESSEE.....YPC

ACQUIRED - HOW.....

- FROM.....

LESSEE OF RECORD.....

BOOK.. 449 PAGE.. 119 REC DATE... 2/28/2002

BOOK.. PAGE.. REC DATE... 0/00/0000

RECORD STATUS... CM COMPLETE LEASE RECORD

LEASE TYPE.....X FEE LEASE

ACQUISITION DATE. 9/25/2001

LEASE/RENTAL STAT...PDU PAID UP LEASE

BONUS PER ACRE... 100.00

TOTAL BONUS..... 312.50

ACREAGES

LSE GROSS

LEASE NET

OUR NET

BASE ACRES.....

TOTAL..... 200.00 3.12

DEVELOPED....

LESSOR MI.....

LESSOR RI..... .25000000

UNDEVELOPED.. 200.00 3.12

TOTAL ORRI.....

LEASE NRI..... .75000000

NO TOTALIZE..

LEGAL DESCRIPTION INFORMATION:

SEQ	TWP	RNG	SEC	LOCATION	ABSTRACT #	LSE GRS	LSE NET
----- LEGAL DESCRIPTION -----							
01	25S	26E	17			200.00	3.12
	NW4NE4, E2E2						
TOTAL ACREAGE						200.00	3.12

OWNERSHIP INFORMATION:

OWNER#	WORKING INTEREST	OWNER	GWI	OTHER CO LSE
5000	ABO	PETROLEUM CORPORATION	.100000000	
640010	MYCO	INDUSTRIES, INC.	.100000000	
994100	YATES	DRILLING COMPANY	.100000000	
999900	YATES	PETROLEUM CORPORATION	.700000000	
TOTAL INTEREST			1.000000000	

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		
UNIT CLAUSE....			

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.....	TOTAL SHUT-IN.....
COMPANY SHARE.....	COMPANY SHARE.....
RENTAL DUE DATE..... 0/00/0000	SHUT-IN DUE DATE..... 0/00/0000
PAYMENT FREQUENCY.....	PAYMENT FREQUENCY.....
	HBP WELL NAME..
	MULT/COMB CHECKS .....

LEASE NUMBER - NM-000403-002513-Y

EXPIRED

9/8

1/8





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**

A handwritten signature in black ink, appearing to read 'Susan Vierra', with a long horizontal stroke extending to the right.

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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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  
TELEPHONE (505) 748-1471

# AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION &amp; RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 6/98)

10-29-0

AFE STATUS:

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

LEASE NAME

Guitar BFL Com. #1

COUNTY

Eddy

FIELD

LOCATION

Section 17 T25S-R26E, 990' N &amp; 1980' E

PROJ'D DEPTH

12,000'

STATE

New Mexico

HORIZON

Morrow

DIVISION CODE

100

DIVISION NAME

Oil &amp; Gas Division

DISTRICT CODE

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
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	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 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'	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
940-040	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

YATES PETROLEUM CORPORATION

20.551875%

BY

DATE

YATES DRILLING COMPANY

10.793125%

BY

DATE

ABO PETROLEUM CORPORATION

10.793125%

BY

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

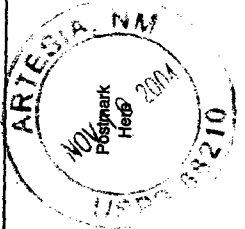
		SHARE
MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER		0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI 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, MARILYN 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	
TOTAL		100.000000%

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**OFFICIAL USE**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	6.49



Sent To Pressley Hudson Guitar  
Street, Apt. No., P.O. box 5383  
City, State, Zip+4 Abilene, TX 79608-5383

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Pressley Hudson Guitar  
P.O. box 5383  
Abilene, TX 79608-5383

2. Article Number  
(Transfer from service label)

7002 2030 0001 8263 7461

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature Pressley H. Guitar ☐ Agent ☐ Addressee

B. Received by (Printed Name) Pressley H. Guitar C. Date of Delivery NOV 12 2004

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

Guitar

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

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

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

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)

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  
Containing 200.00 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 H. Guitar

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by Pressley H. Guitar

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96  
No. \_\_\_\_\_  
Oil and Gas  
Lease  
FROM  
\_\_\_\_\_  
TO  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Dated \_\_\_\_\_, 20 \_\_\_\_\_  
No. Acres \_\_\_\_\_ County, NM  
Term \_\_\_\_\_  
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.  
\_\_\_\_\_  
County Clerk  
By \_\_\_\_\_, Deputy  
When recorded return to  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

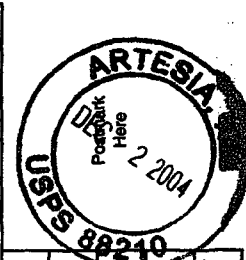


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**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42



Sent To	Pressley Hudson-Guitar
Street, Apt. No., or PO Box No.	P.O. Box 2365
City, State, ZIP+4	Big Spring, TX 79721

PS Form 3800, June 2002 See Reverse for Instructions

0004 1160 0000 5000 0911 4002

**CERTIFIED MAIL**

**IS  
ROLEUM  
PORATION**

35 SOUTH FOURTH ST.  
MEXICO 88210-2118

ICE REQUESTED

1160 0005 5321 3233



UNITED STATES POSTAGE  
012/09/04\$04.420  
0004321433 DEC 02 2004  
MAILED FROM ZIP CODE 88210

- ☒ Not a business address
- ☐ No address
- ☐ Attempted - Not Known
- ☐ No Such Street
- ☐ Vacant
- ☐ No Mail Recipient
- ☐ Box Closed - No Order
- ☐ Returned for No Order
- ☐ Postage Due
- ☐ Refused
- ☐ Illegible
- ☐ Number

SUSAN

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

P.O. Box 5383  
Abilene

FINAL

137  
127

1160 0005 5321 3233

7004 1160 0005 5321 3233

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OFFICIAL USE

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42

Postmark Here

DEC 2 2004

ARLESIA, NM

USPS 88240

Sent To

Pressley Hudson Guitar

P.O. Box 2365

Street, Apt. No.; or PO Box No.

Big Spring, TX 79721

City, State, ZIP+4

PS Form 3800, June 2002

See Reverse for Instructions

7004 1160 0005 5321 3721

U.S. Postal Service<sup>TM</sup>  
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(Domestic Mail Only; No Insurance Coverage Provided)

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OFFICIAL USE

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.65

Postmark Here

DEC 1 3 2004

ARLESIA, NM

USPS 88240

Sent To

Pressley H. Guitar

P O Box 5383

Street, Apt. No.; or PO Box No.

Abilene, TX 796088

City, State, ZIP+4

PS Form 3800, June 2002

See Reverse for Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<div><div>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</div><div>■ Print your name and address on the reverse so that we can return the card to you.</div><div>■ Attach this card to the back of the mailpiece, or on the front if space permits.</div></div> <div>1. Article Addressed to:</div> <div>Pressley H. Guitar P O Box 5383 Abilene, TX 796088</div>		<div>A. Signature x <i>Pressley H. Guitar</i><div><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</div></div> <div>B. Received by (Printed Name) Pressley H. Guitar</div> <div>C. Date of Receipt DEC 1 3 2004</div> <div>D. Is delivery address different from item 1? If YES, enter delivery address below:<div><input type="checkbox"/> Yes <input type="checkbox"/> No</div></div> <div>3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</div> <div>4. Restricted Delivery? (Extra Fee)<div><input type="checkbox"/> Yes</div></div>	
2. Article Number (Transfer from service)		7004 1160 0005 5321 3721	
PS Form 3811, February 2004		Domestic Return Receipt 102595-02-M-1640	

**Guitar BFL Com #1**

Township 25 South, Range 26 East, NMPM

Section 17: N/2

Eddy County, New Mexico

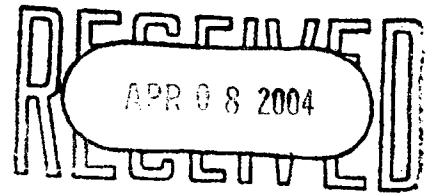
Mineral Owner:

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

Net Acres in N/2 Spacing Unit	0.9375
Percent Working Interest in Unit	0.292969%
Previous Lease dated:	11/1/01
Expiration:	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
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.
11/10/04	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  
Township 25 South, Range 26 East, NMPM  
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.

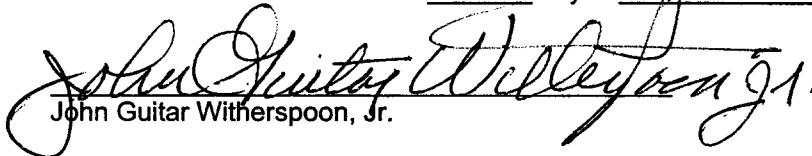
If the above meets with your approval, please execute below and return to this office at your earliest convenience. If you have any questions regarding this matter, please call me at (505) 748-4356.

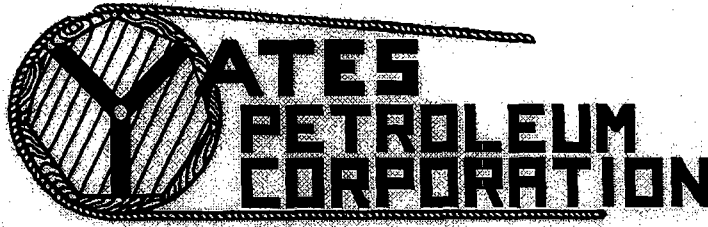
Thank you.

Very truly yours,  
Yates Petroleum Corporation.

  
Shirley Pruitt  
Land Technician

/sp  
AGREED and ACCEPTED this 5<sup>TH</sup> day of APRIL, 2004

  
John Guitar Witherspoon, Jr.



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  
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)

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

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

ARTESIA, NEW MEXICO April 8, 2004

PAY TO THE  
ORDER OF

John Guitar Witherspoon, dealing in his sole and separate property \$156.25

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

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

YATES PETROLEUM CORPORATION

  
Shirley Pruitt, Land Technician

## 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-70%; YATES DRILLING COMPANY-10%, ABO PETROLEUM CORPORATION-10% and MYCO INDUSTRIES, INC.-10%**, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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 Guitar Witherspoon, Jr.



Shirley Pruitt

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_

County, NM \_\_\_\_\_

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_

by \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_

day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_

day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL ACKNOWLEDGMENT

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.

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, separation, 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**

A handwritten signature in black ink that reads 'Susan Vierra' with a long horizontal line extending to the right.

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. *CL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *CL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *CL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *CL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *CL*  
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

11-8-04



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

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

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 6/98)

10-29-04

AFE STATUS:

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

LEASE NAME

Guitar BFL Com. #1

COUNTY

Eddy

FIELD

LOCATION

Section 17 T25S-R26E, 990' N & 1980' E

PROJ'D DEPTH

12,000'

STATE

New Mexico

HORIZON

Morrow

DIVISION CODE

100

DIVISION NAME

Oil & Gas Division

DISTRICT CODE

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
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	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 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'	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
940-040	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	
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YATES PETROLEUM CORPORATION	20.551875%
BY	DATE
YATES DRILLING COMPANY	10.793125%
BY	DATE
ABO PETROLEUM CORPORATION	10.793125%
BY	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

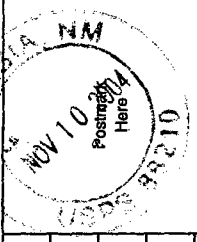
		SHARE
MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER		0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI 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, MARILYN 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	
TOTAL		100.000000%

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 10.49



Sent To John Guitar Witherspoon, Jr.  
Street, Apt. No., 7404 Lemonwood Drive  
or PO Box No.  
City, State, ZIP+4 Fort Worth, TX 76133-7012

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

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

2. Article Number  
(Transfer from service label) 7002 2030 0001 8263 7508

PS Form 3811, February 2004 Domestic Return Receipt

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature [Signature] ☐ Agent ☐ Addressee

B. Received by [Signature] C. Date of Delivery 11/19/04

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

[Signature]

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

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

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)



THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between **John Guitar Witherspoon, Jr., 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 CO MPANY-.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**  
**Containing 200.00 acres, more or less**

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by \_\_\_\_\_ John Guitar Witherspoon, Jr. \_\_\_\_\_

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96

No.

Oil and Gas Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_

County, NM \_\_\_\_\_

Term \_\_\_\_\_

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.

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

NO ADDITIONAL SECTION ON DELIVERY

Case No.	Case Name	Date of Delivery	Case Status
1	John Doe	12/15/2023	Completed
2	Jane Smith	12/16/2023	In Progress
3	Bob Johnson	12/17/2023	Pending
4	Alice Brown	12/18/2023	Completed
5	Charlie Davis	12/19/2023	In Progress
6	Eve White	12/20/2023	Pending
7	Frank Green	12/21/2023	Completed
8	Grace Black	12/22/2023	In Progress
9	Henry Blue	12/23/2023	Pending
10	Ivy Gold	12/24/2023	Completed
11	Jack Silver	12/25/2023	In Progress
12	Karen Bronze	12/26/2023	Pending
13	Leo Platinum	12/27/2023	Completed
14	Mia Diamond	12/28/2023	In Progress
15	Noah Ruby	12/29/2023	Pending
16	Olivia Sapphire	12/30/2023	Completed
17	Peter Emerald	12/31/2023	In Progress
18	Quinn Amethyst	1/1/2024	Pending
19	Rachel Garnet	1/2/2024	Completed
20	Sam Onyx	1/3/2024	In Progress
21	Tina Topaz	1/4/2024	Pending
22	Umar Jasper	1/5/2024	Completed
23	Victoria Malachite	1/6/2024	In Progress
24	Walter Obsidian	1/7/2024	Pending
25	Xavier Quartz	1/8/2024	Completed
26	Yara Turquoise	1/9/2024	In Progress
27	Zoe Citrine	1/10/2024	Pending
28	Adam Smoky Quartz	1/11/2024	Completed
29	Bella Labradorite	1/12/2024	In Progress
30	Chris Hematite	1/13/2024	Pending
31	Diana Fluorite	1/14/2024	Completed
32	Ethan Calcite	1/15/2024	In Progress
33	Fiona Selenite	1/16/2024	Pending
34	George Aventurin	1/17/2024	Completed
35	Hannah Moonstone	1/18/2024	In Progress
36	Isaac Opal	1/19/2024	Pending
37	Jessica Peridot	1/20/2024	Completed
38	Kevin Zircon	1/21/2024	In Progress
39	Laura Spinel	1/22/2024	Pending
40	Michael Garnet	1/23/2024	Completed
41	Natalie Jade	1/24/2024	In Progress
42	Oliver Malachite	1/25/2024	Pending
43	Pamela Labradorite	1/26/2024	Completed
44	Robert Hematite	1/27/2024	In Progress
45	Sarah Fluorite	1/28/2024	Pending
46	Thomas Calcite	1/29/2024	Completed
47	Uma Selenite	1/30/2024	In Progress
48	Vernon Aventurin	1/31/2024	Pending
49	Wendy Moonstone	2/1/2024	Completed
50	Xavier Opal	2/2/2024	In Progress
51	Yara Peridot	2/3/2024	Pending
52	Zoe Zircon	2/4/2024	Completed
53	Adam Spinel	2/5/2024	In Progress
54	Bella Garnet	2/6/2024	Pending
55	Chris Jade	2/7/2024	Completed
56	Diana Malachite	2/8/2024	In Progress
57	Ethan Labradorite	2/9/2024	Pending
58	Fiona Hematite	2/10/2024	Completed
59	George Fluorite	2/11/2024	In Progress
60	Hannah Calcite	2/12/2024	Pending
61	Isaac Selenite	2/13/2024	Completed
62	Jessica Aventurin	2/14/2024	In Progress
63	Kevin Moonstone	2/15/2024	Pending
64	Laura Opal	2/16/2024	Completed
65	Michael Peridot	2/17/2024	In Progress
66	Natalie Zircon	2/18/2024	Pending
67	Oliver Spinel	2/19/2024	Completed
68	Pamela Garnet	2/20/2024	In Progress
69	Robert Jade	2/21/2024	Pending
70	Sarah Malachite	2/22/2024	Completed
71	Thomas Labradorite	2/23/2024	In Progress
72	Uma Hematite	2/24/2024	Pending
73	Vernon Fluorite	2/25/2024	Completed
74	Wendy Calcite	2/26/2024	In Progress
75	Xavier Selenite	2/27/2024	Pending
76	Yara Aventurin	2/28/2024	Completed
77	Zoe Moonstone	2/29/2024	In Progress
78	Adam Opal	3/1/2024	Pending
79	Bella Peridot	3/2/2024	Completed
80	Chris Zircon	3/3/2024	In Progress
81	Diana Spinel	3/4/2024	Pending
82	Ethan Garnet	3/5/2024	Completed
83	Fiona Jade	3/6/2024	In Progress
84	George Malachite	3/7/2024	Pending
85	Hannah Labradorite	3/8/2024	Completed
86	Isaac Hematite	3/9/2024	In Progress
87	Jessica Fluorite	3/10/2024	Pending
88	Kevin Calcite	3/11/2024	

☐ Delivery address of respondent is: ☐ No  
☐ Delivery address below: ☐ Delivery address below

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☐ Express Mail  
☒ Certified Mail

A. Hardtopped Bulwark (Extra Fee)

102595-02-1

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RECEIPT  
Insurance Coverage Provided)

ALL USE

DEC 7 Postmark

2  
SIA. NM

F. Witherspoon, Jr.  
Inwood Drive

For delivery information visit our website at [www.usps.com](http://www.usps.com)

ARTEZIA NM  
Postmark Here  
DEC 22 2001  
USPS 88210

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

717 PO BOX NO.  
ST. CAT. 715.2

857E 72ES 5000 09TT 400Z

**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**                      0.9375  
**Percent Working Interest in Unit**              0.292969%  
**Previous Lease dated:**                              11/1/01  
**Expiration:**    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 with Shirley Pruitt concerning lease terms. Additional provisions added to lease form.
5/11/04	Compromise lease form with amendments sent.
Undated	Compromise lease form 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  
Township 25 South, Range 26 East, NMPM  
Section 17: NW/4NE/4, E/2E/2  
Eddy County, New Mexico

Mr. Witherspoon:

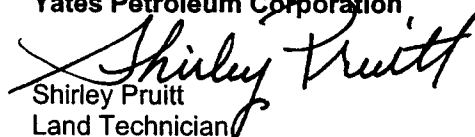
Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

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.

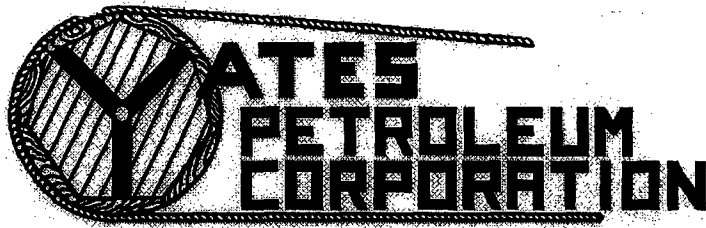
Very truly yours,  
Yates Petroleum Corporation

  
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  
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 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, INC.-10%**, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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

Shirley Pruitt

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_

No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

by \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF Texas

INDIVIDUAL ACKNOWLEDGMENT



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.

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, separation, stabilization, manufacturing, measuring or marketing the oil, gas or hydrocarbons covered by this lease.

THIS AGREEMENT made this 16th day of February, 2004, but Effective September 21, 2004, 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, INC.-10%, as Lessee, WITNESSETH:

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

3. ~~The royalties to be paid by Lessee are: (a) on oil,  $\frac{1}{4}$  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  $\frac{1}{4}$  of the gas so sold or used, provided that on gas sold at the wells the royalty shall be  $\frac{1}{4}$  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 this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_

No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_

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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

By \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT

My commission expires \_\_\_\_\_

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

of the \_\_\_\_\_

by \_\_\_\_\_ as \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

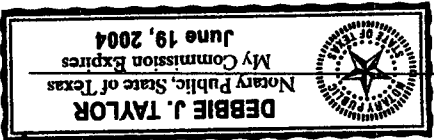
COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_

ACKNOWLEDGMENT

My commission expires \_\_\_\_\_



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

By: James M. Alexander, dealing in his sole and separate property

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

COUNTY OF \_\_\_\_\_

) ss. \_\_\_\_\_

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL 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 (90<sup>th</sup>) 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.

A handwritten signature in black ink, appearing to be "S. J. [unclear]", is written over the bottom right portion of the text.

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 Krawchak ✓

J.B. ✓

See Comments

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,

Tom Knecht

I agree with Tom. Paragraph 1 of Item 11 is contradictory and ambiguous. Need new language.

JB.

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 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
  - $\frac{1}{4}$  royalty
  - \$100.00 net acre bonus consideration
- 2) Two year shut-in (two consecutive years)
- 3) Pugh clause, at the end of the primary term, acreage not included within prorated spacing unit would expire, And minerals rights below the deepest producing horizon would expire.
- 4) 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:

- 1) A one-year shut-in (as proposed by Marilyn Galusha) was unacceptable with Yates Petroleum Corporation management.
- 2) A two-year cumulative shut-in was unacceptable.
- 3) 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 CORPORATION**

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  
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EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
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





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**

A handwritten signature in black ink that reads 'Susan Vierra' with a long horizontal line extending to the right.

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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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  
TELEPHONE (505) 748-1471

# AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.  
AFE DATE

04-542-0

10/29/04

AFEND (rev 6/03)

10-29-0

AFE STATUS:

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

LEASE NAME  
COUNTY  
FIELD  
LOCATION

Guitar BFL Com. #1

Eddy

PROJ'D DEPTH  
STATE  
HORIZON

12,000'

New Mexico

Morrow

Section 17 T25S-R26E, 990' N &amp; 1980' E

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME

Oil &amp; Gas Division

DISTRICT NAME

BRANCH NAME

PROGNOSIS: New well drilled to 12,000' to test all formations

## INTANGIBLE DRILLING 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	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 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'	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
940-040	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

YATES PETROLEUM CORPORATION

BY DATE

20.551875%

YATES DRILLING COMPANY

BY DATE

10.793125%

ABO PETROLEUM CORPORATION

BY DATE

10.793125%

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

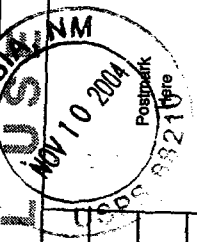
		SHARE
MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER		0.781250%
BY:	DATE	
BY:	DATE	
MARTHA JANE ALEXANDER RHODES		0.781250%
BY:	DATE	
JERI 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, MARILYN 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	
TOTAL		100.000000%

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL USE**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	6.49



Sent To **Brett Guitar Witherspoon**  
Street, Apt. No., P.O. Box 100635  
City, State, Zip, Fort Worth, TX 76185

PS Form 3800, June 2002 See Reverse for Instructions

7002 2030 0001 6263 7423

**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:

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

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature ☒ Agent ☐ Addressee  
B. Received by (Printed Name) **Brett Witherspoon** C. Date of Delivery **11-16-04**  
D. Is delivery address different from item 1? ☐ Yes ☐ No  
If YES, enter delivery address below:

3. Service Type  
☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.  
4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

2. Article Number (Transfer from service label) **7002 2030 0001 6263 7423**

PS Form 3811, February 2004 Domestic Return Receipt 109898-02-M-1549

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



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

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

November 24, 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:

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)

THIS AGREEMENT made this 24th day of November 2004, and Effective November 24, 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 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  
Containing 200.00 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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.

**Brett Guitar Witherspoon**

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003,  
by Brett Guitar Witherspoon

My commission expires \_\_\_\_\_  
Notary Public

ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003,  
by \_\_\_\_\_ as \_\_\_\_\_  
of the \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96  
No. \_\_\_\_\_  
Oil and Gas  
Lease  
FROM  
\_\_\_\_\_  
TO  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Dated \_\_\_\_\_, 20 \_\_\_\_\_  
No. Acres \_\_\_\_\_  
Term \_\_\_\_\_  
County, NM \_\_\_\_\_  
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.  
\_\_\_\_\_  
County Clerk  
By \_\_\_\_\_, Deputy  
When recorded return to  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210



**Guitar BFL Com #1**

**Township 25 South, Range 26 East, NMPM**

**Section 17: N/2**

**Eddy County, New Mexico**

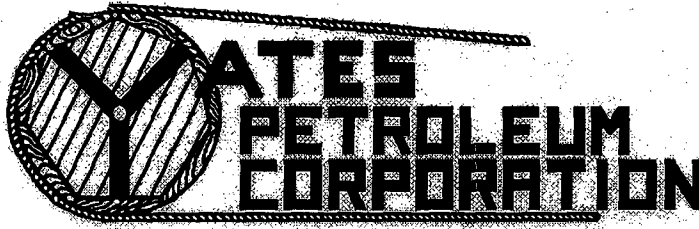
Mineral Owner:

Wende Guitar Witherspoon Morgan  
1720 Southwicke  
Flower Mount, TX 75022

Net Acres in N/2 Spacing Unit                      0.9375  
Percent Working Interest in Unit                      0.292969%  
Previous Lease dated:                                      11/1/01  
Expiration:    10/31/04

**Lease Renewal and Correspondence Timeline**

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.
11/10/04	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  
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

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, INC.-10%**, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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.

Wende Witherspoon Morgan

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, separation, 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

A handwritten signature in black ink that reads 'Susan Viera' with a long horizontal line extending to the right.

Susan Viera  
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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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  
TELEPHONE (505) 748-1471

# AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION &amp; RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 6/98)

10-29-04

AFE STATUS:

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

LEASE NAME

Guitar BFL Com. #1

COUNTY

Eddy

FIELD

LOCATION

Section 17 T25S-R26E, 990' N &amp; 1980' E

PROJ'D DEPTH

12,000'

STATE

New Mexico

HORIZON

Morrow

DIVISION CODE

100

DIVISION NAME

Oil &amp; Gas Division

DISTRICT CODE

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
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	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 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'	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
940-040	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	
-------------	----	-----------------	---------------------	--

YATES PETROLEUM CORPORATION	20.551875%
BY	DATE

YATES DRILLING COMPANY	10.793125%
BY	DATE

ABO PETROLEUM CORPORATION	10.793125%
BY	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.	37.500000%
BY: DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE	2.343750%
BY: DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER	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, MARILYN 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	

TOTAL 100.000000%

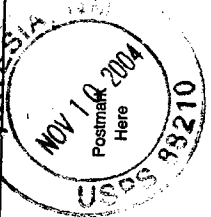


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**OFFICIAL USE**

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



Sent To Wende Witherspoon Morgan

Street, Apt. No., 1720 Southwicke

or PO Box No.

City, State, ZIP+4<sup>®</sup> Flower Mound, TX 75022

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece or on the front if space permits.

1. Article Addressed to:

Wende Witherspoon Morgan  
1720 Southwicke  
Flower Mound, TX 75022

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature Wende Witherspoon Morgan ☐ Agent ☐ Addressee

Received by (Printed Name) WENDE W. MORGAN C. Date of Delivery 11-17-04

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

If YES, enter delivery address below:

Guiden

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

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

2. Article Number (Transfer from service label) 7002 2030 0001 8263 7492

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

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)

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 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 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  
Containing 200.00 acres, more or less**

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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 \_\_\_\_\_ )  
 )ss  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
by Wende Witherspoon Morgan

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

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 )ss.  
COUNTY OF \_\_\_\_\_ )

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
By \_\_\_\_\_

My commission expires \_\_\_\_\_  
Notary Public

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas Lease

FROM

\_\_\_\_\_

TO

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dated \_\_\_\_\_, 20 \_\_\_\_\_

No. Acres \_\_\_\_\_

County, NM \_\_\_\_\_

Term \_\_\_\_\_

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.

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

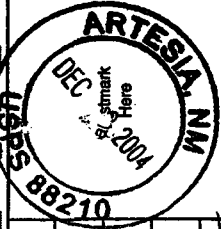
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

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**OFFICIAL USE**

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42



Sent To Wende Witherspoon-Morgan  
1720 Southwicke  
Street, Apt. 104 Lower Mount, TX 75022  
or PO Box No. \_\_\_\_\_  
City, State, ZIP+4 \_\_\_\_\_

PS Form 3800, June 2002 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

Complete items 1, 2, and 3 also complete item 4 if Restricted Delivery is desired. Item 5 is optional and should be completed if you want return receipt by first-class mail. Attach this card to the back of the mailpiece, or bring it to a post office.

**COMPLETE THIS SECTION ON DELIVERY**

1. ☐ Delivered to addressee's hands  
2. ☐ Delivered to addressee's hands by first-class mail  
3. ☐ Delivered to addressee's hands by first-class mail and delivery point  
4. ☐ Delivered to addressee's hands by first-class mail and delivery point and return receipt by first-class mail

7004 1160 0005 5321 3226

**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                      0.9375  
Percent Working Interest in Unit                      0.292969%  
Previous Lease dated:                                      11/1/01  
Expiration:    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  
Township 25 South, Range 26 East, NMPM  
Section 17: NW/4NE/4, E/2E/2  
Eddy County, New Mexico

Mr. Witherspoon:

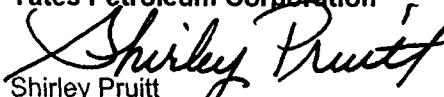
Yates Petroleum Corporation would like to extend an offer to re-new your lease in the captioned acreage, subject to the following terms:

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.

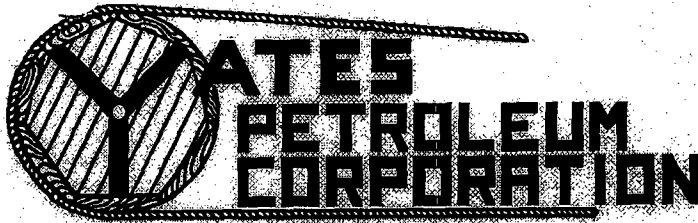
Very truly yours,  
Yates Petroleum Corporation

  
Shirley Pruitt  
Land Technician

/sp

AGREED and ACCEPTED this \_\_\_\_\_ day of \_\_\_\_\_, 2004

\_\_\_\_\_  
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 May, 2004, but effective November 1, 2004, between Whitten 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, INC.-10%, 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 Eddy County, 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 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 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 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. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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 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 its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and 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 or 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.

Whitten Guitar Witherspoon

Shirley Pruitt

Producers 88 Rev. ( Year Lease) 5-96

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 20\_\_\_\_  
No. Acres \_\_\_\_\_

County, NM

Term \_\_\_\_\_  
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.

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

My commission expires \_\_\_\_\_

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

My commission expires \_\_\_\_\_

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

My commission expires \_\_\_\_\_

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

STATE OF \_\_\_\_\_ Texas

INDIVIDUAL ACKNOWLEDGMENT

) ss. \_\_\_\_\_

COUNTY OF \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_  
Whitten Guitar Witherspoon, dealing in his sole and separate property

CORPORATE ACKNOWLEDGMENT

STATE OF \_\_\_\_\_

) ss. \_\_\_\_\_

COUNTY OF \_\_\_\_\_

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_, as \_\_\_\_\_

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.

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, separation, 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. *GL*  
1100 Mira Vista Blvd.  
Plano, TX 75093-4698

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

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

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

James Kelly Polk *GL*  
12 Augusta  
Abilene, TX 79604

Janis Lee Polk Harbour  
4400 Arcady  
Dallas, TX 75202

Pressley Hudson Guitar *GL*  
P.O. box 5383  
Abilene, TX 79608-5383

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

Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109

Jeri Alexander Lott *GL*  
9102 Vicksburg Ave., #17  
Lubbock, TX 79356

Ruth Ann Polk Caudle  
5616 Preston Fairway  
Dallas, TX 75252

Marilyn Guitar Galusha *GL*  
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  
TELEPHONE (505) 748-1471

# AUTHORITY FOR EXPENDITURE

NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion
<input type="checkbox"/>	Re-entry

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

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

AFE NO.

04-542-0

AFE DATE

10/29/04

AFEND (rev 8/98)

10-29-04

AFE STATUS:

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

LEASE NAME

Guitar BFL Com. #1

COUNTY

Eddy

FIELD

LOCATION

Section 17 T25S-R26E, 990' N &amp; 1980' E

PROJ'D DEPTH

12,000'

STATE

New Mexico

HORIZON

Morrow

DIVISION CODE

100

DIVISION NAME

Oil &amp; Gas Division

DISTRICT CODE

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
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	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 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'	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
940-040	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

YATES PETROLEUM CORPORATION

BY

DATE

20.551875%

YATES DRILLING COMPANY

BY

DATE

10.793125%

ABO PETROLEUM CORPORATION

BY

DATE

10.793125%

MYCO INDUSTRIES, INC.

BY

DATE

10.793125%

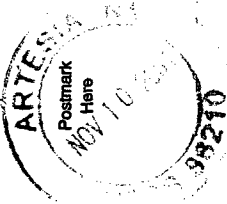
GUITAR BFL COM #1  
T25S-R26E- SECTION 17  
990' FNL & 1980' FEL  
EDDY COUNTY, NEW MEXICO

AFE # 04-542-0  
DATE: 11/8/04  
Page 2

		SHARE
MURCHISON OIL & GAS, INC.		37.500000%
BY:	DATE	
EARL B. GUITAR, SR. & ANITA GRISSOM GUITAR, REVOCABLE LIVING TRUST, ANITA GRISSOM GUITAR, SOLE TRUSTEE		2.343750%
BY:	DATE	
JAMES M. ALEXANDER & JERRI ALEXANDER		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, MARILYN 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	
TOTAL		100.000000%

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)  
For delivery information visit our website at [www.usps.com](http://www.usps.com)  
**OFFICIAL USE**

Postage \$	
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	0.44
Total Postage & Fees \$	0.44



Sent To Whitten Guitar Witherspoon  
3833 Arroyo Road  
Fort Worth, TX 76109  
City, State, ZIP+4

PS Form 3800, June 2002 See Reverse for Instructions

7002 2030 0001 8263 7454

<b>SENDER: COMPLETE THIS SECTION</b> ■ 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:  <u>Whitten Guitar Witherspoon</u> <u>3833 Arroyo Road</u> <u>Fort Worth, TX 76109</u>	<b>COMPLETE THIS SECTION ON DELIVERY</b> A. Signature <u>X</u> <u>Whitten Witherspoon</u> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee B. Received by (Printed Name) <u>Whitten Witherspoon</u> <input type="checkbox"/> Date of Delivery <u>11/10/04</u> C. Is delivery address different from item 1? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below:  3. Service Type <input type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input checked="" type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes <input type="checkbox"/> No
2. Article Number (Transfer from service label) <u>7002 2030 0001 8263 7454</u>	102595-02-M-1540

PS Form 3811, February 2004



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

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 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)

THIS AGREEMENT made this 30th day of November, 2004, and Effective November 30, 2004, between Whitten 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 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  
Containing 200.00 acres, more or less

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of 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 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis-that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

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

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all 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 be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas 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**



U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>TM</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

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Sent To Whitten Guitar Witherspoon  
4508 Tall Meadow Lane  
Fort Worth, TX 76133  
Street, Apt. No.,  
or PO Box No.  
City, State, ZIP+4

PS Form 3800, June 2002 See Reverse for Instructions

7004 3360 0005 5321 3141

**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

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

**COMPLETE THIS SECTION ON DELIVERY**

- A. Signature ☒ Agent ☐ Addressee  
B. Received by (Printed Name) WHITTEN WITHERSPOON C. Date of Delivery 12-13-04  
D. Is delivery address different from item 1? ☐ Yes ☒ No  
If YES, enter delivery address below:

12-13-04

3. Service Type  
☒ Certified Mail ☐ Express Mail  
☒ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.  
4. Restricted Delivery? (Extra Fee) ☐ Yes ☒ No

2. Article Number (Transfer from service label) 7004 3360 0005 5321 3141

PS Form 3811, February 2004 Domestic Return Receipt 102595-02-M-1049