

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213  
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)  
(505) 660-6612 (Cell)  
(505) 982-2151 (Fax)

[jamesbruc@aol.com](mailto:jamesbruc@aol.com)

December 9, 2005

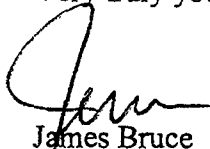
William F. Carr  
Holland & Hart LLP  
P.O. Box 2208  
Santa Fe, New Mexico 87504

Re: Pride/Yates

Dear Bill:

Regarding the future of the W $\frac{1}{2}$  §12-12S-34E: Yates has completed a producing well in the E $\frac{1}{2}$ , so the parties have to decide what to do in the W $\frac{1}{2}$ . Although unsuccessful attempts were made in the past, is Yates willing to consider an acreage trade? And, if not, is Yates willing to enter into a JOA on the W $\frac{1}{2}$ , as opposed to traveling down the compulsory pooling process again? And, I believe Yates' preference is to P&A the State X Well No. 1. However, Pride may be interested in re-entering the X-1 again, and so does not want to plug the well immediately. Let's discuss this.

Very truly yours,

  
James Bruce

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER 2

Pride

# PRIDE ENERGY COMPANY

(918) 524-9200 • Fax (918) 524-9292 • [www.pride-energy.com](http://www.pride-energy.com)

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

February 24, 2006

Via Certified Mail

Yates Petroleum Corporation  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

Return Receipt #

91 3408 2133 3930 9391 7617

ATTN: Chuck Moran

RE: State "X" #1  
W ½ of Section 12-T12S-R34E  
1,980' FNL and 660' FWL  
Lea County, New Mexico

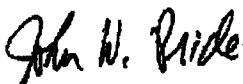
Mr. Moran:

In reference to the above, Pride Energy Company proposes to re-enter the wellbore and drill off of the cement plug, estimated top at 5,428' to a total depth of 12,400' to test the Mississippian Austin Cycle and/or Atoka Morrow and any other formations encountered.

Enclosed is an Authorization for Expenditure with a dry hole cost of \$1,263,200, completion cost of \$710,500, for a total completed well cost of \$1,973,700.

Please inform us as soon as possible as to your intent to participate, or not, in this proposed well. If you decide to participate please sign and return the enclosed AFE. We would then send you a Joint Operating Agreement covering this unit.

Sincerely,



John W. Pride  
Pride Energy Company

# PRIDE ENERGY COMPANY

---

(918) 524-9200 • Fax (918) 524-9292 • [www.pride-energy.com](http://www.pride-energy.com)

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

February 24, 2006

Via Certified Mail  
Return Receipt #  
91 3408 2133 3930 9391 7617

Yates Drilling  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

RE: State "X" #1  
W ½ of Section 12-T12S-R34E  
1,980' FNL and 660' FWL  
Lea County, New Mexico


To Whom It May Concern:

In reference to the above, Pride Energy Company proposes to re-enter the wellbore and drill off of the cement plug, estimated top at 5,428' to a total depth of 12,400' to test the Mississippian Austin Cycle and/or Atoka Morrow and any other formations encountered.

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Sincerely,



John W. Pride  
Pride Energy Company

# PRIDE ENERGY COMPANY

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Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

February 24, 2006

Abo Petroleum  
P.O. Box 900  
Artesia, NM 88211-0900

Via Certified Mail  
Return Receipt #  
91 3408 2133 3930 9391 7631

RE: State "X" #1  
W ½ of Section 12-T12S-R34E  
1,980' FNL and 660' FWL  
Lea County, New Mexico


To Whom It May Concern:

In reference to the above, Pride Energy Company proposes to re-enter the wellbore and drill off of the cement plug, estimated top at 5,428' to a total depth of 12,400' to test the Mississippian Austin Cycle and/or Atoka Morrow and any other formations encountered.

Enclosed is an Authorization for Expenditure with a dry hole cost of \$1,263,200, completion cost of \$710,500, for a total completed well cost of \$1,973,700.

Please inform us as soon as possible as to your intent to participate, or not, in this proposed well. If you decide to participate please sign and return the enclosed AFE. We would then send you a Joint Operating Agreement covering this unit.

Sincerely,



John W. Pride  
Pride Energy Company

MARTIN YATES, III  
1913-1985  
FRANK W. YATES  
1929-1985



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 86210-2118  
TELEPHONE (505) 748-1471

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

March 3, 2006

Via Facsimile

Mr. John Pride  
Pride Energy Company  
P. O. Box 701950  
Tulsa, Oklahoma 74170-1950

Re: State X#1  
W/2 of Section 12-T12S-R374E  
1,980' FNL and 860' FWL  
Lea County, New Mexico

2006 APR 7 PM 1 33

Dear Mr. Pride:

Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc. and Abo Petroleum Corporation have received your proposal to re-enter the captioned well and side track the well for an attempted Mississippian Austin Cycle. As you are aware, we believe it is important to solve the issues from the first attempt to re-enter this well before a second attempt is made. Thus, we again request that you immediately pay us the monies you are illegally holding for the first attempt and make payment of the costs that Oil Conservation Division has ordered you to pay. It is prudent to solve this matter before we proceed with your proposal and payment can be made for undisputed costs at this time prior to receipt of the order from the OCD from the hearing on January 5, 2006.

However, in an effort of cooperation, we are reviewing your proposal and ask that answer the following questions so that we may evaluate your proposal.

- 1) From the limited information you provided us on the last re-entry, would it be more prudent to drill a new top to bottom well?
- 2) Have you identified the drilling rig you plan to use and its capabilities?
- 3) What is the expected spud date?
- 4) Could you please provide a complete drilling and completion prognosis?
- 5) Do you plan to drill stem test any zones? No costs for drill stem tests shown on AFE.
- 6) Do you plan to have a mud logger on location and if so at what point in the drilling process?

EXHIBIT B

State X #1 - Re-entry  
3/3/06  
Page 2 of 2

- 7) Do you plan to directly supervise the drilling and completion of the well with a company man on location or use a service contractor? If contractor, please identify the contractor?
- 8) What methods do you plan to implement to provide current information for participants in the well? Current information being daily reports. This has been a persistent problem with your company.
- 9) Are all permits on the well valid?
- 10) What is your financial ability as operator to keep the properties free of mechanic and materialman liens?

We look forward to receiving our checks and answers to these questions.

Very truly yours,

**YATES PETROLEUM CORPORATION**



Chuck Moran  
Landman

# PRIDE ENERGY COMPANY

---

(918) 524-9200 ♦ Fax (918) 524-9292 ♦ [www.pride-energy.com](http://www.pride-energy.com)

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

April 19, 2006

Via FAX and US Mail

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210-2118

ATTN: Chuck Moran

RE: State X #1  
W ½ of Section 12-T12S-R34E  
Lea County, NM

Dear Mr. Moran:

In reference to your letter dated March 3, 2006, there were some questions you had regarding the above well.

Question: Have you identified the drilling rig you plan to use and it's capabilities?

Answer: Yes, Golden Eagle Drilling, Rig #1, capable of drilling to 15,000', with a combined 1,500 HP engines.

Question: What is the expected spud date?

Answer: Approximately the third or fourth week in May, 2006.

Question: Could you please provide a complete drilling and completion prognosis?

Answer: Yes (see copy enclosed).

Question: Do you plan to drill stem test any zones? No costs for drill stem tests shown on AFE.

Answer: No.

Question: Do you plan to have a mud logger on location and if so at what point in the drilling process?

Answer: Yes, when we reach approximately 9,500'.

Question: Do you plan to directly supervise the drilling and completion of the well with a company man on location or use a service contractor? If contractor, please identify the contractor.

Answer: Directly supervise the drilling and completion of the well with a company man on location.

Question: What methods do you plan to implement to provide current information for participants in the well? Current information being daily reports.

Answer: Daily drilling reports will be e-mailed to the personnel designated by the participants in the well.

Question: Are all permits on the well valid?

Answer: Yes.

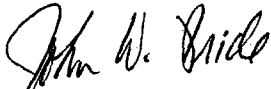
Question: What is your financial ability as operator to keep the properties free of mechanical and material man liens?

Answer: We are financially able to drill and complete this well without any mechanical and material man liens.

Also, we propose all parties participating in the drilling of this well enter into a Joint Operating Agreement, equivalent to the one we entered into in the drilling of the State 1-M well.

Please inform us of your decision to either participate in the drilling of the proposed well or not to participate.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Pride". The signature is fluid and cursive, with the first name "John" being more prominent.

John W. Pride  
Pride Energy Company



## Drilling Prognosis

PEC – State X-1  
Sec 12, T12S-R34E  
Lea Co, NM

June 14, 2004

### Geologic Tops:

Yates	2833	
San Andres	4184	
Glorieta	5614	
Tubb	7030	
Abo	7795	
Wolfcamp	9300	
Penn Series	9640	
Penn Zn (1)	10010-10025	***Potential Pay
Penn Zn (2)	10170-10210	***Potential Pay
Penn Zn (3)	10530-10540	***Potential Pay
Canyon 'A'	10670-10680	***Potential Pay
Canyon 'B'	10720-10810	***Potential Pay
L. Penn (1)	11180-11200	***Potential Pay
Atoka-Morrow	11520-?	
Miss	12070-12200	***Potential Pay
TD	12350	

\*Hold mud wt at or below 9.8

\*Bring Mud logger on @ 9500ft

\*Potential need for RFT to be determined at logging point

APR-21-2008 FRI 02:05 PM

ES PETROLEUM LAND

FAX NO. 505 4572

P. 02

MARTIN YATES, III  
1912-1988

FRANK W. YATES  
1926-1986



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

S.P. YATES  
CHAIRMAN EMERITUS

JOHN A. YATES  
CHAIRMAN OF THE BOARD

PEYTLIN YATES  
PRESIDENT

FRANK YATES, JR.  
EXECUTIVE VICE PRESIDENT

JOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

April 21, 2006

Via Facsimile

Mr. John Pride  
Pride Energy Company  
P. O. Box 701950  
Tulsa, Oklahoma 74170-1950

Re: State X#1  
W/2 of Section 12-T12S-R374E  
1,980' FNL and 660' FWL  
Lea County, New Mexico

Dear Mr. Pride:

We have reviewed the information you provided by facsimile in response to our March 3, 2006 letter. The answers provided are incomplete or have raised new questions.

The following numbers correspond to the questions answered in our March 3, 2006 letter.

- 1) Your letter did not address whether it would be more prudent to drill a new top to bottom well instead of re-entering the existing well? Please answer this question.
- 2) Answered.
- 3) Answered.
- 4) Incomplete response, see revised question below.
- 5) Answered.
- 6) Answered, see new question below.
- 7) Answered, see new question below.
- 8) Answered, see new question below.
- 9) Answered, see new question below.
- 10) Answered, but failed to provide supportive information.

Therefore we ask the following questions:

RANDY B. PATTERSON  
VICE PRESIDENT

DAVID L. LANNING  
ASSISTANT VICE PRESIDENT

DENNIS G. KINSEY  
TREASURER

State X # 1 - Re-entry  
4/21/06  
Page 2 of 3

- 1) Please provide a drilling prognosis for the well that details the following information:
  - a) Wellbore design.
  - b) The directional plan, including kickoff point.
  - c) Casing design.
  - d) Cement plan.
  - e) Drilling fluids and mud program.
  - f) Time v. depth curve.
  - g) Anticipated drilling problems (i.e. keyseats, deviation and tight hole)
- 2) The information provide concerning a mud logger indicates you plan to place the mud logger on the well at approximately 9,500'. Would you consider placing the mud logger on the well to cover the top of the Basil Abo formation at approximately 9,000'?
- 3) The information you provided concerning the geologic tops indicates you are questioning the Atoka and Morrow formations. Please explain your questions?
- 4) Your response did not provide a completion prognosis. Please address the following issues on completion.
  - a) What type of logs do you plan to run and which company do you plan to use?
  - b) What parameters do you plan to use in making a determination on when to frac the well? Conversely, if the well flows initially, what production rate will you consider necessary to determine it is not necessary to frac the well?
  - c) What type of completions fluids do you plan to use?
- 5) Well information on previous wells drilled by your company has been incomplete and inaccurate. Your response indicates that drilling reports will be emailed daily but did not address the content or methods for providing accurate information? What assurances can you give that information will be accurate and complete?
- 6) Fuel costs for the drilling rig are stated at \$4,000 per day. Our experience with drilling wells indicates that fuel costs should run about half this amount. Please explain the need for such a high charge.
- 7) Our experience in drilling wells in this area indicates reclamation of the pits is very expensive. Does your AFE include reclamation costs for the pits? If not, could you please provide an explanation on how you will address this issue.
- 8) The operating agreement used for the State M#1 well that you reference in your April 19, 2006 letter is a 1989 AAPL form agreement. The 1989 AAPL form operating agreement contains several options/elections that need to be completed to determine the responsibilities of the parties under the agreement. Depending on how the agreement is completed directly affects a signatory

APR-21-2006 FRI 02:05 PM ES PETROLEUM LAND

FAX NO. 505 4572

State X # 1 - Re-entry

4/21/06

Page 3 of 3

party's rights under the agreement. Please provide a completed copy of the operating agreement you want to use.

- 9) Pride Energy Company appears to be a corporation that is not registered with the New Mexico Public Regulation Commission. Under the rules and regulations of the New Mexico Oil Conservation Division (NMAC 19.15.3.100) an operator must be registered in order to receive a permit. How can you have just received a valid permit if you are not registered?

- 10) Can you provide additional financial assurance that you are capable of drilling a well?

Your prompt attention would be appreciated.

Very truly yours,

**YATES PETROLEUM CORPORATION**



Chuck Moran  
Landman

# PRIDE ENERGY COMPANY

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Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: johnp@pride-energy.com

April 24, 2006

Yates Petroleum Corporation  
105 S. 4<sup>th</sup> St.  
Artesia, NM 88210-2118

ATTN: Chuck Moran

RE: State X #1  
W ½ of Section 12-T12S-R34E  
Lea County, NM

Dear Mr. Moran:

In response to your letter dated April 21, 2006, the cost to utilize the existing wellbore is less than drilling a new top to bottom well and seems prudent to use the existing wellbore.

1. Drilling prognosis
  - (a) See Wellbore Diagram attached
  - (b) See Diamond Back Well Plan attached.
  - (c) See Wellbore Diagram attached
  - (d) To be determined following calculations made from OH caliper logging
  - (e) See permit
  - (f) Please see the attached deviation drilling plan and consult bit company records to make your own determination of this matter.
  - (g) We do not anticipate drilling or completion problems. However as an experienced, prudent, registered operator in the State of New Mexico, should difficulties be encountered, we will evaluate, notify working interest owners, and remedy said difficulties in a professional and industry accepted manor.
2. If you are able to demonstrate to us the presence of production from the Lower Abo/Upper Wolfcamp in close proximity to this well with log characteristics similar to those recorded in the subject well please notify us and we will consider adjusting our mudlogging program to include the interval from 9000 ft.
3. We have not and do not question the presence of the Atoka/Morrow section in the subject well and anticipate encountering this sequence from approximately 11,525 ft. to 12,070 ft. TVD. However, due to the lenticularity and stratigraphic variances within the section(s) as well as the quality of the existing log for the subject well through this interval, at this time it is not prudent to anticipate the presence or lack thereof, of permeable and porous commercial developments within the new wellbore track.
4.
  - (a) We plan to employ standard DLL/MLL and CND/PD/GRN suite of logs run by Weatherford for the openhole logging.
  - (b) Fracture treatment(s) may be required in the event commercial zone(s) are encountered within the Atoka/Morrow section. It would not be prudent to suggest when or under what conditions a

fracture treatment should be performed prior to evaluating logs and securing initial testing information from said zone(s).

(c) Fluids and additives used in the treatment of any zones will be determined in accordance with recommendations made by service companies performing said work and with consideration to said fluids compatibility and effectiveness to work within each individual reservoir.

5. Daily drilling reports containing pertinent information regarding the drilling progress will be e-mailed as is typical industry standard.
6. Actual fuel costs, whatever they may be, will be charged. The AFE is only an estimate.
7. Reclamation of pits will be performed in accordance with the requirements of the State. We will attempt to keep the cost to a minimum.
8. JOA (see copy of JOA being sent to you)
9. Pride Energy Company is a general partnership, not a corporation, and does not have to be registered.
10. We have drilled many wells in New Mexico, as well as other states, and are currently drilling wells. The wells we operate can be obtained from the OCD's website. There are no liens on any of these wells, which can be determined from an examination of the County records. We are certainly capable of drilling this well.

Sincerely,

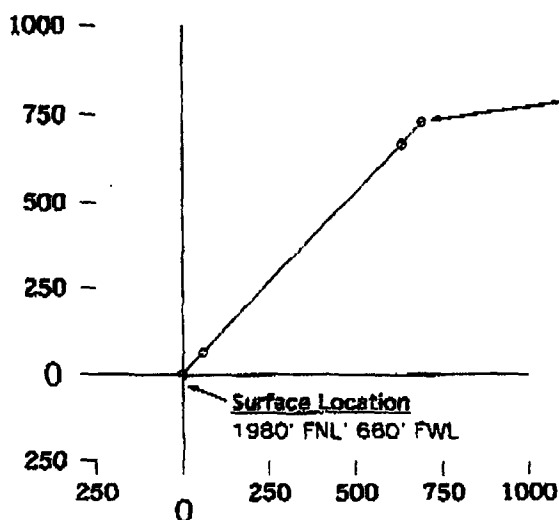
A handwritten signature in black ink that reads "John W. Pride". The signature is written in a cursive, flowing style.

John W. Pride  
Pride Energy Company

**Pride Energy  
State X#1  
Proposed Well Plan**

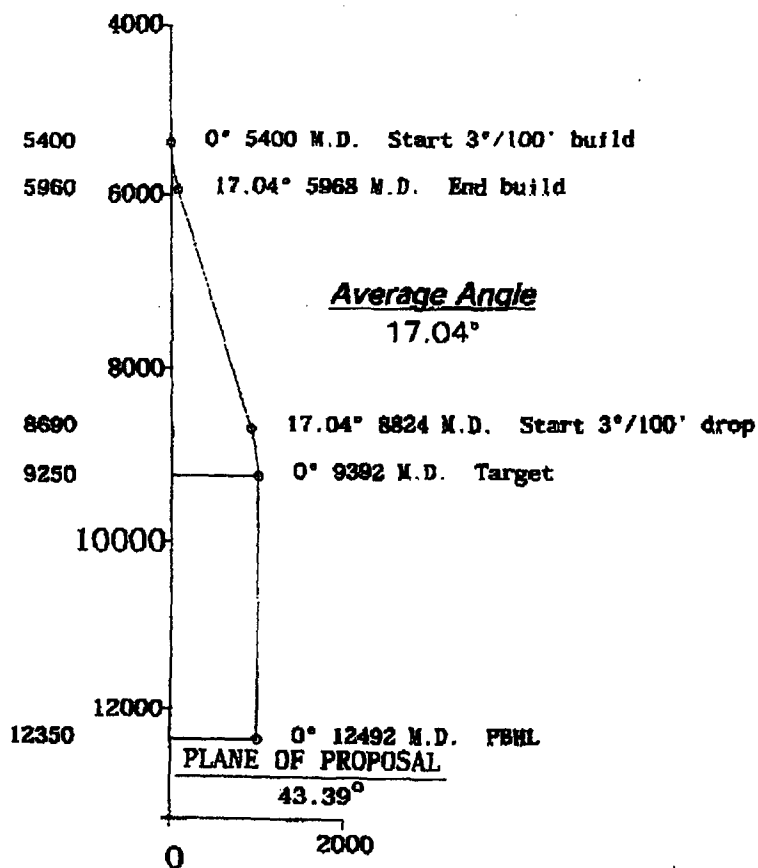


**HORIZONTAL PLAN**  
Scale 1" = 500'



**Proposed Objectives**  
1004.46' Displacement  
@ 43.38° Azimuth  
North-730' East-690'  
1250' FNL, 1350' FWL  
**Target**  
9250' TVD, 9392' MD  
**PBHL**  
12350' TVD, 12492' MD

**VERTICAL SECTION**  
Scale 1" = 2000'



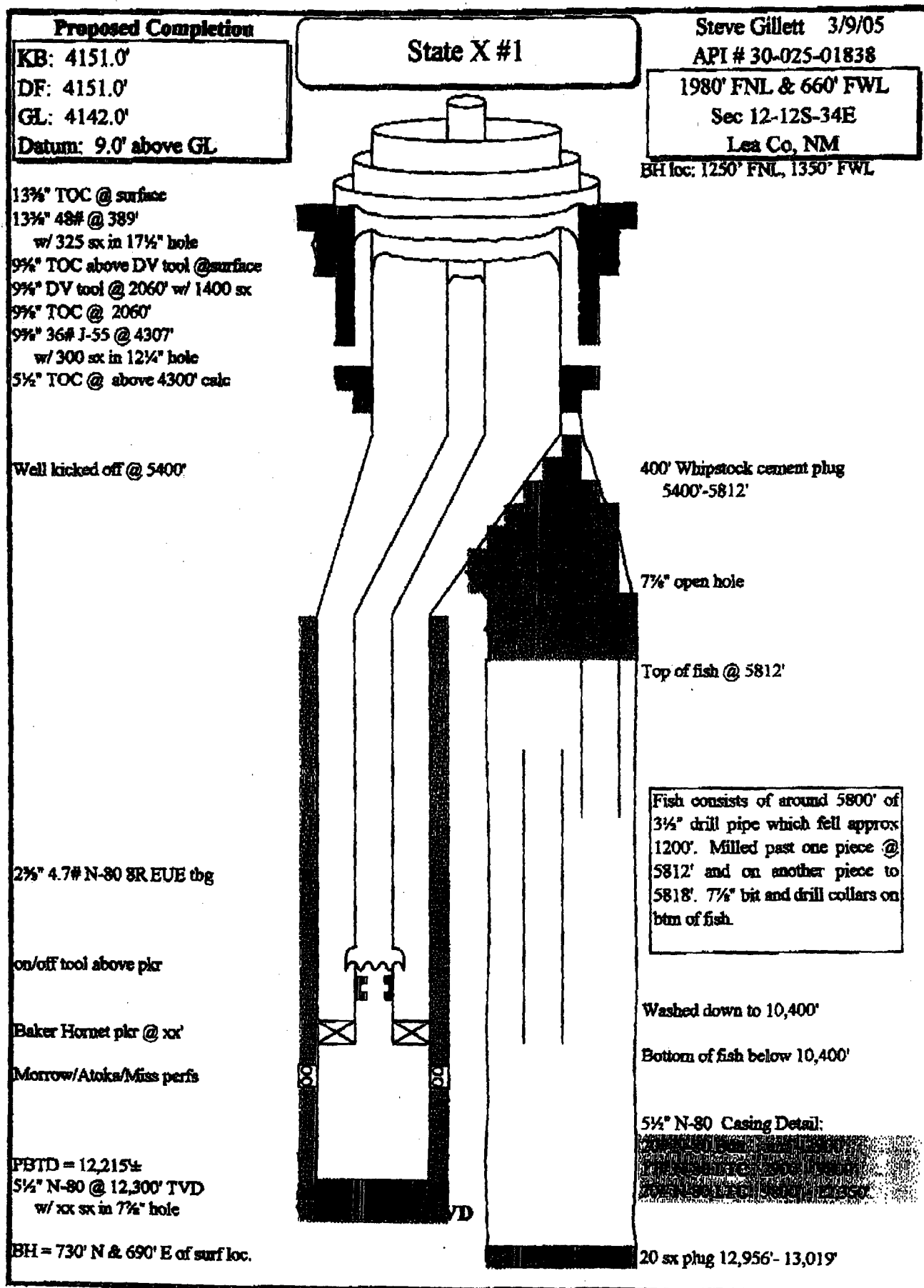
# DiamondBack Oilfield Services, Inc.

Pride Energy State X#1 Proposed Well Plan		Minimum of Curvature Slot Location: -1980.00', 660.00' Plane of Vertical Section: 43.39°		Page: 1
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Measured Depth Feet	B O R E Inc Degrees	H O L E Direction Degrees	True Vertical Depth Feet	R E C T A N G U L A R C O O R D I N A T E S		R E C T A N G U L A R C O O R D I N A T E S		Vertical Section Feet	Distance Feet	Direction Deg	Dogleg Severity Deg/100'
				North(-South)	East(-West)	PWL Feet	PWL Feet				
5400.00	0.00	0.00	5400.00	0.00	0.00	-1980.00	660.00	0.00	0.00	0.00	0.00
Start 3°/100' build											
5500.00	3.00	43.39	5499.95	1.90	1.80	-1978.10	661.80	2.62	2.62	43.39	3.00
5600.00	6.00	43.39	5599.63	7.60	7.19	-1972.40	667.19	10.46	10.46	43.39	3.00
5700.00	9.00	43.39	5698.77	17.09	16.15	-1962.91	676.15	23.51	23.51	43.39	3.00
5800.00	12.00	43.39	5797.08	30.33	28.67	-1949.67	688.67	41.74	41.74	43.39	3.00
5900.00	15.00	43.39	5894.31	47.29	44.70	-1932.71	704.70	65.08	65.08	43.39	3.00
5967.92	17.04	43.39	5959.58	60.91	57.58	-1919.09	717.58	83.82	83.82	43.39	3.00
End build											
6467.92	17.04	43.39	6437.64	167.38	158.20	-1812.62	818.20	230.31	230.31	43.39	0.00
6967.92	17.04	43.39	6915.70	273.84	258.83	-1706.16	918.83	376.81	376.81	43.39	0.00
7467.92	17.04	43.39	7393.76	380.31	359.46	-1599.69	1019.46	523.30	523.30	43.39	0.00
7967.92	17.04	43.39	7871.82	486.77	460.09	-1493.23	1120.09	669.80	669.80	43.39	0.00
8467.92	17.04	43.39	8349.87	593.23	560.72	-1386.77	1220.72	816.29	816.29	43.39	0.00
8924.10	17.04	43.39	8690.42	669.07	632.40	-1310.93	1292.40	920.65	920.65	43.39	0.00
Start 3°/100' drop											
8924.10	14.04	43.39	8786.76	688.54	650.80	-1291.46	1310.80	947.43	947.43	43.39	3.00
9024.10	11.04	43.39	8884.36	704.31	665.71	-1275.69	1325.71	969.13	969.13	43.39	3.00
9124.10	8.04	43.39	8982.97	716.35	677.09	-1263.65	1337.09	985.70	985.70	43.39	3.00
9224.10	5.04	43.39	9082.31	724.62	684.91	-1255.38	1344.91	997.08	997.08	43.39	3.00
9324.10	2.04	43.39	9182.11	729.11	689.14	-1250.89	1349.14	1003.25	1003.25	43.39	3.00
9392.01	0.00	43.39	9250.01	729.98	689.97	-1250.02	1349.97	1004.46	1004.46	43.39	3.00
Target											
12492.01	0.00	43.39	12350.01	729.98	689.97	-1250.02	1349.97	1004.46	1004.46	43.39	0.00
FWL											

Final Station Closure Distance: 1004.46' Direction: 43.39°





MARTIN YATES, III  
1912-1983

FRANK W. YATES  
1922-1980



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

S.P. YATES  
CHAIRMAN EMERITUS

JOHN A. YATES  
CHAIRMAN OF THE BOARD

PEYTON YATES  
PRESIDENT

FRANK YATES, JR.  
EXECUTIVE VICE PRESIDENT

JOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

April 28, 2006

Via Facsimile

Mr. John Pride  
Pride Energy Company  
P. O. Box 701950  
Tulsa, Oklahoma 74170-1950

Re: Settlement Proposal  
State X#1  
W/2 of Section 12-T12S-R374E  
1,980' FNL and 660' FWL  
Lea County, New Mexico

Dear Mr. Pride:

Before we pursue further actions at the New Mexico Oil Conservation Division and incur more costs with regards to your attempt to force pool our interest for a second time and re-enter the State X #1, I think it's appropriate to make a proposal to settle participation questions in the second re-entry attempt between us in a way that makes business sense. To that end Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc. and Abo Petroleum Corporation make this offer to settle without making any admission or otherwise altering our legal position.

We offer as mutually exclusive alternatives the following proposals:

- 1) Farmout our interest in the wellbore of the State X #1 well to Pride Energy Company, reserving an overriding royalty equal to the difference between 25% and lease burdens of record; or,
- 2) Trade our interest (160 acres gross/net) in State of New Mexico oil and gas lease VO-5855 located in the NW/4 of Section 12-T12S-R34E, NMPM which is held by production for Pride Energy Company' interest (160 acres gross/net) in State of New Mexico oil and gas lease VO-6303 in SWNE, SENW, NESW, NWSE of Section 32, T11S-R35E, NMPM which is due to expire August 1, 2006. Net revenue interests would be equalized preferably to only lease burdens.

RANDY G. PATTERSON  
VICE PRESIDENT

DAVID L. LANNING  
ASSISTANT VICE PRESIDENT

DENNIS G. KINSEY  
TREASURER

State X # 1 - Re-entry

4/28/06

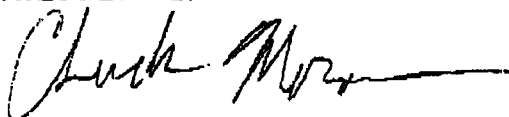
Page 2 of 2

Alternatively, if you have a suggestion, we would consider that as well.

Our offer is open until May 7, 2006, and does not address any other issues between the companies including but not limited to participation in other wells, unpaid joint interest bills, and outstanding issues between the respective companies.

Very truly yours,

**YATES PETROLEUM CORPORATION**

A handwritten signature in black ink, appearing to read "Chuck Moran", with a long horizontal flourish extending to the right.

Chuck Moran  
Landman

# PRIDE ENERGY COMPANY

---

(918) 524-9200 • Fax (918) 524-9292 • [www.pride-energy.com](http://www.pride-energy.com)

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

May 1, 2006

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210-2118

ATTN: Chuck Moran

RE: Settlement Proposal  
State X #1  
W ½ of Section 12-T12S-R34E  
Lea County, NM

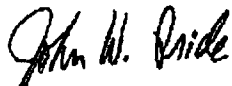
Mr. Moran:

In reference to your letter dated April 28, 2006, containing a settlement proposal, we hereby offer the following suggestion as a settlement proposal:

1. Yates parties farmout their leasehold interest in the W ½ of Section 12-T12S-R34E, Lea County, NM to Pride Energy Company, reserving an overriding royalty interest equal to the difference between 25% and lease burdens of record, with the intent of delivering a 75% Net Revenue Interest to Pride Energy Company, and
2. Yates parties trade their leasehold interest (160 acres gross/net) in State of New Mexico Oil and Gas Lease VO-5873 located in the NW ¼ of Section 13-T12S-R34E, including their interest in the wellbore of the State QE 13 #1 Well for Pride's leasehold interest in State of New Mexico Oil and Gas Lease VO-6303 in SW NE, SE NW, NE SW, NW SE of Section 32-T11S-R35E. Net revenue interests would be equalized, preferably to only lease burdens.

This offer shall become null and void unless accepted by Yates parties on or before 5:00 PM, CST, May 3, 2006. This offer does not include any other issues between the companies, including, but not limited to participation in other wells, unpaid joint interest bills, and outstanding issues between the respective companies.

Sincerely,



John W. Pride  
Pride Energy Company

2-2008 TUE 02:18 PM YATES PETROLEUM LAND

FAX NO. 5057484572

P. 02

MARTIN YATES, III  
1912-1988FRANK W. YATES  
1958-1986105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210-2118  
TELEPHONE (805) 748-1471G.P. YATES  
CHAIRMAN EMERITUSJOHN A. YATES  
CHAIRMAN OF THE BOARDPEYTON YATES  
PRESIDENTFRANK YATES, JR.  
EXECUTIVE VICE PRESIDENTJOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

May 2, 2006

Via Facsimile  
918-524-8292Mr. John Pride  
Pride Energy Company  
P. O. Box 701950  
Tulsa, Oklahoma 74170-1950Re: Settlement Discussion  
State X#1  
W/2 of Section 12-T12S-R34E  
1,980' FNL and 660' FWL  
Lea County, New Mexico

Dear Mr. Pride:

We have received your proposal dated May 1, 2006, concerning the captioned well and understand this letter to be a rejection of our April 28, 2006, letter. While these ideas are still viable, I have a new concept for a trade based on our understanding of the offer you proposed. The complication of dealing with the State QE 13 Com. #1 as you have proposed in your trade is that the well has production and drilling dollars that have already been expended in this spacing unit.

Nonetheless, we are willing to consider the following:

- At the selection of Pride, ownership in the W/2 of Section 12-T12S-R34E shall be exchanged for ownership of the W/2 of Section 13-T12S-R34E. The goal being to get 100% working interest ownership to the respective sides at equalized net revenues (preferably to only lease burdens, but a small override may be retained) inside the respective spacing units.
- All parties would agree to execute all necessary documents to properly transfer ownership of their respective interests in exchange for the interest received, including if elected, change of operator forms and communitization agreements.
- The effective date for the transfer would be May 1, 2006.

RANDY B. PATTERSON  
VICE PRESIDENTDAVID L. LANNING  
ASSISTANT VICE PRESIDENTDENNIS G. KINSEY  
TREASURER

State X # 1 - Re-entry  
5/2/08  
Page 2 of 2

- All parties would reserve all claims prior to this effective date for monies owed under the operating agreement and this trade will not address any other issues between the companies including but not limited to participation in other wells, unpaid joint interest bills, and outstanding issues between the respective companies.

If this type of transaction is something that you want to consider, please give me an indication as soon as possible because I will need to obtain final management approval for this type of trade. I can be reached by telephone at 505-748-4349 if you want to discuss this concept.

Lastly, now that both sides appear to be talking, we want you to know we desire both sides to use their best efforts to resolve all issues between the companies.

Very truly yours,

**YATES PETROLEUM CORPORATION**



Chuck Moran  
Landman

# PRIDE ENERGY COMPANY

---

(918) 524-9200 • Fax (918) 524-9292 • [www.pride-energy.com](http://www.pride-energy.com)

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: [johnp@pride-energy.com](mailto:johnp@pride-energy.com)

May 2, 2006

Yates Petroleum Corporation  
105 S. 4<sup>th</sup> St.  
Artesia, NM 88210-2118

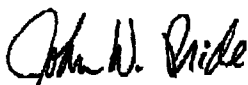
ATTN: Chuck Moran

RE: Settlement Proposals  
State X #1  
W ½ of Section 12-T12S-R34E  
Lea County, NM

Mr. Moran:

In reference to your letter dated May 2, 2006, the question came up regarding our 160 acres of leasehold interest in Section 32-T11S-R35E, which was part of the settlement proposals previously made. It seems logical that the acreage in Section 32 would fit in with Yates existing leasehold position, pipeline facilities, etc. In an effort to reach a solution, the proposal made in my letter dated May 1, 2006 still remains on the table. Please let us know whether the terms of our proposal dated May 1, 2006 are acceptable.

Sincerely,



John W. Pride  
Pride Energy Company

MAY-03-2006 WED 08:17 AM YATES PETROLEUM LAND

FAX NO. 5057484572

P. 02

MARTIN YATES, III  
1912-1985

FRANK W. YATES  
1934-1986



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

B. R. YATES  
CHAIRMAN EMERITUS

JOHN A. YATES  
CHAIRMAN OF THE BOARD

PEYTON YATES  
PRESIDENT

FRANK YATES, JR.  
EXECUTIVE VICE PRESIDENT

JOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

May 3, 2006

Via Facsimile  
918-524-8292

Mr. John Pride  
Pride Energy Company  
P. O. Box 701930  
Tulsa, Oklahoma 74170-1950

Re: Settlement Discussion  
State X#1 in W/2 of Section 12-T12S-R34E  
1,980' FNL and 660' FWL  
Lea County, New Mexico

Dear Mr. Pride:

I have reviewed your response dated May 2, 2006. In that response you have asked if your offer of May 1, 2006 is acceptable. I would like to respond that it has merits and disadvantages. The merits are readily apparent as you have stated. However, the disadvantages are as equally apparent and best stated as a request to exchange 160 acres owned by Pride to receive 320 acres owned by Yates.

Thus, I have asked you to consider a trade that places parties at a more equal footing when the trade is completed. The thought process behind my May 2, 2006, letter was to get Pride in control of one 320 acre spacing unit and Yates in control of one 320 acre spacing unit so the respective companies could go their separate ways with their plans for development. Giving you the option to make the selection of which spacing unit to keep was a concession we are willing to make.

I understand your offer of May 1, 2006 is still on the table until 5:00 PM (CST) May 3, 2006. Likewise, please understand that this proposed transfer does not address any other outstanding issues between the companies and we will reserve all rights as to additional issues.

Very truly yours,

YATES PETROLEUM CORPORATION

Chuck Moran  
Landman

RANDY B. PATTERSON  
VICE PRESIDENT

DAVID L. LANNING  
ASSISTANT VICE PRESIDENT

DENNIS W. KINSEY  
TREASURER



# PRIDE ENERGY COMPANY

(918) 524-9200 • Fax (918) 524-9292 • www.pride-energy.com

Physical Address: Kensington Tower  
2250 East 73<sup>rd</sup> Street, Suite 550  
Tulsa, OK 74136

Mailing Address: P.O. Box 701950  
Tulsa, OK 74170-1950  
Email Address: johnp@pride-energy.com

May 4, 2006

Yates Petroleum Corporation  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

Via Certified Mail  
Return Receipt #  
91 3408 2133 3930 6188 3753

ATTN: Chuck Moran

RE: State "X" #2  
W ½ of Section 12-T12S-R34E  
660' FSL and 1,980' FWL  
Lea County, New Mexico

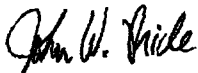
Mr. Moran:

In reference to the above, Pride Energy Company proposes to drill a well to a total depth of 12,400' to test the Mississippian Austin Cycle and/or Atoka Morrow and any other formations encountered.

Enclosed is an Authorization for Expenditure with a dry hole cost of \$1,645,840, completion cost of \$748,560, for a total completed well cost of \$2,394,000.

Please inform us as soon as possible as to your intent to participate, or not, in this proposed well. If you decide to participate please sign and return the enclosed AFE. We would then send you a Joint Operating Agreement covering this unit.

Sincerely,



John W. Pride  
Pride Energy Company

MAY-08-2006 MON 02:47 PM YATES PETROLEUM LAND

FAX NO. 5057484572

P. 02

MARTIN YATES, III  
1912-1982FRANK W. YATES  
1928-1986105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210-2118  
TELEPHONE (505) 748-1471S. R. YATES  
CHAIRMAN EMERITUSJOHN A. YATES  
CHAIRMAN OF THE BOARDPEYTON YATES  
PRESIDENTFRANK YATES, JR.  
EXECUTIVE VICE PRESIDENTJOHN A. YATES, JR.  
SENIOR VICE PRESIDENT

May 8, 2006

Via Facsimile  
918-524-9292Mr. John Pride  
Pride Energy Company  
P. O. Box 701950  
Tulsa, Oklahoma 74170-1950Re: Proposed Joint Operating Agreement  
State X#1  
W/2 of Section 12-T12S-R34E  
1,980' FNL and 860' FWL  
Lea County, New Mexico

Dear Mr. Pride:

Yates Petroleum Corporation, Yates Drilling Company, Myco Industries, Inc. and Abo Petroleum Corporation (hereinafter Yates) received the proposed A.A. P. L Form 810-1989 Model Form Operating Agreement for the captioned well on May 4, 2006. We have reviewed the agreement and request the following changes be made to the agreement:

- 1) Page 1 Line 64: Strike the word "telephone" and insert the word "facsimile"
- 2) Page 1 Line 66 and 67: Restore the original language.
- 3) Page 2 Line 17: The language inserted in the blank does not make sense and we would recommend removal of this language and inclusion of the following wording: 1/8 of 8/8ths.
- 4) Page 2 between end of Line 31 and start of line 32: Insert the following paragraph:

"It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed

RANDY G. PATTERSON  
VICE PRESIDENTDAVID L. LANNING  
ASSISTANT VICE PRESIDENTDENNIS B. KINSEY  
TREASURER

Pride Energy Company- State X#1 #1  
Joint Operating Agreement  
5/8/2006  
Page 2 of 4

that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so."

- 5) Page 4, Line 18: Modify the sentence on this line to read: "Operator may be removed only for good cause by the affirmative vote of two or more Non-Operators owning a majority interest..."
- 6) Page 4, Line 36: Modify this line to read: "...succeed itself, the successor Operator shall be selected by the affirmative vote of two or more the party or parties owning a majority....."
- 7) Page 5, Line 55: Please provide the specific location of the Initial Well.
- 8) Page 7, Line 7: Strike and remove 300% to and insert 100%.
- 9) Page 9 Line 68: Strike the 50% and replace with 85.00%.
- 10) Page 10 Line 19: Modify this line to read: "... Failure of a party to reply within ~~sixty (60)~~ thirty (30) days of delivery of notice of proposed..."
- 11) Page 10 Line 20: Modify this line to read: "... If within ~~sixty (60)~~ thirty (30) days after delivery of notice of the..."
- 12) Page 10 Line 61: Strike the 50% and replace with 85.00%.
- 13) Page 11 Line 3, 4, 8, 9, 14: Change the word Oil to "Oil and Gas", ..."
- 14) Page 14, Line 84: Add to end of section the following sentence:  
  
The provisions in this Article shall only apply to leases, or portions of leases, located within the Contract Area.
- 15) Page 14, Line 74: Add to end of paragraph the following sentence:  
  
This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial, Substitute or Option Test Well.
- 16) Page 15 Line 4 through 10: Restore the original language.

MAY-08-2006 MON 02:48 PM YATES PETROLEUM LAND

FAX NO. 5057484572

P. 04

Pride Energy Company- State X#1 #1  
Joint Operating Agreement  
5/8/2006  
Page 3 of 4

17) Page 15 Line 67: We recommend that the dollar amount be set a \$10,000 and inserted in this blank

18) Page 17 Line 43: Replace Article XVI A. with the following language:

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

19) Page 17 Line 57: Strike the 50% and replace with 85.00%.

20) Page 17 Line 42: Insert the following provisions:

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

21) Exhibit A.: Add information required by Article II A(5) and A(6) as requested in Item #2. Lease VO-5585 has not burdens other than the State royalty of 1/6<sup>th</sup>.

22) COPAS Page 1, I.3.A.: Change the dollar amount in this line from \$5000 to \$20,000 which is the number used in Article VI.D.

23) COPAS Page 6, V.1.A(1): Change the producing well rate from \$600 to \$500.

24) COPAS Page 8, VI.2.A(1): Insert the following:

MAY-08-2006 MON 02:48 PM YATES PETROLEUM LAND

FAX NO. 5057484572

P. 05

Pride Energy Company- State X#1 #1  
Joint Operating Agreement  
5/8/2006  
Page 4 of 4

"Tubular Goods Other than Line Pipe "shall be priced at the current replacement costs to Operator effective at the date of transfer, equalized to the lowest prevailing price F.O.B. railroad receiving point."

and:

Line Pipe "shall be priced at the current replacement costs to Operator effective at the date of transfer, equalized to the lowest prevailing price F.O.B. railroad receiving point."

- 25) COPAS: We reserve the right to make additional changes pending discussion with our accounting department on this COPAS.
- 25.) Exhibit D: - Remove this Exhibit and provide replacement Exhibit D that provides for only work-mans compensation insurance, public liability insurance and automobile public liability insurance. The Yates' entities carry their own cost of well control insurance and will not pay any other insurance. Further, under New Mexico statute NMSA 1978 § 56-7-2 C a provision that requires waiver of rights of subrogation is void.
- 26) EXHIBIT E: The gas balancing agreement is still under review, but we request the following be added:

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

Please make these changes and provide substitute pages accordingly for our review. I will gladly discuss any of the above with you.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Chuck Moran  
Landman