



105 South Fourth Street  
Artesia, NM 88210

October 30, 2003

*called info*

Betty Petty Nelson  
2119 Forest Oaks  
Houston, TX 77017

**Certified Mail**

*Receipt Return Requested*

RE: Reed AXV Com #1  
Township 15 South, Range 34 East  
Section 12: 1870' FSL & 2080' FWL (W2 dedication)  
Lea County, New Mexico

Dear Ms. Nelson:

Yates Petroleum Corporation is making plans to re-enter and deepen the wellbore referenced above. We would like to commence this effort as soon as your interest is accounted for. We respectfully request that you commit your interest in either participating or leasing.

If you desire to participate please sign and return the enclosed AFE and I will forward our Operating Agreement for your execution.

If you would rather lease your interest I have enclosed an oil and gas lease,  $\frac{1}{4}$  royalty, 2year term and upon receipt of an executed lease in our office we will issue you a check at a rate of \$100.00 per net mineral acre owned.

Please call me collect at (505) 748-4351 if you would like to visit.

Very truly yours,

**YATES PETROLEUM CORPORATION**

Robert Bullock  
Landman

RB:bn  
enclosure(s)

BEFORE THE COMMISSION  
Santa Fe, New Mexico  
Case No. 13197 Exhibit No. 4  
Submitted by:  
**YATES PETROLEUM CORPORATION**  
Hearing Date: December 18, 2003

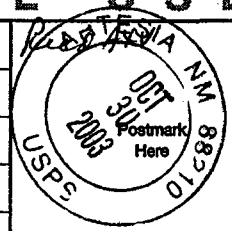
SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<input type="checkbox"/> Certified Mail: Return Receipt by First-Class Mail® <input type="checkbox"/> Certified Mail: Return Receipt by Registered Mail® <input type="checkbox"/> Registered Mail: Return Receipt by First-Class Mail® <input type="checkbox"/> Registered Mail: Return Receipt by Registered Mail® <input type="checkbox"/> Signature Required: Return Receipt by First-Class Mail® <input type="checkbox"/> Signature Required: Return Receipt by Registered Mail® <input type="checkbox"/> Signature Required: Return Receipt by First-Class Mail® <input type="checkbox"/> Signature Required: Return Receipt by Registered Mail® <input type="checkbox"/> Signature Required: Return Receipt by First-Class Mail® <input type="checkbox"/> Signature Required: Return Receipt by Registered Mail®	<input type="checkbox"/> Return Receipt by First-Class Mail® <input type="checkbox"/> Return Receipt by Registered Mail® <input type="checkbox"/> Return Receipt by First-Class Mail® <input type="checkbox"/> Return Receipt by Registered Mail® <input type="checkbox"/> Return Receipt by First-Class Mail® <input type="checkbox"/> Return Receipt by Registered Mail® <input type="checkbox"/> Return Receipt by First-Class Mail® <input type="checkbox"/> Return Receipt by Registered Mail® <input type="checkbox"/> Return Receipt by First-Class Mail® <input type="checkbox"/> Return Receipt by Registered Mail®
<p align="center"><b>7002 0860 0006 7054 1453</b></p>	

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

**OFFICIAL USE**

Postage	\$	
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		
<b>Total Postage &amp; Fees</b>	<b>\$</b>	<b>4.65</b>

*Recd by A*



<b>Sent To</b>	<b>BETTY PETTY NELSON</b>
<b>Street, Apt. No., or PO Box No.</b>	<b>2119 FOREST OAKS</b>
<b>City, State, ZIP+4</b>	<b>HOUSTON, TX 77017</b>

PS Form 3800, April 2002      See Reverse for Instructions

Send this form with your mailing address and ZIP code to the post office.

ROB BULLOCK

YATES PETROLEUM CORP  
105 SOUTH 4TH STREET  
ARTESIA, NEW MEXICO 88210

**Certified Mail Provides:**  
■ A mailing receipt  
■ A unique identifier for your mailpiece  
■ A signature upon delivery  
■ A record of delivery kept by the Postal Service for two years

**Important Reminders:**

- Certified Mail may ONLY be combined with First-Class Mail or Priority Mail.
- Certified Mail is not available for any class of international mail.
- NO INSURANCE COVERAGE IS PROVIDED with Certified Mail. For valuables, please consider Insured or Registered Mail.
- For an additional fee, a Return Receipt may be requested to provide proof of delivery. To obtain Return Receipt service, please complete and attach a Return Receipt (PS Form 3811) to the article and add applicable postage to cover the fee. Endorse mailpiece "Return Receipt Requested". To receive a fee waiver for duplicate return receipt, a USPS postmark on your Certified Mail receipt is required.
- For an additional fee, delivery may be restricted to the addressee or addressee's authorized agent. Advise the clerk or mark the mailpiece with the endorsement "Restricted Delivery".
- If a postmark on the Certified Mail receipt is desired, please present the article at the post office for postmarking. If a postmark on the Certified Mail receipt is not needed, detach and affix label with postage and mail.

**IMPORTANT: Save this receipt and present it when making an inquiry.**

PS Form 3800, April 2002 (Reverse)

102595-02-M-1132

THIS AGREEMENT made this 30<sup>th</sup> day of October 2003, between **Betty Petty Nelson, sole and separate property Lessor, (whether one or more), and YATES PETROLEUM CORPORATION - 70%; YATES DRILLING COMPANY - 10%; MYCO INDUSTRIES, INC. - 10% and ABO PETROLEUM CORPORATION - 10%, all New Mexico corporations, 105 South Fourth Street, Artesia, New Mexico 88210** Lessee, WITNESSETH:

1. Lessor 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 Lea County, New Mexico to-wit:

**Township 15 South, Range 34 East, N.M.P.M.**  
**Section 12: W2**

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 two 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 therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 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 \$3.00 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 pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

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

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

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

Betty Petty Nelson

Producers 88 Rev. (3 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  
Janet Richardson  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

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

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

by \_\_\_\_\_

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

)  
(ss

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

INDIVIDUAL ACKNOWLEDGMENT

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

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

by \_\_\_\_\_

as \_\_\_\_\_

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

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

)  
(ss

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

CORPORATION ACKNOWLEDGMENT

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

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

by Betty Petty Nelson, sole and separate property

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

2003

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

)  
(ss

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

INDIVIDUAL ACKNOWLEDGMENT



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

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

AFE NO.  
AFE DATE

03-105-0  
3/11/03  
AFEND (rev 6/98)  
3-20-03

AFE Type:

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

Well Objective:

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

Well Type:

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

AFE STATUS:

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

LEASE NAME  
COUNTY  
FIELD  
LOCATION

Reed AXV Com. #1  
Lea  
Section 12, T15S-R34E, 1,870' S & 2,080' W

PROJ'D DEPTH  
STATE  
HORIZON

13,400'  
New Mexico  
Mississippian

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME  
DISTRICT NAME  
BRANCH NAME

Oil & Gas Division

PROGNOSIS: Re-enter with pulling unit & clean out cement plugs to 5 1/2" casing stub at 2292', tie 5 1/2" back to surface.  
MIRT and deepen existing well drilled to 10,450' to new TD of 13,400'.

INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	20,000	20,000
920-120	Drilling, Footage	0	0
920-130	Drilling, Daywork 24 days @ \$7,500/day + \$25,000 for mob	218,000	209,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	30,000	30,000
920-160	Mud Logging Unit, Sample Bags	12,000	12,000
920-170	Cementing - Surface Casing	15,000	15,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	35,000	35,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	45,000	45,000
920-205	Control of Well-Insurance	4,700	4,700
920-210	Supervision & Overhead	24,000	24,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	25,000	25,000
920-350	Cementing - Production Casing		40,000
920-410	Completion Unit - Swabbing & clean out surface plugs and tie back 5 1/2"	21,000	41,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc. - Completion		20,000
920-460	Tools & Equip. Rental, Etc. - Completion		45,000
920-470	Stimulation for Completion		90,000
920-480	Supervision & O/H - Completion		8,000
920-490	Additional LOC Charges - Completion		3,000
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		467,700	692,500

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	5,000	25,000
930-020	Casing 5 1/2" @ 2292'		16,600
	3 1/2" @ 13,400'		61,000
930-030	Tubing		
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		20,000
940-030	Separation Equip., Flowlines, Misc.		40,000
940-040	Trucking & Construction Costs		20,000
TOTAL TANGIBLE EQUIPMENT COSTS		5,000	182,600

TOTAL COSTS

472,700 875,100

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By RB	Jeremiah Mullen	Operations Approval	
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BY: DATE

BY: DATE

BY: DATE

BY: DATE