



Post Office Box 1600
San Antonio, Texas 78296-1600

October 20, 2006

New Mexico Energy Minerals and
Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505
Attn: Dorothy Phillips

Dear Ms. Phillips:

At the request of Aleanna Resources, LLC., we are enclosing with this letter the original Amendment No. 1, to our Irrevocable Standby Letter of Credit No. 25446-SA, which has been established in your favor.

If you are unable to comply, contact both your customer and bank. **Please acknowledge receipt and agreement to the Letter of Credit Amendment, by signing the enclosed copy and returning it to us.**

Sincerely,

Sandra M. De León
Letters of Credit Specialist

Enclosure

cc: Aleanna Resources, LLC.
2409 Ella Lee
Houston, Texas 77019
Attn: Michael D. McGhee

OLD
EXHIBIT



Frost Bank

Post Office Box 1600
San Antonio, Texas 78296-1600

October 20, 2006

LETTER OF AMENDMENT NO. 1

RE: OUR IRREVOCABLE STANDBY CREDIT
LETTER OF CREDIT NO. 25446-SA
DATED October 16, 2006

New Mexico Energy Minerals and
Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505
Attn: Dorothy Phillips

Gentlemen:

In accordance with instructions received from Aleanna Resources, LLC, 2409 Ella Lee, Houston, Texas 77019, the captioned Credit issued in your favor is amended as follows:

1. First Paragraph, last sentence delete: This Letter of Credit is established for Aleanna Resources, LLC. whose address is 2409 Ella Lee, Houston, Texas 77019 as APPLICANT.

First Paragraph, last sentence add: This Letter of Credit is established for Yeso Energy, Inc., whose address is P.O. Box 2248, 3103 Yeso Road, Roswell, New Mexico 89250 as APPLICANT.

All other terms and conditions remain unchanged.

As this letter is to be considered a part of the aforementioned credit instrument, it should be attached thereto.

Cordially yours,

Chris Bradbury, Sr. Vice President

LCB/smd



2006 OCT 17 AM 10 27

Post Office Box 1600
San Antonio, Texas 78296-1600

October 16, 2006

New Mexico Energy Minerals and
Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505
Attn: Dorothy Phillips

Dear Ms. Phillips:

At the request of Aleanna Resources, LLC, we have established in your favor the enclosed Irrevocable Standby Letter of Credit No. 25446-SA, in the amount of U.S.\$9,000.00.

Please examine this instrument carefully. If you are unable to comply with the terms and conditions, please communicate with your customer to arrange for an amendment.

All drawings under this credit must be accompanied by the original Letter of Credit for endorsement. For any request to remit funds to a bank other than The Frost National Bank a fee of \$11.00 will be deducted for a wire transfer or \$5.00 for a cashier check.

If we can be of further assistance, please do not hesitate to call us at (210) 220-5567.

Sincerely,

Sandra M. De León
Letters of Credit Specialist

Enclosure

cc: Aleanna Resources, LLC
2409 Ella Lee
Houston, Texas 77019
Attn: Michael D. McGhee



Post Office Box 1600
San Antonio, Texas 78296-1600

**State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division**

**Irrevocable Letter of Credit
(5-Year - Automatically Renewable)**

File with Oil Conservation Division, 1220 South St. Francis, Santa Fe, New Mexico 87505

LETTER OF CREDIT NO. 25446-SA

Effective Date: October 16, 2006

The Frost National Bank, a national or state chartered banking association, as ISSUER, hereby establishes this irrevocable Letter of Credit for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (or successor agency) of the State of New Mexico (the DIVISION), pursuant to NMSA 1978, Section 70-2-14, as amended, for an aggregate amount not to exceed Nine Thousand and 00/100 Dollars (\$9,000.00) in United States dollars (Face Amount) effective on the date indicated above. This Letter of Credit is established for Aleanna Resources, LLC. whose address is 2409 Ella Lee, Houston, Texas 77019 as APPLICANT.

1. The APPLICANT has requested that this letter of credit be issued to the DIVISION as financial assurance for the APPLICANT pursuant to statutory and regulatory requirements of the State of New Mexico set forth in Section 70-2-14 NMSA, as amended, and in Rule 101 [19.15.3.101 NMAC].

2. This Letter of Credit is irrevocable for the term hereof, and is furnished as financial assurance for the compliance by the APPLICANT with all applicable statutes of the State of New Mexico and with all rules and orders of the Oil Conservation Commission and DIVISION, including requirements to cause wells in the State of New Mexico now or hereafter owned or operated by Applicant to be properly plugged and abandoned, if dry, or when no longer productive or useful for a beneficial purpose, in accordance with the rules and orders of the Division, including but not limited to Rule 101 [19.15.3.101 NMAC] and Rule 202 [19.15.4.202 NMAC], as the same now exist or may be hereafter amended.



Frost Bank

Post Office Box 1600
San Antonio, Texas 78296-1600

Page two, which forms an integral part of Letter of Credit No. 25446-SA

3. This Letter of Credit will expire on October 16, 2011; unless sooner released by written notice to the ISSUER by the DIVISION. Upon the expiration date, this Letter of Credit shall be automatically renewed for an additional term of five years commencing on such expiration date, and likewise for successive terms of five years each upon the occurrence of each subsequent scheduled expiration date, unless the ISSUER has, at least thirty days prior to any scheduled expiration date, mailed written notice of non-renewal, by certified mail, return receipt requested, to the DIVISION. This Letter of Credit may be forfeited and collected by the DIVISION if not replaced by approved financial assurance at least 30 days before the expiration date hereof.

4. Funds under this Letter of Credit are available against the DIVISION's sight draft, in the form of Exhibit A, specifying Letter of Credit No. 25446-SA, delivered to the office of the ISSUER at 100 West Houston Street, San Antonio, Texas 78205, Attention: Letter of Credit Department RB-2, accompanied by a certificate in the form of Exhibit B, signed by the Director of the DIVISION or the Director's duly authorized representative. At the Division's sole election, the DIVISION may present sight drafts for less than the Face Amount at any time and from time to time so long as this letter of credit remains in force, provided that the aggregate amount of all such drafts shall not exceed the Face Amount.

5. If the ISSUER receives the DIVISION's sight draft(s) and certificate(s) as provided in Paragraph 4, above, on or before the expiration or termination of this Letter of Credit, the ISSUER shall make such amount as the DIVISION may specify, up to an aggregate amount not to exceed the Face Amount of this Letter of Credit, available to the DIVISION no later than 5 p.m. in Santa Fe, NM on the second business day following the ISSUER's receipt of the sight draft and certificate, and in such a manner as the DIVISION may specify.

6. The ISSUER shall give prompt notice to the APPLICANT and to the DIVISION of any notice received or action filed alleging the insolvency or bankruptcy of the ISSUER, or alleging any violations of regulatory requirements that could result in suspension or revocation of the ISSUER's charter or license to do business.



Frost Bank

Post Office Box 1600
San Antonio, Texas 78296-1600

Page three, which forms an integral part of Letter of Credit No. 25446-SA

7. This Letter of Credit shall be governed by the laws of the State of New Mexico, and, to the extent not inconsistent with such laws, by International Chamber of Commerce Publication No. 500, entitled "Uniform Customs and Practice for Documentary Credits" (most recent revision).

8. All communications regarding this Letter of Credit shall be addressed to the ISSUER at 100 West Houston Street, San Antonio, Texas 78205, Attention: Letter of Credit Department RB-2.

Very Truly yours,

The Frost National Bank

By: Chris Bradbury

Title: Sr. Vice President

Effective Date: October 16, 2006

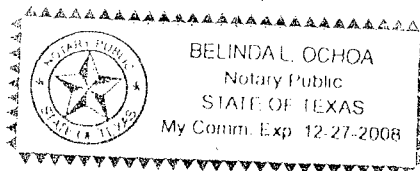
State of TEXAS SS
County of BEXAR

This instrument was acknowledged before me on this 16th day of OCTOBER 2006
by CHRIS BRADBURY (Title) of The Frost National Bank (ISSUER).
Sr. Vice President

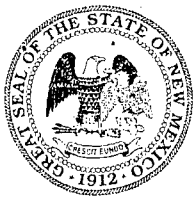
Notary Public

My Commission Expires:

12-27-2008



NOTICE: The attached exhibits must be initialed by the party signing this letter of credit for the Financial Institution. If this letter of credit is executed by an officer other than the President, a Vice President, or a branch manager, it must be accompanied by a certified resolution of the Board of Directors of the Financial Institution, certifying to the authority of the signing officer to execute letters of credit in at least the Face Amount.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

October 24, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Mr. Chris Bradbury, Sr. Vice President
The Frost National Bank
Attn: Letter of Credit Department RB-2
100 West Houston Street
San Antonio, TX 78205

Re: \$9,000 Letter of Credit No. 25446-SA
The Frost National Bank, Issuer
Aleanna Resources, LLC., Customer

Dear Mr. Bradbury:

The New Mexico Oil Conservation Division hereby approves the above-captioned Letter of Credit No. 26446-SA and acknowledges receipt of and approves Amendment No. 1 amending as follows:

1. First Paragraph, last sentence delete: This Letter of Credit is established for Aleanna Resources, LLC whose address is 2409 Ella Lee, Houston, Texas 77019 as APPLICANT.

First Paragraph, last sentence add: This Letter of Credit is established for Yeso Energy, Inc., whose address is P.O. Box 2248, 3103 Yeso Road Roswell, New Mexico 89250 as APPLICANT.

All other conditions remain the same.

Sincerely,

GAIL MACQUESTEN

Assistant General Counsel

GM/dp

Cc: Oil Conservation Division – Hobbs, NM

Yeso Energy, Inc.
P.O. Box 2248
Yeso Road
Roswell, New Mexico 89250

C104AReport

Page of 1

District
1625 N. French Dr., Hobbs, NM 88240
Phone: (505) 393-6151 Fax: (505) 393-0720

State of New Mexico
Energy, Minerals and Natural Resources

Form 12-145
Permit 31417

Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

Change of Operator

Previous Operator Information

OGRID: 25078
Name: WHITING OIL AND GAS
CORPORATION
Address: 1700 BROADWAY
Address: STE 780
City, State, Zip: DENVER, CO 80290

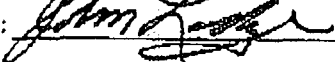
New Operator Information

Effective Date: 9/1/2006


OGRID: 221710
Name: YESO ENERGY, INC.
Address: P.O. BOX 8280
Address: 3103 YESO
City, State, Zip: ROSWELL, NM 88202

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

Previous Operator

Signature: 
Printed Name: John Lodge
Title: Vice President, Permian Land
Date: 8/22/06 Phone: (432) 685-6748

New Operator

Signature: 
Printed Name: H. E. Gene Lee
Title: President
Date: 9-6-06 Phone: (505) 626-1292

NMOCD Approval

Electronic Signature: Chris Williams, District 1
Date: October 25, 2006

07/03/2007 TUE 16:03 FAX

LE

06/27/2007 10:39 5056242911
C104AReport

Page 1 of 1

District 1
1625 N. French Dr., Hobbs, NM 88240
Phone: (505) 393-6161 Fax: (505) 393-0720State of New Mexico
Energy, Minerals and Natural ResourcesForm C-145
Permit 56172

Oil Conservation Division

1220 S. St Francis Dr.

Santa Fe, NM 87505

Change of Operator

Previous Operator Information

OGRID: 221710
Name: YESO ENERGY, INC.
Address: P.O. BOX 8280
Address: 3103 YESO
City, State, Zip: ROSWELL, NM 88202

New Operator Information

Effective Date: 6/1/2007
OGRID: 250384
Name: KERNS PETROLEUM, INC.
Address: 1777 NE LOOP 410, SUITE 930
Address:
City, State, Zip: SAN ANTONIO, TX 78217

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the certified list of wells is true to the best of my knowledge and belief.

Previous Operator

Signature: H.E. Gene Lee
Printed Name: H.E. GENE LEE
Title: PRESIDENT
Date: 6/27/2007 Phone: 505-626-4292

New Operator

Signature: Ceci Watten
Printed Name: Ceci Watten
Title: Land Mgr.
Date: 6/26/07 Phone: 510-825-7881

NMOCD Approval

Electronic Signature: Paul Kautz, District 1Date: July 17, 2007

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

NMOCD - ACOI- 137

IN THE MATTER OF YESO ENERGY, INC.,

Respondent.

AGREED COMPLIANCE ORDER

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), the Director of the Oil Conservation Division ("OCD") and Yeso Energy, Inc. ("Operator") enter into this Agreed Compliance Order ("Order") under which Operator agrees to bring wells identified herein into compliance with the Act and OCD Rule 201 [19.15.4.201 NMAC] in accordance with the following agreed schedule and procedures, and agrees to pay penalties as set out below if it fails to meet the schedule set out in this Order.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act, and rules and orders adopted pursuant to the Act.
2. Operator is a corporation doing business in the state of New Mexico.
3. Operator is the operator of record under OGRID 221710 for the following wells:
 - Connie C State #003 30-015-25587
 - Connie C State #004 30-015-25648
 - Tracy 29 Federal #001 30-015-28142
 - Yates State #001 30-015-20838
4. OCD Rule 201 [19.15.4.201 NMAC] states, in relevant part:
 - "A. The operator of any of the following wells, whether cased or uncased, shall be responsible for the plugging thereof: wells drilled for oil or gas; or service wells including but not limited to seismic, core, exploration or injection wells.
 - B. A well shall be either properly plugged and abandoned or placed in approved temporary abandonment in accordance with these rules within 90 days after:

....
....

- (3) a period of one year in which a well has been continuously inactive.”
5. The wells identified in Findings Paragraph 3 have been inactive for a continuous period of time in excess of one year plus 90 days, and have not been plugged and abandoned or placed on approved temporary abandonment status.
 6. NMSA 1978, Section 70-2-31(A) authorizes the assessment of civil penalties of up to one thousand dollars per day per violation against any person who knowingly or willfully violates any provision of the Oil and Gas Act or any rule or order adopted pursuant to the Act.
 7. NMSA 1978, Section 70-2-3(A) defines “person” in relevant part as
“any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”

CONCLUSIONS

1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. The wells identified in Findings Paragraph 3 are out of compliance with Rule 201.
3. As operator of the wells identified in Findings Paragraph 3, Operator is responsible for bringing those wells into compliance with Rule 201.
4. Operator is a “person” as defined by OCD Rule 7.P(2) and may be subject to civil penalties for knowing and willful violations of the Oil and Gas Act or rules or orders adopted pursuant to the Act.

ORDER

1. Operator agrees to bring the wells identified in Findings Paragraph 3 into compliance with OCD Rule 201 by December 31, 2006 by
 - (a) restoring the well to production or other OCD-approved beneficial use and filing a C-115 documenting such production or use;
 - (b) causing the wellbore to be plugged in accordance with OCD Rule 202.B(2) and filing a C-103 describing the completed work;
 - (c) placing the well on approved temporary abandonment status pursuant to OCD Rule 203.
2. If Operator fails to bring all of the wells identified in Findings Paragraph 3 into compliance by December 31, 2006, Operator agrees to pay a penalty of \$1000

times the number of wells identified in Findings Paragraph 3 that it failed to bring into compliance by December 31, 2006. In the event the Operator encounters unanticipated circumstances that prevent it from bringing all the wells identified in Findings Paragraph 3 into compliance by December 31, 2006, Operator may file an administrative application with the OCD to request a waiver or reduction of the penalty, and serve the OCD's Enforcement and Compliance Manager with a copy of the application. If the Enforcement and Compliance Manager concurs with the Operator's request, the application may be granted administratively. If the Enforcement and Compliance Manager does not concur with the Operator's request, the application shall be set for hearing.

3. On January 1, 2007 any wells identified in Findings Paragraph 3 not in compliance with OCD Rule 201 will appear on the inactive well list kept pursuant to OCD Rule 40.F.
4. By signing this Order, Operator expressly:
 - (a) acknowledges the correctness of the Findings and Conclusions set forth in this Order;
 - (b) agrees to return to compliance the wells identified in Findings Paragraph 3 by December 31, 2006;
 - (c) agrees to pay penalties as set out in Ordering Paragraph 2 if it fails to return the wells identified in Findings Paragraph 3 to compliance by December 31, 2006;
 - (d) waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior to or subsequent to the entry of this Order or to an appeal from this Order; and
 - (e) agrees that the Order may be enforced by OCD or Oil Conservation Commission Order, by suit or otherwise to the same extent and with the same effect as a final Order of the OCD or Oil Conservation Commission entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act.
5. This Order applies only to those wells identified in Findings Paragraph 3. Other wells operated by Operator out of compliance with Rule 201 may be subject to immediate enforcement action under the Oil and Gas Act.
6. The Oil Conservation Division reserves the right to file an application for hearing to obtain authority to plug any well identified in Findings Paragraph 3 and forfeit the applicable financial assurance if the well poses an immediate environmental threat.

Done at Santa Fe, New Mexico this 10th day of July, 2006

By: [Signature]

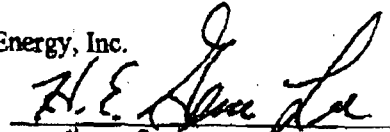
Mark Fesmire, P.E.
Director, Oil Conservation Division

ACCEPTANCE

Yeso Energy, Inc. hereby accepts the foregoing Order, and agrees to all of the terms and provisions set forth in that Order.

Yeso Energy, Inc.

By:



Title:

Yeso Energy, Inc.
President

Date:

7-7-06