

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



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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

December 9, 1997

Mr. Clifford Cone
P.O. Box 1629
Lovington, New Mexico 88260

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: Field APK State Com #3
Township 16 South, Range 35 East, NMPM
Section 2: 3300' FSL and 760' FWL
Lea County, New Mexico

Dear Mr. Cone:

Yates Petroleum Corporation proposes the drilling of the captioned well to test the Morrow formation at approximately 12,600'. Enclosed is our AFE setting out dry hole costs of \$657,200 and completed well costs of \$1,213,200. If you desire to participate, please execute and return the AFE to our office, and I will forward our Operating Agreement for your execution.

Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB/ljf
enclosures

Z 351 693 340

US Postal Service
Receipt for Certified Mail

No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Sent to Clifford Cone	
Special Notice P.O. Box 1629	
Post Office State, ZIP Code Lovington, New Mexico 88260	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date <i>Field APK State Com # 3 RB/16</i>	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**Clifford Cone
P.O. Box 1629
Lovington, New Mexico 88260**

4a. Article Number

Z 351 693 340

4b. Service Type

- | | |
|---|---|
| <input type="checkbox"/> Registered | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Insured |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD |

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X Don [Signature]

8. Addressee's Address (Only if requested and fee is paid)

*Field APK State
Com # 3 RB/16*

Thank you for using Return Receipt Service.

THIS AGREEMENT made this 9th day of December, 1997 between

Clifford Cone, LESSOR; and YATES PETROLEUM CORPORATION - 70%, YATES DRILLING COMPANY - 10%, ABO PETROLEUM CORPORATION - 10%, MYCO INDUSTRIES, INC. - 10%; all New Mexico Corporations, LESSEE,

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 16 South, Range 35 East, NMPM
Section 2: SW/4SW/4

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 1 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 \$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 judgement 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 term, 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 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.

Clifford Cone

Lessor

Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,
County of _____ } ss.

This instrument was acknowledged before me this _____
by Clifford Cone

My commission expires _____
Notary Public

CORPORATION ACKNOWLEDGEMENT

STATE OF NEW MEXICO,
County of _____ } ss.

This instrument was acknowledged before me this _____
by _____ as _____
of _____ corporation
on behalf of said corporation.

My commission expires _____
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____
County of _____ } ss.

This instrument was acknowledged before me this _____
by _____

My commission expires _____
Notary Public

Producers 88 Rev. (5 Year Lease) 5-96

No. _____

Oil and Gas
Lease

FROM

TO

Dated _____, 19____
No. Acres _____
County, N.M. _____
Term _____

This instrument was filed for record on the
_____ day of _____, 19____
at _____ o'clock _____ M., and duly
recorded in Book _____, Page _____
of the _____ records of this office.

By _____, Deputy
County Clerk
When recorded return to _____



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

AUTHORITY FOR EXPENDITURE
NEW DRILLING & RECOMPLETION

AFE NO. 97-343-0
AFE DATE 11/26/97

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

AFE STATUS:

Original

Revised

Final

LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,600'
COUNTY	Lea	STATE	New Mexico
LEGAL DESC.	3,300' FSL & 760' FWL	LOCATION	Section 2-16S-35E
FIELD		HORIZON	Morrow
DIVISION CODE	100.	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: _____

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	1,200	1,200
920-110	Location, Right-of-Way	15,000	15,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 41 days @ \$7400/day + \$40k mobilization	365,000	365,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	32,000	32,000
920-160	Mud Logging Unit, Sample Bags	11,600	11,600
920-170	Cementing - Surface Casing	24,000	24,000
920-180	Drill Stem Testing, OHT 2 DST's	10,000	10,000
920-190	Electric Logs & Tape Copies	25,400	25,400
920-200	Tools & Equip. Rntl., Trkg. & Welding	24,500	24,500
920-210	Supervision & Overhead	17,400	17,400
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	50,000	50,000
920-350	Cementing - Production Casing		36,500
920-410	Completion Unit - Swabbing		10,000
920-420	Water for Completion		8,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc. - Completion		35,000
920-460	Tools & Equip. Rental, Etc. - Completion		20,000
920-470	Stimulation for Completion one zone test only		100,000
920-480	Supervision & O/H - Completion		3,100
920-490	Additional LOC Charges - Completion		1,200
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		591,100	807,700

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	2,000	26,000
930-020	Casing 11-3/4" @ 450'	7,600	7,600
	8-5/8" @ 4650'	56,500	56,500
	5-1/2" @ 12,600'		93,000
930-030	Tubing 2 7/8" @ 12400'		35,000
930-040	Packer & Special Equipment		8,000
940-010	Pumping Equipment including \$20,000 for electricity		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
TOTAL TANGIBLE EQUIPMENT COSTS		66,100	405,500

TOTAL COSTS 657,200 1,213,200

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	AL SPRINGER	Operations Approval	
-------------	-------------	---------------------	--

OWNER		SHARE
BY	DATE	
BY	DATE	
BY	DATE	

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



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December 9, 1997

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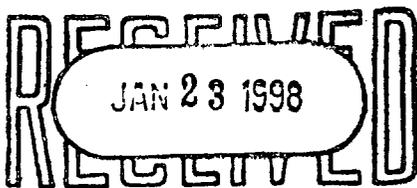
If you would like to visit regarding either of the above offers, please call me at 505-748-4351.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman



RB/ljf
enclosures

01/21/98

ET5-60-36-025-3A-M

Dear Mr. Bullock:

Certified Mail: P 371 217 560

In a follow-up to our telephone conversation, I am interested in participating in the drilling of the subject well. However, I would like to review the proposed Joint Operating Agreement before making a final decision.

With regard to my interest in the subject lands, it is my position that the Townsend Unit has no affect on the lands in Section 2. I believe that I have a 0.5 acre mineral interest in the SW/4SW/4.

I have not signed the AFE which you enclosed, because it is unclear to me as to the total acreage in the proration unit and, therefore, I am uncertain of my decimal interest and the amounts which I am agreeing to executing the AFE.

Sincerely,

Clifford Cone