

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 2, 1997

Amerind Oil Company Ltd.  
415 West Wall Street  
Midland, Texas 79701-4467

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

BEFORE THE  
OIL CONSERVATION DIVISION  
Santa Fe, New Mexico

Case Nos. 11934 (consolidated with 11958 and 11959)  
Exhibit No. 2  
Submitted by: Yates Petroleum Corporation  
Hearing Date: May 14, 1998



Z 351 693 331

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Amerind Oil Company Ltd	
Street & Number	
415 West Wall Street	
City, State, ZIP	
Midland, Texas 79701-4467	
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	
Field APK State Com #3 RB/ly	

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:  Amerind Oil Company Ltd. 415 West Wall Street Midland, Texas 79701-4467	4a. Article Number Z 351 693 331
	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
5. Received By: (Print Name)	7. Date of Delivery 12/3
6. Signature: (Addressee or Agent) <i>Deanne Terone</i>	8. Addressee's Address (Only if requested and fee is paid) Field APK State Com #3 RB/ly

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>

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



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

February 11, 1998

Amerind Oil Company, Ltd.  
Suite 500 Wilco Building  
415 West Wall Street  
Midland, Texas 79701-4467

RE: Farmout Letter Agreement  
Township 16 South, Range 35 East, NMPM  
Section 2: SW/4SW/4  
Lea County, New Mexico

Gentlemen:

Please find enclosed two (2) copies of the Farmout Letter Agreement for the captioned. If you find everything in order, please execute and return both copies to Yates Petroleum Corporation for our signature. We will return one (1) signed original to you.

Also enclosed is a copy for you records of our C-101 for the Field "APK" State Com. #3 proposed well.

If you have any questions regarding this matter, please contact me.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

*called Mary Ann Brock 2-26-98 & she said  
Mr. Leibrock & attorney were looking over F/O Agre.*

*RR 4th Row*

District I  
 PO Box 1980, Hobbs, NM 88241-1980  
 District II  
 811 South First, Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
 Energy, Minerals & Natural Resources Department

**OIL CONSERVATION DIVISION**  
 2040 South Pacheco  
 Santa Fe, NM 87505

Form C-101  
 Revised October 18, 1994

Instructions on back  
 Submit to Appropriate District Office  
 State Lease - 6 Copies  
 Fee Lease - 5 Copies

AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

<sup>1</sup> Operator Name and Address. <b>Yates Petroleum Corporation</b> 105 S. 4th Street Artesia, New Mexico 88210		<sup>2</sup> OGRID Number 025575
		<sup>3</sup> API Number 30 - 0
<sup>4</sup> Property Code	<sup>5</sup> Property Name Field "APK" State Com.	<sup>6</sup> Well No. 3

<sup>7</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
Lot 13	2	16S	35E		3300'	South	760'	West	Lea

<sup>8</sup> Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
<sup>9</sup> Proposed Pool 1 Wildcat Morrow					<sup>10</sup> Proposed Pool 2				

<sup>11</sup> Work Type Code N	<sup>12</sup> Well Type Code G	<sup>13</sup> Cable/Rotary R	<sup>14</sup> Lease Type Code S	<sup>15</sup> Ground Level Elevation 3995'
<sup>16</sup> Multiple No	<sup>17</sup> Proposed Depth 12,600'	<sup>18</sup> Formation Morrow	<sup>19</sup> Contractor Undesignated	<sup>20</sup> Spud Date ASAP

<sup>21</sup> Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
14 3/4"	11 3/4"	42.0#	450'	550 sx	Circulate
11"	8 5/8"	32.0#	4600'	1050 sx	Circulate
7 7/8"	5 1/2"	17.0#	TD	1350 sx	Aprox. 1700'

<sup>22</sup> Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Yates Petroleum Corporation proposes to drill and test the Morrow and intermediate formations. Approximately 450' of surface casing will be set and cement circulated to surface. Approximately 4100' of intermediate casing will be set and cement circulated. If commercial, production casing will be run and cemented with adequate cover perforated and stimulated as needed for production.

**MUD PROGRAM:** FW Gel, Paper, LCM to 450'; Brine to 4600'; Cut Brine, Starch to 9600' SW Gel Drispac, XC Polimur to TD.

**BOPE PROGRAM:** BOPE on 8 5/8" casing and tested daily.

<sup>23</sup> I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		<b>OIL CONSERVATION DIVISION</b>	
Signature: <i>Clifton R. May</i>		Approved by:	
Printed name: CLIFTON R. MAY		Title:	
Title: REGULATORY AGENT		Approval Date:	Expiration Date:
Date: December 19, 1997	Phone: 505-748-4347	Conditions of Approval: Attached <input type="checkbox"/>	

DISTRICT I  
P.O. Box 1980, Hobbs, NM 88240

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised February 10, 1994  
Instruction on back  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88210

OIL CONSERVATION DIVISION

P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name <i>WILCOAT MORROW</i>
Property Code	Property Name FIELD "APK" STATE COM.	Well Number 3
OGRID No. <i>025575</i>	Operator Name YATES PETROLEUM CORPORATION	Elevation 3995

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Lot 13	2	16S	35E		3300	SOUTH	760	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres <i>320</i>	Joint or Infill	Consolidation Code	Order No.
-------------------------------	-----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>Lot 10</p> <p>Lot 9</p> <p>Lot 15</p> <p>Lot 16</p>	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Clifton R. May</i> Signature</p> <p>Clifton R. May Printed Name</p> <p>Regulatory Agent Title</p> <p>December 19, 1997 Date</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>12/05/97 Date Surveyed</p> <p><i>Shel L. Jones</i> Signature Professional Surveyor</p> <p><b>NEW MEXICO</b> 3640 Certified Professional Surveyor FIELD PROFESSIONAL #8 GENERAL SURVEYING COMPANY</p>	

# AMERIND OIL COMPANY, LTD.

ROBERT M. LEIBROCK  
ROBERT C. LEIBROCK

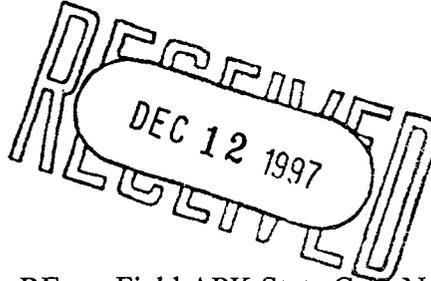
SUITE 500, WILCO BUILDING  
415 WEST WALL STREET  
MIDLAND, TEXAS 79701-4467

TELEPHONE (915) 682-8217  
FACSIMILE (915) 686-0747

December 10, 1997

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Mr. Robert Bullock, Landman



RE: Field APK State Com No. 3  
Township 16 South, Range 35 East, NMPM  
Section 2: 3300' FSL and 760' FWL *SW<sup>1</sup>/<sub>4</sub>SW<sup>1</sup>/<sub>4</sub>*  
Lea County, New Mexico

Gentlemen:

This is in response to your letter of December 2, 1997.

Amerind, et al would farm out all its interest in the referenced well with Amerind retaining an overriding royalty interest equal to the difference between existing burdens and 75.0 percent until payout, convertible to a 33.3 percent working interest at payout. This letter is only to set forth the basic trade terms; other terms would be addressed in the farmout agreement.

If you are in agreement with the above referenced terms, please forward your farmout agreement for our review.

If you have any questions, please call Mary Ann Brock in our office.

Very truly yours,

AMERIND OIL COMPANY, LTD.

A handwritten signature in black ink, appearing to read 'RCL', written over a horizontal line.

Robert C. Leibrock  
General Partner

RCL/mab

**FARMOUT LETTER AGREEMENT**

BETWEEN

**AMERIND OIL COMPANY, LTD.**

Suite 500 Wilco Building  
415 West Wall Street  
Midland, Texas 79701-4467

AND

**YATES PETROLEUM CORPORATION**

105 South Fourth Street  
Artesia, New Mexico 88210

**TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM**

Section 2: SW/4SW/4  
Lea County, New Mexico

Dated \_\_\_\_\_

## TABLE OF CONTENTS

<u>Paragraph Number</u>	<u>Title</u>	<u>Page Number</u>
1	Initial Test Well	1
2	Producer Earns	2
3	Risk, Cost and Expense of Operations	2
4	Geological Data	2
5	Bond and Designation of Operator	2
6	Overriding Royalty Reserved	3
7	Rentals	3
8	Abandoned Wells	3
9	Force Majeure	3
10	Notices	3
11	Restoration of Premises	3
12	Operating Agreement	4
13	Substitute Test Well	4
14	Production in Kind	4
15	Non-Assignability	4
16	Binding Effect	4
17	Acceptance	5
	Signatures	5
	Exhibit "A" - Geological Requirements	
	Exhibit "B" - Operating Agreement	

FARMOUT LETTER AGREEMENT

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Amerind Oil Company, LTD., Suite 500 Wilco Building, 415 West Wall Street  
Midland, Texas 79701-4467

represent(s) that \_\_\_\_\_ they are \_\_\_\_\_ the owner of various fee Oil and Gas Lease(s)  
covering lands in \_\_\_\_\_ Lea \_\_\_\_\_ County, \_\_\_\_\_ New Mexico \_\_\_\_\_ :

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

subject to the royalty reserved in said leases by the Lessors, all burdens on production which have heretofore been created and are shown of record, and the overriding royalty reserved herein by the undersigned. Said Oil and Gas Lease covering the above described lands down to a depth of the stratigraphic equivalent of 100 feet below the deepest depth drilled in the initial test well hereunder, but in any event not to exceed 12,700 feet below the surface, subject to the said burdens on production, is hereinafter referred to as "lease acreage."

If you comply with all the terms, covenants and conditions of this letter and drill and complete the test well provided for herein, we will execute and deliver to you, without warranty of title, either express or implied, an appropriate instrument conveying the lease acreage. The terms and covenants and conditions to which this farmout letter are subject are as follows:

1. INITIAL TEST WELL

1.1 You shall commence on or before June 1, 1998, the actual drilling of a well for oil or gas upon 3,300' FSL & 760' FWL, Section 2, Township 16 South Range 35 East, Lea County, New Mexico and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to approximately 12,600 feet to adequately test the Morrow Formation formation. Should a formation be encountered in which a well can be completed as a producer of oil and/or gas in paying quantities at a lesser depth, you shall have the right to complete in the shallower formation zone and earn as provided in paragraph 2. This test well shall be drilled and completed by you in accordance with the standards of a prudent operator.

1.2 In the event you do not commence the test well on or before June 1, 1998, or after commencing the same do not complete it within the time and manner provided in Paragraph 1.1, at our election, all of your right, title and interest in and to the lease acreage shall ipso facto terminate.

2. DRILL AND EARN

2.1 After such time as you have drilled and completed the initial test well as a well capable of producing oil and/or gas in paying quantities, we shall, upon your written demand after said completion, deliver to you and appropriate instrument conveying, without warranty of title, either express or implied, all of the operating rights in, to and under the lease acreage within the spacing unit, subject to an overriding royalty equal to the difference between 75% of 8/8ths and existing lease burdens of the market value of all (8/8ths) of oil gas and other hydrocarbon substances produced, saved and marketed from the lease acreage within the spacing unit until you shall have recovered all cost and expenses incurred in drilling, completing and operating said initial test well (payout) delivering to you a 75% net revenue interest lease.

2.2 During payout, you shall furnish us with current monthly statements summarizing income and expenses properly chargeable to payout. Upon payout, you shall promptly notify us by certified mail, and upon receipt of such notification, we shall have thirty (30) days within which to advise you if we elect to continue our reserved overriding royalty. If we fail to respond within said thirty (30) days, our reserved overriding royalty shall automatically convert to an undivided thirty three and one third percent (33.3333%) working interest, subject to proportionate reduction effective at 7:00 a.m. of the first day following that in which payout occurs.

3. RISK, COST AND EXPENSE OF OPERATIONS

3.1 All of your operations on the lease acreage shall be conducted at your sole cost, risk and expense, and you shall hold us harmless from any and all claims of whatsoever character or description resulting from or arising in connection with your operations thereon. You shall comply with all of the terms and provisions of said oil and gas leases and all applicable rules and regulations pertaining to your operations hereunder. You shall carry or cause to be carried the following insurance, protecting us against loss by reason of your operations hereunder, to-wit:

- (i) Workmens' Compensation and Employer's Liability Insurance as required by the laws of the State of New Mexico;
- (ii) Liability Insurance in the amount of \$200,000.00 per person and \$500,000.00 per accident for personal injury and \$25,000.00 for property damage.

4. GEOLOGICAL DATA

4.1 You will allow us or our representative full access to the derrick floor; and we shall have access to all cores, cuttings, logs, testing, completion data and all other information pertaining to any wells drilled hereunder. Further requirements are set forth in Exhibit "A" attached hereto and made a part hereof.

5. BOND AND DESIGNATION OF OPERATOR

5.1 Prior to the time you commence drilling operations upon the lease covered by this farmout letter agreement, we will use our best efforts to furnish you with a Designation of Operator on such lease in the form approved by the Bureau of Land Management. In the event we do not have a lease bond filed on any such lease, then prior to commencing operations we will furnish the Bureau of Land Management with an approved bond.

6. OVERRIDING ROYALTY RESERVED

6.1 There is reserved from this farmout letter and there shall be reserved from any operating agreement granted hereunder an overriding royalty equal to see paragraph 2.1 of the net proceeds from the sale of all (8/8ths) of the oil, gas and other hydrocarbon substances produced, saved and marketed from the lease acreage under the terms of said oil and gas lease and all extensions and renewals thereof; said overriding royalty to be reserved by the undersigned, their heirs, successors and assigns in proportion to their percentage ownership of the lease acreage. This overriding royalty shall be computed and paid at the same time and in the same manner as royalties payable to the lessor under the terms of said oil and gas lease are computed and paid, but the undersigned shall be responsible for their proportionate part of all taxes and assessments levied against or measured by the production of oil or gas from said premises.

7. RENTALS

7.1 We will use our best efforts to pay the rentals and shut-in royalty, if any, to the lessor, but shall not be liable in damages for the failure to pay the same, and you shall reimburse us for such rentals and shut-in royalty so paid on the lease as follows:  
your proportionate part

8. ABANDONED WELLS

8.1 You shall notify us of your intention to abandon any well on the lease acreage and we shall have twenty-four hours (24) after receipt of such notice of intention to abandon a well in which to elect to take over the well you propose to abandon. In the event we elect to take over the well, we will pay to you the reasonable market value of the salvage materials in the well, and in such event you shall furnish us with a release of the lease acreage within the spacing unit dedicated to such well. In the event we do not notify you of our election to take over the well within the time herein provided, you shall plug and abandon the well in accordance with applicable rules and regulations.

9. FORCE MAJEURE

9.1 The performance by you of any of the terms and provisions of this farmout letter shall be excused in the event such performance is prevented by strikes, fire, flood, tornado, lightning, explosion, acts of God or the public enemy, State or Federal rules or regulations or any things or happenings either similar or dissimilar beyond your control; provided, however, that such performance shall be resumed within reasonable time after such cause has been removed.

10. NOTICES

10.1 Time is of the essence in this agreement, and all notices provided for in this farmout letter shall be deemed to have been sufficiently given if sent by telegram or certified mail, addressed as follows:

SEE ATTACHED GEOLOGICAL REQUIREMENTS

All information required to be delivered to the undersigned shall be delivered at the addresses above set forth. For the purpose of this paragraph, either party may change his address by giving written notice to the other party thereof.

11. RESTORATION OF PREMISES

11.1 You agree to fill in all pits which may be dug in connection with any operations hereunder and to restore the surface of the lands on which such operations are conducted, in accordance with any applicable surface owner agreements, and to plug and abandon any of the wells provided for herein, all at your sole cost, risk and expense and in accordance with any regulation promulgated by any governmental regulatory body having jurisdiction thereof.

12. OPERATING AGREEMENT

12.1 Upon conveyance of the rights earned by the performance of the obligations set forth herein, all subsequent operations on the lease acreage will be conducted in accordance with the terms of a mutually acceptable Operating Agreement. Said Operating Agreement shall be on A.A.P.L. Form 610 and include a 300% non-consent provision, a provision stating that consent to drill is not consent to case, the deletion of the Preferential Right to Purchase paragraph, a mutually acceptable gas balancing agreement, and such other provisions that shall be mutually agreed upon.

13. SUBSTITUTE TEST WELL

13.1 If, in the drilling of the option well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of the Operator, to drill the well to the objective depth, or plug and abandons the initial test well as a dry hole, then and in any such event, on or before thirty (30) days after completion of the initial test well, Operator shall have the option to commence the actual drilling of another well ("substitute test well") at a lawful location of Operator's selection on the lease acreage. The substitute test well shall be drilled in the same manner as provided for in the initial test well. For all purposes of this agreement, the drilling of the substitute test well shall be considered as the drilling of the initial test well.

14. PRODUCTION IN KIND

14.1 We shall have the continuing option, at any time and from time to time, to purchase at the market price prevailing in the area on the date of purchase, or designate a purchaser, of any oil, gas, casinghead gas or other hydrocarbon substances that may be produced from the lands assigned pursuant to this agreement, whether overriding royalty or working interest, whether by reason of such interest or portion thereof being included in any pool or in any pooling agreement or unit, planned or otherwise.

14.2 Before you enter into any contract for the sale, purchase or processing of gaseous hydrocarbons from the interest involved herein, you shall submit to us in writing the contract into which you propose to enter. We shall have the right and option, at our election, to (1) take in kind or otherwise dispose of our share of the gas upon such terms and conditions as we deem advisable, or (2) allow you to dispose of all of the gas and account to us, all in accordance with the terms of the proposal submitted; provided, however, that if you are in any way affiliated with the purchaser of such gas, then you shall account to us on the basis of the highest price offered or paid in the area by any purchaser or prospective purchaser. If we fail to notify you of our election hereunder within sixty (60) days after receipt of such notice from you, then it shall be considered that we made election (2) above. For the purpose of election (2) above, the interest of ours shall be considered to be only the overriding royalty interest reserved under this farmout agreement and shall not include our working interest gas. In the event that we exercise our reserved option to convert our overriding royalty to a working interest upon payout of any well herein provided for, or at any time during which we may have a working interest in any well, we shall at all times have the express right to take our proportionate share of the working interest gas in kind or to independently market or dispose of the same and nothing herein contained shall be construed as giving or granting to you the right to market or otherwise dispose of the proportionate share of the working interest gas of ours without express authorization from time to time to do so.

15. NON-ASSIGNABILITY

15.1 This farmout letter is personal to you and neither this farmout letter nor any interest herein shall be assigned by you (other than to any other Yates "in house" entities) without our express consent in writing, the breach of which shall, at our election, automatically terminate this farmout letter.

16. BINDING EFFECT

16.1 This farmout letter shall be covenant running with the ownership of the lease acreage and, as such, shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors, and when assigned as herein provided, upon the assigns of the parties hereto.

17. ACCEPTANCE

17.1 This letter is not binding upon us until such time as it has been accepted by you and one (1) fully executed copy returned to us within ten (10) days from the date hereof.

AMERIND OIL COMPANY, LTD.

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

Title: \_\_\_\_\_

Date: \_\_\_\_\_

The foregoing farmout letter agreement and all of its terms, covenants and conditions are hereby accepted and agreed to this \_\_\_\_\_ day of \_\_\_\_\_, 1998.

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_  
Attorney-in-Fact

**EXHIBIT "A"**  
**GEOLOGICAL REQUIREMENTS**

Mr. Mike Hayes  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
(505) 748-1471 (Office)  
(505) 748-8767 (Home)  
(505) 365-7106 (Cellular)  
(505) 748-4570 (Fax)

**ALTERNATE:**  
Mr. Ray Beck  
(505) 748-2565

I. Notification:

- A. You shall immediately notify the above company representative (or alternate) by telephone, at your expense, sufficiently in advance of the following events in order that a representative of the company may be present to witness same:
1. Spudding of any test well hereunder,
  2. All drill stem or other tests of said well,
  3. Logging or other downhole surveys,
  4. Any coring operations,
  5. Any plugging operations,
- B. You shall, at your expense, furnish us current progress reports (daily drilling, completion, or workover and daily mud log) on said well with full information thereon each day by fax. This requirement may be waived and well progress reports may be mailed daily when practicable.

II. Other Requirements:

- A. Unless waived by us, you shall run:
1. A GR-Dual Laterolog, Dual Induction or equivalent saturation log.
  2. A GR-Compensated Neutron-Formation Density or equivalent porosity log.
  3. A mudlog commencing 100' above 1st potential pay continuous to TD.
- B. You shall furnish us the following data and information:
1. Two copies of field prints and two copies of final prints of all electric logs or other downhole surveys run in said well; this includes dipmeter logs and any derivative logs such as "Coriband", "Saraband", "Elan", or equivalent survey analysis.
  2. One copy of digital data on 3-1/2" diskette - LAS Format,
  3. Two copies of all drill stem test reports,
  4. Two copies of all core analysis reports,
  5. One copy of all fluid analysis reports,
  6. Two copies of the preliminary mudlog sheets and two copies of the final mud log,
  7. One copy of any paleontological report,
  8. One copy of any geological report,
  9. One copy of the sample description
  10. One copy of the drilling time,
  11. One copy of all government reports,
  12. One copy of daily production reports for sixty (60) days after completion of the well.
- C. One set of representative samples to be filed with Midland Sample Cut.

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

February 26, 1998

Fuel Products, Inc.  
P.O. Box 3098  
Midland, Texas 79702-3098

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 443 810 437

US Postal Service  
**Receipt for Certified Mail**

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

Sent to	
Fuel Products, Inc.	
Street & Number	
P.O. Box 3098	
City, State & ZIP Code	
Midland, Texas 79702-3098	
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	
Field APX State Com #3 RB14	

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:

Fuel Products, Inc.  
P.O. Box 3098  
Midland, Texas 79702-3098

4a. Article Number

Z 443 810 437

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

7. Date of Delivery FEB 27 1998

5. Received By: (Print Name)

THOMAS M. BEALL

6. Signature: (Addressee or Agent)

X Thomas M Beall

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

Field APX State  
Com #3 RB14

Thank you for using Return Receipt Service.



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 type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Oil	<input type="checkbox"/> Gas	<input type="checkbox"/> Development	<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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	2,000	28,000
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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
----	------

BY	DATE
----	------

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

February 26, 1998

Ameristate Oil & Gas, Inc.  
Ameristate Exploration L.L.C.  
1211 W. Texas  
Midland, Texas 79701

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

**YATES PETROLEUM CORPORATION**

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 443 810 436

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Ameristate Oil & Gas, Inc.	
Ameristate Exploration L.L.C.	
1211 W. Texas	
Midland, Texas 79701	
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	
Field APR 5/86 Com #3 RB/ly	

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:

Ameristate Oil & Gas, Inc.  
 Ameristate Exploration L.L.C.  
 1211 W. Texas  
 Midland, Texas 79701

4a. Article Number

Z 443 810 436

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

7. Date of Delivery

3/3

5. Received By: (Print Name)

Mark Nearburg

6. Signature: (Addressee or Agent)

X [Signature]

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

Field APR 5/86  
Com #3 RB/ly

Thank you for using Return Receipt Service.



**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING & RECOMPLETION

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

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

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:**

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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



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

February 26, 1998

John F. Harbig, Jr.  
Suite 280, One Marienfeld Place  
Midland, Texas 79701

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 443 810 438

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
John F. Harbig, Jr.	
Street & Number	
Suite 280, One Marienfeld Place	
Midland, Texas 79701	
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	
Field HX State Com #3 RB/lf	

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:

John F. Harbig, Jr.  
Suite 280, One Marienfeld Place  
Midland, Texas 79701

4a. Article Number

Z 443 810 438

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

7. Date of Delivery

3-4-98

5. Received By: (Print Name)

JOHN F. HERBIG JR.

6. Signature: (Addressee or Agent)

X [Signature]

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

Field HX State  
Com #3 RB/lf

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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



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

February 27, 1998

Joan Garrison  
5221 Ira  
Ft. Worth, TX 76117

**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 Ms. Garrison:

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 443 810 359

US Postal Service  
**Receipt for Certified Mail**

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

Sent to <b>Joan Garrison</b>	
5221 Ira	
Ft. Worth, TX 76117	
Post Office, State, & ZIP Code	
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 HX State Com #3 RB/8</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:**

Joan Garrison  
5221 Ira  
Ft. Worth, TX 76117

**4a. Article Number**

Z 443 810 359

**4b. Service Type**

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

**7. Date of Delivery**

3-2-98

**5. Received By: (Print Name)**

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

*Field HX State  
Com #3 RB/8*

**6. Signature: (Addressee or Agent)**

X *[Signature]*

Thank you for using Return Receipt Service.



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

THIS AGREEMENT made this 27th day of February, 1998 between

Joan Garrison, dealing in her sole and separate property; 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.

Joan Garrison

SS#

Lessor

Lessor

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

# Oil and Gas Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_

To, 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.

County Clerk

by \_\_\_\_\_, Deputy

When recorded return to \_\_\_\_\_

### INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,

County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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

Notary Public

### CORPORATION ACKNOWLEDGEMENT

STATE OF NEW MEXICO,

County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

on behalf of said corporation.

\_\_\_\_\_ corporation

Notary Public

### INDIVIDUAL ACKNOWLEDGEMENT

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

County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

Joan Garrison, dealing in her sole and separate property

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

Notary Public

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

Lavena Howard, Joan Garrison  
and Reita Schnaubert  
1204 Broadway  
Lubbock, Texas 79401

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 Ladies:

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 351 693 347

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
 Lavena Howard, Joan Garrison,  
 and Rita Schnaubert  
 1204 Broadway  
 Post Office, State, & Zip Code  
 Lubbock, Texas 79401

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

PS Form 3800, April 1995

Postmark or Date  
*Field APK State*  
*Com #3 RB/4*

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Lavena Howard, Joan Garrison,  
 and Rita Schnaubert  
 1204 Broadway  
 Lubbock, Texas 79401

4a. Article Number

*Z 351 693 347*

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

**X**

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

*Field APK State*  
*Com #3 RB/4*

Thank you for using Return Receipt Service.



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:**

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>
--------------------	----------------	------------------

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	
----	------	--

BY	DATE	
----	------	--

THIS AGREEMENT made this 9th day of December, 1997 between  
Tom Schnaubert, Life Estate with Remaindermen being Tommy G. Schnaubert, Bobby J. Schnaubert,  
Mary A. Irwinsky, and Ruth M. Dake, each dealing in their sole and separate property, LESSOR;  
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 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 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.

Tommy G. Schnaubert Lessor

Bobby J. Schnaubert Lessor

Mary A. Irwinsky Lessor

Ruth M. Dake Lessor



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	
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	
Field APK State Com # 3 RB/1/6	

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

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X *Don Taylor*

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

Field APK State  
Com # 3 RB/1/6

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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 _____	

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, telephones 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 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 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.

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

Deputy \_\_\_\_\_

When recorded return to \_\_\_\_\_

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.

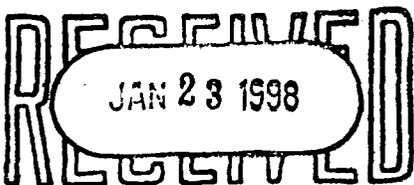
Should you not wish to participate, we enclose herewith a one (1) year Paid-Up Oil and Gas Lease, providing you a 1/4 royalty. Please execute, notarize and return one (1) original to our office.

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

01/21/98

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

Dear Mr. Bullock:

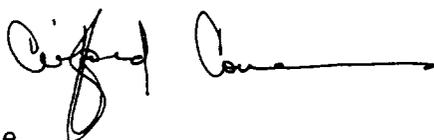
Certified Mail: P 371 217 560

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

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. Kenneth G. Cone  
P.O. Box 11310  
Midland, Texas 79702

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 351 693 341

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Kenneth G. Cone	
Street & Number	
P.O. Box 11310	
City and State ZIP Code	
Midland, Texas 79702	
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	
Field APK State Com #3 RB/lf	

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:  Kenneth G. Cone P.O. Box 11310 Midland, Texas 79702	4a. Article Number Z 351 693 341
	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
5. Received By: (Print Name)	7. Date of Delivery 12-22-97
6. Signature: (Addressee or Agent) X K Shapira	8. Addressee's Address (Only if requested and fee is paid) Field APK State Com #3 RB/lf

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>68,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

(One YEAR PAID UP LEASE)  
OIL AND GAS LEASE

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

Kenneth G. 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, telephones 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 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 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.

Kenneth G. Cone

Lessor

Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,

County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 TEXAS

County of \_\_\_\_\_ } ss.

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

by Kenneth G. Cone

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.

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

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

When recorded return to \_\_\_\_\_

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

February 12, 1998

Mary Irwinsky  
4404 Odessa Avenue  
Ft. Worth, TX 76133

**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 Ms. Irwinsky:

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 443 810 396

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to <b>Mary Irwinsky</b>	
Street & Number <b>4404 Odessa Avenue</b>	
City, State, & ZIP Code <b>Ft. Worth, Texas 76133</b>	
Post Office, State, & ZIP Code	
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>Ft. Worth TX State Com #3 RBly</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:**

Mary Irwinsky  
4404 Odessa Avenue  
Ft. Worth, Texas 76133

**4a. Article Number**

Z 443 810 396

**4b. Service Type**

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

**7. Date of Delivery**

2-17-96

**5. Received By: (Print Name)**

*Rose Irwinsky*

**6. Signature: (Addressee or Agent)**

*X ROSE IRWINSKY*

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

*Ft. Worth TX State  
Com #3*

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

THIS AGREEMENT made this 12th day of February, 1998 between

Mary Irwinsky, dealing in her sole and separate property, LESSOR; and YATES PETROLEUM CORPORATION - 10%, 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 with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and all 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.

Mary Irwinsky

SS#

Lessor

Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 Mary Irwinsky, dealing in her sole and separate property

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

\_\_\_\_\_ Deputy

When recorded return to \_\_\_\_\_

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

February 12, 1998

Constance Cobb Keen  
4915-D 94th Street  
Lubbock, TX 79424

**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 Ms. Keen:

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

PS Form 3800, April 1995

**US Postal Service  
Receipt for Certified Mail**

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

Z 443 810 395

Sent to Constance Cobb Keen	
4915-D 94th Street	
Lubbock, TX 79424	
Post Office, State, & ZIP Code	
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	Field OK State Com #3 3/8/98

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Constance Cobb Keen  
4915-D 94th Street  
Lubbock, TX 79424

**4a. Article Number**

Z 443 810 395

**4b. Service Type**

- Registered
- Certified
- Express Mail
- Insured
- Return Receipt for Merchandise
- COD

**7. Date of Delivery**

2/17/98

**5. Received By: (Print Name)**

**6. Signature: (Addressee or Agent)**

X Constance Cobb

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

Field OK State  
Com #3 3/8/98

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>66,100</b>	<b>405,500</b>

<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>
--------------------	----------------	------------------

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 _____	_____

(One YEAR PAID UP LEASE)  
OIL AND GAS LEASE

THIS AGREEMENT made this 12th day of February, 1998 between

Constance Cobb Keen, dealing in her sole and separate property, 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 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.

Constance Cobb Keen

SS#

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 Constance Cobb Keen, dealing in her sole and separate property

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

Deputy \_\_\_\_\_

When recorded return to \_\_\_\_\_

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

February 12, 1998

Charles M. Fuchtman  
P.O. Box 10109  
Huntsville, AL 35801

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. Fuchtman:

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 443 810 394

US Postal Service  
**Receipt for Certified Mail**

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

Sent to <b>Charles M. Fuchtmann</b>	
P.O. Box 10109	
Street Number <b>Huntsville, AL 35801</b>	
Post Office, State, & ZIP Code	
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>Filed AK State Com #3 RB/48</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:

**Charles M. Fuchtmann**  
P.O. Box 10109  
Huntsville, AL 35801

4a. Article Number

*Z 443 810 394*

4b. Service Type

- Registered
- Certified
- Express Mail
- Insured
- Return Receipt for Merchandise
- COD

7. Date of Delivery

*2/19/98*

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

*X Charles M. Fuchtmann*

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

*Filed AK State  
Com #3 RB/48*

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

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	
----	------	--

THIS AGREEMENT made this 12th day of February, 1998 betweenCharles M. Fuchtman, dealing in his sole and separate property, 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, telephones 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.

Charles M. Fuchtman

SS#

Lessor

Lessor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

This instrument was acknowledged before me this \_\_\_\_\_  
by \_\_\_\_\_  
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 Charles M. Fuchtman, dealing in his sole and separate property  
My commission expires \_\_\_\_\_

Notary Public

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

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

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_  
No. Acres \_\_\_\_\_  
Term \_\_\_\_\_ County, N.M.

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 \_\_\_\_\_

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

February 12, 1998

Mary Carolyn Johnston  
320 Oakbrook  
Greenwood, IN 46142

**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 Ms. Johnston:

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 443 810 393

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Mary Carolyn Johnston	
320 Oakbrook	
Greenwood, IN 46142	
Post Office, State, & ZIP Code	
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	
Field APK State Com #3 RB/ly	

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Mary Carolyn Johnston  
320 Oakbrook  
Greenwood, IN 46142

**4a. Article Number**

Z 443 810 393

**4b. Service Type**

- Registered
- Certified
- Express Mail
- Insured
- Return Receipt for Merchandise
- COD

**7. Date of Delivery**

2/18/98

**5. Received By: (Print Name)**

Mary Carolyn Johnston

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

6. \$

PS

Receipt

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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 _____	

THIS AGREEMENT made this 12th day of February, 1998, between

Mary Carolyn Johnston, dealing in her sole and separate property, 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, mortgages 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.

Mary Carolyn Johnston

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

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 Mary Carolyn Johnston, dealing in her sole and separate property

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

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

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

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_  
No. Acres \_\_\_\_\_  
Term \_\_\_\_\_ County, N.M.

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 \_\_\_\_\_

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

February 12, 1998

Flo Scott Brown  
8610 Miami Avenue  
Midland, TX 79423

**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 Ms Brown:

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 443 810 390

US Postal Service

### Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Flo Scott Brown	
8610 Miami Avenue	
Midland, TX 79423	
Post Office, State, & Zip Code	
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	
Field APK State Com #3 7/3/48	

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:

Flo Scott Brown  
8610 Miami Avenue  
Midland, TX 79423

4a. Article Number  
Z 443 810 390

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)  
Flo Scott Brown

6. S

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

PS F.

Receipt

Thank you for using Return Receipt Service.



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
			Injector		

AFE STATUS:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>
--------------------	----------------	------------------

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	
----	------	--

(One YEAR PAID UP LEASE)  
OIL AND GAS LEASETHIS AGREEMENT made this 12th day of February, 1998, between

Flo Scott Brown, dealing in her sole and separate property, 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 unit. 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.

Flo Scott Brown

SS#

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

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 Flo Scott Brown, dealing in her sole and separate property

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

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

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

Oil and Gas  
Lease

FROM

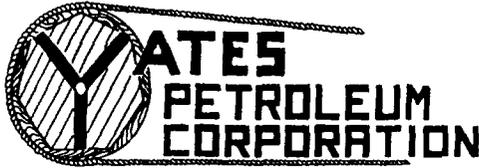
TO

Dated \_\_\_\_\_, 19\_\_\_\_  
No. Acres \_\_\_\_\_  
Term \_\_\_\_\_ County, N.M. \_\_\_\_\_

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 \_\_\_\_\_

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 2, 1997

Mark L. Shidler, Inc.  
911 Walker, Suite 565  
San Jacinto Building  
Houston, Texas 77002

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 332

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Mark L. Shidler, Inc.	
911 Walker, Suite 565	
San Jacinto Building	
Houston, Texas 77002	
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	
Field APK State Com # 3 RB/lf	

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:

Mark L. Shidler, Inc.  
~~911 Walker, Suite 565~~  
~~San Jacinto Building~~  
~~Houston, Texas 77002~~  
 1010 Laman Ste 500

4a. Article Number

Z 351 693 332

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

7. Date of Delivery

12-8-97

5. Received By: (Print Name)

C. Miner

6. Signature: (Addressee or Agent)

X C. Miner

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

Field APK State  
Com # 3 RB/lf

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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



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

A.L. Cone Partnership  
P.O. Box 3457, Briercroft #12  
Lubbock, Texas 79452

**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

Gentlemen:

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 351 693 346

US Postal Service  
**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
**A.L. Cone Partnership**  
P.O. Box 3457, Briercroft #12  
Lubbock, Texas 79452

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

PS Form 3800, April 1995

Postmark or Date  
*Field AAK State*  
*Com #3 2/6/97*

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):

1.  Addressee's Address

2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**A.L. Cone Partnership**  
P.O. Box 3457, Briercroft #12  
Lubbock, Texas 79452

4a. Article Number  
**Z 351 693 346**

4b. Service Type

Registered  Certified

Express Mail  Insured

Return Receipt for Merchandise  COD

7. Date of Delivery  
**12/11/97**

5. Received By: (Print Name)  
**LARRY KETREE**

6. Signature: (Addressee or Agent)  
*[Signature]*

8. Addressee's Address (Only if requested and fee is paid)  
*Field AAK State*  
*Com #3 2/6/97*

Thank you for using Return Receipt Service.



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 type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Oil	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Development	<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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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	
----	------	--

THIS AGREEMENT made this 9th day of December, 19 97 between

A.L. Cone Partnership, 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 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 not 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.

A.L. Cone Partnership

Lessor

Lessor

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 TEXAS  
County of \_\_\_\_\_ } ss.

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

by A.L. Cone Partnership

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

Deputy \_\_\_\_\_

When recorded return to \_\_\_\_\_

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

Tom W. Schnaubert, Life Estate  
with Remaindermen being Tommy  
G. Schnaubert Bobby J. Schnaubert,  
Marry A. Irwinsky and Ruth M. Dake  
as their sole and separate property  
c/o Mary A. Irwinsky  
3912 8th Avenue  
Fort Worth, Texas 76110

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 Remaindermen:

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 351 693 348

US Postal Service  
**Receipt for Certified Mail**

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

Sent to  
**Tom W. Schnaubert, Life Estate**  
c/o **Mary A. Irwinsky**  
**3912 8th Avenue**  
Post Office, State, & ZIP Code  
**Fort Worth, Texas 76110**

PS Form 3800, April 1995

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

Postmark or Date  
*Field APK State*  
*Com #3 RB/16*

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:

**Tom W. Schnaubert, Life Estate**  
**c/o Mary A. Irwinsky**  
**3912 8th Avenue**  
**Fort Worth, Texas 76110**

4a. Article Number

*Z 351 693 348*

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

**X**

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.



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:**

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

(One YEAR PAID UP LEASE)  
OIL AND GAS LEASE

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

Lavena Howard, Joan Garrison and Reita Schnaubert, each dealing in her sole and separate property, 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, telephones 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 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 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.

Lavena Howard Lessor

Joan Garrison Lessor

Reita Schnaubert Lessor

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by Lavena Howard, dealing in her sole and separate property

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

Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by Joan Garrison, dealing in her sole and separate property

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

Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by Reita Schnaubert, dealing in her sole and separate property

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

Deputy \_\_\_\_\_

When recorded return to

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 10, 1997

Bristol Resources Corporation  
6655 S. Lewis, Suite 200  
Tulsa, Oklahoma 74136

**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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

**YATES PETROLEUM CORPORATION**

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 355

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Bristol Resources Corporation	
6655 S. Lewis, Suite 200	
Tulsa, Oklahoma 74136	
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	
Field APK State Cm # 3 RB/ly	

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:

Bristol Resources Corporation  
6655 S. Lewis, Suite 200  
Tulsa, Oklahoma 74136

4a. Article Number

Z 351 693 355

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

DEC 15 1997

5. Received By: (Print Name)

STEED

6. Signature: (Addressee or Agent)

X

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

Field APK State  
Cm # 3 RB/ly

Thank you for using Return Receipt Service.



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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



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 10, 1997

R.G. Barton, Sr. and O. Barton Rev. Trust  
Roy G. Barton, Jr. Trustee  
P.O. Box 978  
Hobbs, New Mexico 88241-0978

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. Barton:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 354

US Postal Service  
**Receipt for Certified Mail**

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

Sent to	
R.G. Barton, Sr. and O. Barton	
Rev. Trust	
Roy G. Barton, Jr. Trustee	
Post Office, State, & ZIP Code	
P.O. Box 978	
Hobbs, New Mexico 88241-0978	
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	
Field AAK State Com #3 RB/4	

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):

1.  Addressee's Address

2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

R.G. Barton, Sr. and O. Barton  
Rev. Trust  
Roy G. Barton, Jr., Trustee  
P.O. Box 978  
Hobbs, New Mexico 88241-0978

4a. Article Number  
Z 351 693 354

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
12-12-97

5. Received By: (Print Name)  
J ISBEN

6. Signature: (Addressee or Agent)  
X [Signature]

8. Addressee's Address (Only if requested and fee is paid)  
Field AAK State  
Com #3 RB/4

Thank you for using Return Receipt Service.



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

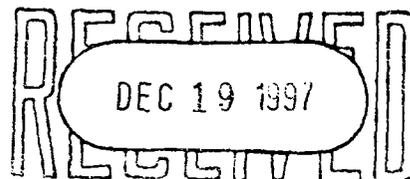
MARTIN YATES, III  
1912-1985  
FRANK W. YATES  
1936-1986



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 10, 1997



R.G. Barton, Sr. and O. Barton Rev. Trust  
Roy G. Barton, Jr. Trustee  
P.O. Box 978  
Hobbs, New Mexico 88241-0978

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. Barton:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

*Please forward invoice.*



109 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (808) 748-1471

**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING & RECOMPLETION

AFE NO. 97-343-0  
AFE DATE 11/28/97

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:

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

LEASE NAME	Field APK State Com. #3	PROJ'D DEPTH	12,800'
COUNTY	Lea	STATE	New Mexico
LEGAL DESC.	3,300' FSL & 780' 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	COMPD 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, Fastline 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
920-530	Contingency for Completion		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	2,000	26,000
930-220	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 electr. city		116,000
940-020	Storage Facilities		22,700
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		15,700
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>86,100</b>	<b>405,500</b>

**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	<i>Ralph Barton Jr.</i>	DATE	12/16/97
BY		DATE	
BY		DATE	
BY		DATE	

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

Katherine Adeline Cone Keck  
1801 Avenue of the Stars, Suite 446  
Los Angeles, CA 90067

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 Ms. Keck:

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 351 690 875

US Postal Service

### Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
**Katherine Adeline Cone Keck**  
 1801 Ave. of the Stars, Suite 446  
 Los Angeles, CA 90067

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

Postmark or Date  
*Field APK Still*  
*Com #3 RB/4*

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:

**Katherine Adeline Cone Keck**  
**1801 Ave. of the Stars, Suite 446**  
**Los Angeles, CA 90067**

4a. Article Number

**Z 351 690 875**

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

**2-17**

5. Received By: (Print Name)

*[Signature]*

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

*Field APK Still*  
*Com #3 RB/4*

6. Signature: (Addressee or Agent)

*[Signature]*

Thank you for using Return Receipt Service.

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

Katherine Adeline Cone Keck  
P.O. Box 10321  
Lubbock, Texas 79404

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 Ms. Keck:

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 351 693 349

US Postal Service  
**Receipt for Certified Mail**

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

Sent to <b>Katherine Adeline Cone Keck</b>	
Special Number <b>P.O. Box 10321</b>	
Post Office, City, State, ZIP Code <b>Lubbock, Texas 79404</b>	
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</i> <i>Com #3 RB/ly</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:

**Katherine Adeline Cone Keck**  
**P.O. Box 10321 1801 Ave. of the Stars**  
**Lubbock, Texas 79404**  
*Los Angeles, Ca. 90067*  
*Suite 446*

4a. Article Number  
**Z 351 693 349**

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)  
**X**

8. Addressee's Address (Only if requested and fee is paid)  
*Field APK State*  
*Com #3 RB/ly*

Thank you for using Return Receipt Service.



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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	

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

Katherine Adeline Cone Keck, LESSOR; and YATES PETROLEUM CORPORATION - 70%, YATES DRILLING COMPANY - 10%, ABO PETROLEUM CORPORATION - 10%, MYGO 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 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 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.

Katherine Adeline Cone Keck

Lessor

Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 TEXAS  
County of \_\_\_\_\_ } ss.

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

by Katherine Adeline Cone Keck

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.

County Clerk

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

When recorded return to \_\_\_\_\_

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

Ms. Marilyn Cone  
Trustee for D.C. Cone Trust  
P.O. Box 64244  
Lubbock, Texas 79464

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 Ms. 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 351 693 342

US Postal Service  
**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Marilyn Cone	
Street & Number	
Trustee for D.C. Cone Trust	
P.O. Box 64244	
Post Office, City & ZIP Code	
Lubbock, Texas 79464	
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	
Field APK State Com # 3 RB/16	

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:

Marilyn Cone  
Trustee for D.C. Cone Trust  
P.O. Box 64244  
Lubbock, Texas 79464

4a. Article Number

Z 351 693 342

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

12/11

5. Received By: (Print Name)

*Sean Lochner*

6. Signature: (Addressee or Agent)

*X SEAN LOCHNER*

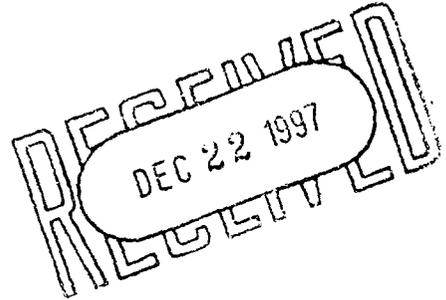
8. Addressee's Address (Only if requested and fee is paid)

Field APK State  
Com # 3 RB/16

Thank you for using Return Receipt Service.

DC TRUST  
MARILYN CONE, TRUSTEE  
P.O. Box 93355  
Lubbock, Texas 79413  
(806) 795-8827

December 18, 1997



Yates Petroleum  
ATTN: Robert Bullock  
105 South Fourth Street  
Artesia, New Mexico 88210

RE: Field APK State Com #3  
Lea County, New Mexico

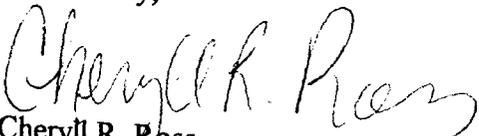
Enclosed is a copy of an AFE and Lease we recently received covering the captioned property.

Please supply this office with the following information:

What is the proration unit?  
What is our interest?

Thank you.

Yours truly,

  
Cheryll R. Ross

encl.  
/crr



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	

THIS AGREEMENT made this 9th day of December, 1997 betweenMarilyn Cone, Trustee for D.C. Cone Trust, 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 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 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.

Marilyn Cone, Trustee for D.C. Cone

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

Jack McClendon, Adelline Z. Cone,  
and S.E. Cone, Jr., Successor  
Trustees under Trust "B" created  
UWLT of S.E. Cone  
FBO S.E. Cone, Jr.  
P.O. Box 10321  
Lubbock, Texas 79404

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 Trustees:

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 351 693 344

US Postal Service

### Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
**Jack McClendon, Adelline Z. Cone**

and **S.E. Cone, Jr.**

c/o **S.E. Cone, Jr.**

Post Office, State, & ZIP Code  
**P.O. Box 10321**

**Lubbock, Texas 79404**

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

PS Form 3800, April 1995

Postmark or Date  
*Field MK State  
Com #3 RB/16*

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:

**Jack McClendon, Adelline Z. Cone  
and S.E. Cone, Jr.  
c/o S.E. Cone, Jr.  
P.O. Box 10321  
Lubbock, Texas 79404**

#### 4a. Article Number

**Z 351 693 344**

#### 4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Certified
- Insured
- COD

#### 7. Date of Delivery

**DEC 16 1985**

#### 5. Received By: (Print Name)

6.:

PS:

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

Thank you for using Return Receipt Service.

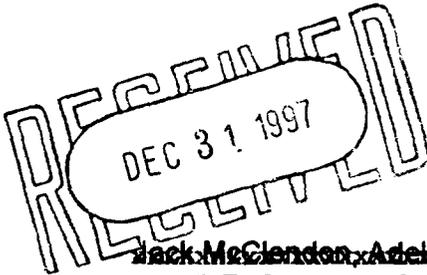
Receipt

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

~~Jack McClendon, Adeline Z. Cone,~~  
~~and S.E. Cone, Jr. Successors~~  
~~Trustees under Trust 'B' created~~  
~~W.L.T. of S.E. Cone~~  
EQ S.E. Cone, Jr.  
P.O. Box 10321  
Lubbock, Texas 79404

change per Robert Bullock 12/9/97

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 Trustees:

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



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	<i>[Signature]</i>		
	DATE 12/21/97		
BY			
	DATE		
BY			
	DATE		

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

Jack McClendon, Adelline Z. Cone and S.E. Cone, Jr., Successor-Trustees under Trust "B" created ULWT of S.E. 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 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 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.

Jack McClendon Lessor

Adelline Z. Cone Lessor

S.E. Cone, Jr. Lessor

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by Jack McClendon, Successor Trustee under Trust "B" created ULWT of  
S.E. Cone

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

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by Adelline Z. Cone, Successor Trustee under Trust "B" created ULWT of  
S.E. Cone

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

INDIVIDUAL ACKNOWLEDGEMENT

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

This instrument was acknowledged before me this \_\_\_\_\_  
by S.E. Cone, Jr. Successor Trustee under Trust "B" created  
ULWT of S.E. Cone

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

Deputy \_\_\_\_\_

When recorded return to

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

February 19, 1998

Mesa Operating Limited Partnership  
P.O. Box 2009, 301 S. Polk  
Amarillo, TX 79189-2009

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with you check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest, accepting a 75% Net Revenue Interest lease before payout and at payout you would have the option to convert your override to a 25% working interest proportionately reduced.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in black ink that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 443 810 402

US Postal Service  
**Receipt for Certified Mail**

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

Sent to  
**Mesa Operating Limited Partnership**

Street Number  
**P.O. Box 2009, 301 S. Polk**  
Amarillo, TX 79189-2009

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 AM State Com #3 RB/8</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:

**Mesa Operating Limited Partnership  
P.O. Box 2009, 301 S. Polk  
Amarillo, TX 79189-2009**

4a. Article Number  
**Z 443 810 402**

4b. Service Type

Registered  **Certified**

Express Mail  Insured

Return Receipt for Merchandise  COD

7. Date of Delivery  
**20 FEB 1995**

5. Received By: (Print Name)  
**J. Mixon**

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

**Field AM State  
Com #3 RB/8**

6. Signature: (Addressee or Agent)  
**X** *[Signature]*

Thank you for using Return Receipt Service.



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

**AFE STATUS:**

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

**TANGIBLE EQUIPMENT COSTS:**

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>
--------------------	----------------	------------------

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



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 2, 1997

UMC Petroleum Corporation  
410 17th Street, Suite 1400  
Denver, Colorado 80202  
Attention: Laura B. Smith

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

Also enclosed is one (1) copy of the Operating Agreement with an extra signature page. Please return the signature page only.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 330

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
UMC Petroleum Corporation	
410 17th Street, Suite 1400	
Denver, Colorado 80202	
Attention: Laura B. Smith	
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</i>	
<i>Com #3 RB/ef</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:

UMC Petroleum Corporation  
 410 17th Street, Suite 1400  
 Denver, Colorado 80202  
 Attention: Laura B. Smith

4a. Article Number

*Z 351 693 330*

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

*DEC 05 1997*

5. Received By: (Print Name)

6. Signature (Addressee or Agent)

*X [Signature]*

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

*Field APK State*  
*Com #3 RB/ef*

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.



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:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> 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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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



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 10, 1997

Five States 1995-D, Ltd.  
4925 Greenville Avenue #1220  
Dallas, Texas 75206

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 357

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to  
**Five States 1995-D, Ltd.**  
**4925 Greenville Avenue #1220**  
**Dallas, Texas 75206**

Post Office, State, & ZIP Code

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	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>

Postmark or Date  
*Field APK State*  
*Com #3 RB/ly*

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:

**Five States 1995-D, Ltd.**  
**4925 Greenville Avenue #1220**  
**Dallas, Texas 75206**

4a. Article Number

*Z 351 693 357*

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

*12/15/97*

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

*X S. Johnson*

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

*Field APK State*  
*Com #3 RB/ly*

Thank you for using Return Receipt Service.



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
			Injector		

AFE STATUS:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>66,100</b>	<b>405,500</b>

<b>TOTAL COSTS</b>	<b>657,200</b>	<b>1,213,200</b>
--------------------	----------------	------------------

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



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 10, 1997

Five States 1995-B, Ltd.  
4925 Greenville Avenue #1220  
Dallas, Texas 75206

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

Gentlemen:

Please find enclosed our AFE proposing the drilling of the captioned well to test the Morrow formation.

If you wish to participate, please execute and return the AFE along with your check to cover your share of the dry hole costs.

Should you not desire to participate, Yates would farm-in your interest on mutually agreed upon terms.

We will forward our Operating Agreement in the very near future.

Please call me at 505-748-4351 if you have any questions regarding this proposal.

Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock  
Landman

RB/ljf  
enclosure(s)

Z 351 693 356

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
**Five States 1995-B, Ltd.**  
4925 Greenville Avenue #1220  
Dallas, Texas 75206

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  
*Field APK State*  
*Com #3 RB/8*

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:  
  
**Five States 1995-B, Ltd.**  
**4925 Greenville Avenue #1220**  
**Dallas, Texas 75206**

4a. Article Number  
**Z 351 693 356**

4b. Service Type  
 Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
**12/15/97**

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
**X S. Hanson**

*Field APK State*  
*Com #3 RB/8*

Thank you for using Return Receipt Service.



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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



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

February 11, 1998

Ms. Marjorie Cone Kastman  
P.O. Box 5930  
Lubbock, Texas 79408

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 Ms. Kastman:

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 351 690 868

US Postal Service

### Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Ms. Marjorie Cone Kastman	
P.O. Box 5930	
Lubbock, Texas 79408	
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	
Field APK State Com #3 2/3/88	

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:

Marjorie Cone Kastman  
~~c/o S.E. Cone, Jr.~~  
 P.O. Box 10321 5930  
 Lubbock, Texas 79404 79408

4a. Article Number

Z 351 693 343

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X

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

Field APK State  
 Com #3 2/3/88

Thank you for using Return Receipt Service.

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Ms. Marjorie Cone Kastman  
 P.O. Box 5930  
 Lubbock, Texas 79408

4a. Article Number  
 2 351 690 868

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

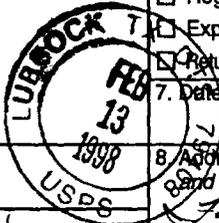
7. Date of Delivery

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
 X Dawn Robertson

Field APR 1998  
 Com #3 RB/ll



Thank you for using Return Receipt Service.

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

Ms. Marjorie Cone Kastman  
c/o S.E. Cone, Jr.  
P.O. Box 10321  
Lubbock, Texas 79404

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 Ms. 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



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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>
<b>TOTAL COSTS</b>		<b>657,200</b>	<b>1,213,200</b>

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	





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		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>591,100</b>	<b>807,700</b>

TANGIBLE EQUIPMENT COSTS:			
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
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>66,100</b>	<b>405,500</b>

**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 <i>Margie Gene Katman</i>	DATE <i>2-23-98</i>	
BY	DATE	
BY	DATE	

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



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

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

December 9, 1997

Ms. Marjorie Cone Kastman  
c/o S.E. Cone, Jr.  
P.O. Box 10321  
Lubbock, Texas 79404

**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 Ms. 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)

Z 351 693 343

it regarding either of the above offers, please call me at 505-748-

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Marjorie Cone Kastman	
c/o S.E. Cone, Jr.	
P.O. Box 10321	
Lubbock, Texas 79404	
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	
Field APK State Com # 3 RB/4	

Very truly yours,

YATES PETROLEUM CORPORATION

  
Robert Bullock  
Landman

PS Form 3800 April 1995

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

Marjorie Cone Kastman, 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 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 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.

Marjorie Cone Kastman

Lessor

Lessee

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ } ss.

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

by \_\_\_\_\_

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 TEXAS  
County of \_\_\_\_\_ } ss.

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

by Marjorie Cone Kastman

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.

County Clerk

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

When recorded return to \_\_\_\_\_

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

March 27, 1998

TO: Working Interest Owners

CERTIFIED MAIL  
Return Receipt Requested

RE: Field APK St. Com. #3  
Township 16 South, Range 35 East  
Section 2: Lots 11, 12, 13, 14, SW/4  
Lea County, New Mexico

Gentlemen:

Please find enclosed our Operating Agreement for the drilling of the captioned well.

There is a producing Wolfcamp well located on lot 12 therefore we could not pool those rights, from surface to 11,000' into the 320 acres for the drilling of the Field APK St. Com. #3 well. Exhibit "A" to the Operating Agreement shows how we have handled this with a Shallow & Deep Unit.

Please note that we have provided a cost Allocation Formula on Page 14 A of the Operating Agreement should this well not be completed in the Deep Unit between depths of 11,000' to 12,375'.

Please sign and return the extra signature page to the Operating Agreement, along with the Authority for Expenditure previously provided you and your check to cover your share of the dry hole costs.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock  
Landman

RB/dc

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):

1.  Addressee's Address

2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Roy G. Barton Jr., Trustee of R.  
Barton, Sr. & O. Barton Revoca  
P.O. Box 978  
Hobbs, NM 88241

4a. Article Number

2 443 810 293

4b. Service Type

- Registered  Certified
- Express Mail  Insured
- Return Receipt for Merchandise  COD

7. Date of Delivery

3-30-98

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

Field APKst com #3

5. Received By: (Print Name)

J ISBELL

6. Signature: (Addresser or Agent)

X [Signature]

PS Form 3811, December 1994

102585-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

2 443 810 293

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to		Roy G. Barton Jr., Trustee of R.	
Street		Barton, Sr. & O. Barton Revoca	
Post Office, State, & ZIP Code		P.O. Box 978 Hobbs, NM 88241	
Postage	\$	Return Receipt Showing to Whom & Date Delivered	
Certified Fee		Return Receipt Showing to Whom, Date, & Addressee's Address	
Special Delivery Fee		TOTAL Postage & Fees	\$
Restricted Delivery Fee		Postmark or Date	

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 multiples 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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Bristol Resources Corporation  
6655 S. Lewis, Suite 200  
Tulsa, OK 74136  
Attn: Mr. Ed. Watts

4a. Article Number

2 443 810 300

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD

Certified

Insured

7. Date of Delivery

3 31

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

Field APK St. Com #3

5. Received By: (Print Name)

Signature: (Addressee or Agent)

PS Form 3811, December 1984

102595-97-B-0179

Domestic Return Receipt

7 443 810 300

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Bristol Resources Corporation	
Street Number	
6655 S. Lewis, Suite 200	
Post Office, State, & ZIP Code	
Tulsa, OK 74136	
Attn: Mr. Ed. Watts	
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	

PS Form 3800, April 1995

Thank you for using Return Receipt Service.

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Heirs of Lucretia E. Conlon  
c/o Charles M. Fuchtmann  
P.O. Box 10109  
Huntsville, AL 35801

4a. Article Number

Z 443 810087

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

5. Received By: (Print Name)

CHARLES FUCHTMANN

6. Signature: (Addressee or Agent)

*Charles M. Fuchtmann*

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

Field APK St-Con #3

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 443 810 087

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
Heirs of Lucretia E. Conlon	
Street	
c/o Charles M. Fuchtmann	
P.O. Box 10109	
Post Office, State, & ZIP Code	
Huntsville, AL 35801	
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	

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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

A. L. Cone Partnership  
 P.O. Box 3457, Briercroft #12  
 Lubbock, TX 79452

4a. Article Number

2 443 810 298

4b. Services

- Registered
- Express Mail
- Return Receipt for Merchandise
- Insured
- COD

7. Date of Return

DEC 15 1994

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

Field APX St. Unit #3

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 443 810 298

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	
A. L. Cone Partnership	
P.O. Box 3457, Briercroft #12	
Lubbock TX 79452	
Post Office, State, & ZIP Code	
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	

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 the 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):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

S. E. Cone, Jr.  
P.O. Box 10321  
Lubbock, TX 79404

4a. Article Number

2 443 810 297

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Insured
- COD

Certified

7. Date of Delivery

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

5. Received By: (Print Name)

10

43

n Receipt

Thank you for using Return Receipt Service.

Z 443 810 297

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
S. E. Cone, Jr.	
Street & Number	
P.O. Box 10321	
Post Office, State, & ZIP Code	
Lubbock, TX 79404	
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	

PS Form 3800 April 1995

7 443 810 292

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sender <b>Marjorie Cone Kastman</b>	
Street & Number <b>P.O. Box 5930</b>	
Post Office, State, & ZIP Code <b>Lubbock, TX 79408</b>	
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	

PS Form 3800 April 1995

Is your RETURN ADDRESS completed on the reverse side?

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

FILED APR 15 1995

6. Signature: (Addressee or Agent)  
**X**

5. Received By: (Print Name)  
*Marjorie Cone Kastman*

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

7. Date of Delivery

4b. Service Type  
 Registered  
 Express Mail  
 Return Receipt for Merchandise  
 COD  
 Certified  
 Insured

4a. Article Number  
**2 443 810 292**

3. Article Addressed to:

**Marjorie Cone Kastman  
P.O. Box 5930  
Lubbock, TX 79408**

**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.

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?

Z 443 810 303

US Postal Service  
**Receipt for Certified Mail**  
 No Insurance Coverage Provided.  
 Do not use for international Mail (See reverse)

UMC Petroleum Corporation 410 17th Street, Suite 1400 Street & Number Denver, Colorado 80202 Post Office, State, & ZIP Code	
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	

PS Form 3811 April 1994 0083

**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):

- 1.  Addressee's Address
  - 2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

UMC Petroleum Corporation  
 410 17th Street, Suite 1400  
 Denver, Colorado 80202

4a. Article Number

Z 443 810 303

4b. Service Type

- Registered
- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

30 MAR 1998

5. Received By: (Print Name)

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

Field ARK St #3  
 Com.

6. Signature: (Addressee or Agent)

X [Signature]

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

7 443 810 302

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Mark L. Shidler, Inc.	
Street & Number	
911 Walker, Suite 565	
San Jacinto Building	
Post Office, State, & ZIP Code	
Houston, Texas 77002	
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	

PS Form 3800, April 1 1995

Is your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>Complete items 1 and/or 2 for additional services.</li> <li>Complete items 3, 4a, and 4b.</li> <li>Print your name and address on the reverse of this form so that we can return the card to you.</li> <li>Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		<p>I also wish to receive the following services (for an extra fee):</p> <ol style="list-style-type: none"> <li><input type="checkbox"/> Addressee's Address</li> <li><input type="checkbox"/> Restricted Delivery</li> </ol> <p>Consult postmaster for fee.</p>	
<p>3. Article Addressed to:</p> <p>Mark L. Shidler, Inc. 911 Walker, Suite 565 San Jacinto Building Houston, Texas 77002</p>		<p>4a. Article Number <b>2 443 810 302</b></p>	
<p>5. Received By: (Print Name) <i>Mark L. Shidler, Inc.</i></p>		<p>4b. Service Type</p> <p><input checked="" type="checkbox"/> Certified</p> <p><input type="checkbox"/> Registered</p> <p><input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured</p> <p><input type="checkbox"/> COD</p>	
<p>6. Signature: (Addressee or Agent) <i>X [Signature]</i></p>		<p>7. Date of Delivery <b>3-30</b></p>	
<p>PS Form 3811, December 1994</p>		<p>8. Addressee's Address (Only if requested and fee is paid) <b>Field APX St. Box #3</b></p>	
<p>102595-97-B-0179</p>		<p>Domestic Return Receipt</p>	

Thank you for using Return Receipt Service.

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):
1.  Addressee's Address
  2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

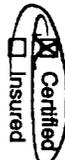
Ameristate Oil & Gas, Inc.  
 Ameristate Exploration L.L.C.  
 1211 W. Texas  
 Midland, TX 79701

4a. Article Number

Z 443 810 301

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD



7. Date of Delivery

5 30 95

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

Field APK St Con #3

5. Received By: (Print Name)

*[Signature]*

6. Signature: (Addressee or Agent)

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

7 443 810 301

US Postal Service  
**Receipt for Certified Mail**  
 No Insurance Coverage Provided.  
 Do not use for International Mail (See reverse)

Sent to:	
Ameristate Oil & Gas, Inc.	
Ameristate Exploration L.L.C.	
1211 W. Texas	
Post Office, State, & ZIP Code	
Midland, TX 79701	
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	

PS Form 3800, April 1995

Thank you for using Return Receipt Service.

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 the 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):

- 1.  Addressee's Address
  - 2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Marilyn Cone Trustee  
DC Cone Trust  
P.O. Box 64244  
Lubbock, TX 79464

4a. Article Number

2443 810 286

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise

7. Date of Delivery

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

Field ARKST Com #3

5. Received By: (Print Name)

TAMARA WILDE

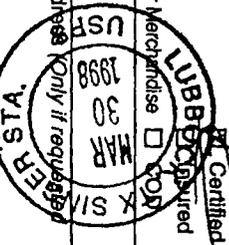
6. Signature: (Addressee or Agent)

X Tamara Wilde

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt



Z 443 810 286

US Postal Service  
**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Send to:  
Marilyn Cone Trustee

DC Cone Trust

P.O. Box 64244

Post Office, State, & ZIP Code  
Lubbock, TX 79464

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

PS Form 3800, April 1995

Thank you for using Return Receipt Service.

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 the 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):

- 1.  Addressee's Address
  - 2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

John F. Harbig, Jr.  
~~Suite 280~~ One Marienfeld Place  
 Midland, TX 79701

4a. Article Number

Z 443 810 296

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

3-30-98

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

Field APP St. Com. #3

5. Received By (Print Name)

*John Harbig*

6. Signature: (Addressee or Agent)

*[Signature]*

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 443 810 296

US Postal Service  
**Receipt for Certified Mail**  
 No Insurance Coverage Provided.  
 Do not use for International Mail (See reverse)

Sent to	
John F. Harbig, Jr.	
Street & Number	
Suite 280, One Marienfeld Place	
Post Office, State, & ZIP Code	
Midland, TX 79701	
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	

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 the 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):

1.  Addressee's Address
2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Clifford Cone  
P.O. Box 1629  
Lovington, NM 88260

4a. Article Number

2443 810 291

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

1998

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

Field Art St Con #3

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

PS Form 3811 December 1994

102595-97-B-0179

Domestic Return Receipt

7 443 810 291

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to		Clifford Cone
Street & Number		P.O. Box 1629
Post Office, State, & ZIP Code		Lovington, NM 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		

PS Form 3800, April 1995

Thank you for using Return Receipt Service.



Z 443 810 295

US Postal Service

### Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Recipient's Name <b>Katherine Cone Keck</b> Order Number <b>1801 Ave. of the Stars, Suite 446</b> <b>Los Angeles, CA 90067</b> Post Office, State, & ZIP Code	
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	

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:

**Katherine Cone Keck**  
**1801 Ave. of the Stars, Suite 446**  
**Los Angeles, CA 90067**

4a. Article Number

**Z 443 810 295**

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

**3-31**

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

**Field APKST. Com #3**

5. Received By: (Print Name)

**DP 5796**

6. Signature: (Addresser or Agent)

**X [Signature]**

PS Form 3811/December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

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.

3. Article Addressed to:

Marilyn Cone Trustee for  
D.C. Cone Trust  
P.O. Box 64244  
Lubbock, TX 79464

4a. Article Number

Z 443 810 294

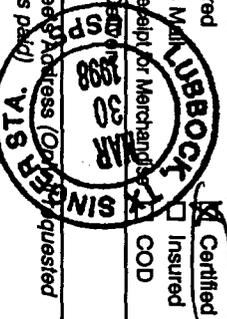
4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Insured
- COD

7. Date of Delivery

8. Addressee's Address (Optional, requested and fee is paid)

Field APR 14 1994



Thank you for using Return Receipt Service.

5. Received By: (Print Name)  
Marilyn Cone Trustee for

6. Signature: (Addressee or Agent)  
Marilyn Cone Trustee for

PS Form 3811, December 1994

102595-97-8-0179 Domestic Return Receipt

Z 443 810 294

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to Marilyn Cone Trustee for	
D.C. Cone Trust	
P.O. Box 64244	
Post Office, State, & ZIP Code Lubbock, TX 79464	
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	

PS Form 3800, April 1991

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.

3. Article Addressed to:  
 Fuel Products, Inc.  
 P.O. Box 3098  
 Midland, TX 79702

4a. Article Number  
 2443 810 289

4b. Service Type  
 Certified  
 Registered  
 Express Mail  
 Insured  
 Return Receipt for Merchandise  
 COD

7. Date of Delivery  
 3-30-95

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

5. Received By: (Print Name)

6. Signature of Addressee or Agent  
 X *Wmms in Ball*

PS Form 3811, December 1994

102595-97-B-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

2 443 810 289

US Postal Service  
**Receipt for Certified Mail**  
 No Insurance Coverage Provided.  
 Do not use for International Mail (See reverse)

Sent to Fuel Products, Inc.	
Street or P.O. Box Number P.O. Box 3098	
Post Office, State, & ZIP Code Midland, TX 79702	
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	

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.

3. Article Addressed to:

Flo Scott Brown  
8610 Miami Ave.  
Midland, TX 79423

5. Received By: (Print Name)  
Flo Brown

6. Signature: (Addressee or Agent)  
X *Flo Brown*

4a. Article Number  
Z 443 810 288

4b. Service Type  
 Registered  
 Express Mail  
 Return Receipt for Merchandise  
 COD  
 Certified

7. Date of Delivery  
3-30-98

8. Addressee's Address (Only if requested and fee is paid)  
FIELD APH St Con #3

PS Form 3811, December 1994  
102595-97-8-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

Z 443 810 288

US Postal Service  
**Receipt for Certified Mail**

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

Sent to	
Flo Scott Brown	
Street Number	
8610 Miami Ave.	
Post Office, State, & ZIP Code	
Midland, TX 79423	
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	

PS Form 3800 April 1996

Is your RETURN ADDRESS completed on the reverse side?

PS Form 3811, December 1994

102595-97-9-0179

Domestic Return Receipt

3. Article Addressed to:  
 Heirs of Tom W. Schnaubert  
 c/o Mary Irvinsey  
 4404 Odessa Ave.  
 Ft. Worth, TX 76117

4a. Article Number  
**2 443 810 287**

4b. Service Type  
 Registered  
 Express Mail  
 Return Receipt for Merchandise  
 Insured  
 Certified

7. Date of Delivery  
**4-3-98**

8. Addressee's Address (Only if requested and fee is paid)  
**FILED APR 84 COM #3**

5. Received By: (Print Name)  
*Mary Irvinsey*

6. Signature: (Addressee or Agent)  
*Mary Irvinsey*

**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 the 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):

1.  Addressee's Address
2.  Restricted Delivery

Consult postmaster for fee.

Z 443 810 287

US Postal Service  
**Receipt for Certified Mail**  
 No Insurance Coverage Provided.  
 Do not use for International Mail (See reverse)

Send to Heirs of Tom W. Schnaubert	
c/o Mary Irvinsey	
4404 Odessa Ave.	
Ft. Worth, TX 76117	
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	

PS Form 3800, April 1995

Thank you for using Return Receipt Service.

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):

- 1.  Addressee's Address
  - 2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Lavena Howard Trustee  
Joan Garrison Trust  
5221 Ira  
Ft. Worth, TX 76117

4a. Article Number

Z 443 810081

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

4/20/98

5. Received By: (Print Name)

JOANN BRIGGS

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

FIELD APK ST C Box #3

6. Signature: (Addressee or Addressee's Agent)

*Joan Garrison*

102595-97-8-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

Form 3800, April 1995

Postmark or Date	
TOTAL Postage & Fees	\$
Return Receipt Showing to Whom, Date, & Addressee's Address	
Return Receipt Showing to Whom & Date Delivered	
Restricted Delivery Fee	
Special Delivery Fee	
Certified Fee	
Postage	\$
Post Office, State, & ZIP Code	Ft. Worth, TX 76117
Street & Number	Lavena Howard Trust
Sent to	Joan Garrison Trust

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

Receipt for Certified Mail

Z 443 810 081

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4, and 4b.
- Print your name and address on the reverse of this form so that we can return the 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):

- 1.  Addressee's Address
  - 2.  Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Constance Cobb Keen  
4915-D 94th Street  
Lubbock, TX 79424

4a. Article Number

Z 443 810 088

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

3/28/98

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

Field #24 St Con #3

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X *Constance Cobb Keen*

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Z 443 810 088

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Constance Cobb Keen	
Street Number 4915-D 94th Street	
Lubbock, TX 79424	
Post Office, State, & ZIP Code	
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	

PS Form 3800, April 1995

Thank you for using Return Receipt Service.

2 443 810 500

US Postal Service  
**Receipt for Certified Mail**  
No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to	
Cameind Oil Co Ltd	
Street & Number	
415 W Wall St	
Post Office, State, & ZIP Code	
Midland TX 79701	
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	Field AK
	Rob

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

<p><b>SENDER:</b></p> <ul style="list-style-type: none"> <li>Complete items 1 and/or 2 for additional services.</li> <li>Complete items 3, 4a, and 4b.</li> <li>Print your name and address on the reverse of this form so that we can return this card to you.</li> <li>Attach this form to the front of the mailpiece, or on the back if space does not permit.</li> <li>Write "Return Receipt Requested" on the mailpiece below the article number.</li> <li>The Return Receipt will show to whom the article was delivered and the date delivered.</li> </ul>		<p>I also wish to receive the following services (for an extra fee):</p> <p>1. <input type="checkbox"/> Addressee's Address</p> <p>2. <input type="checkbox"/> Restricted Delivery</p> <p>Consult postmaster for fee.</p>	
<p>3. Article Addressed to:</p> <p>Cameind Oil Co Ltd 415 W. Wall St Midland, TX 79701</p>		<p>4a. Article Number</p> <p>2 443 810 500</p>	
<p>4b. Service Type</p> <p><input type="checkbox"/> Registered</p> <p><input type="checkbox"/> Express Mail</p> <p><input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured</p> <p><input type="checkbox"/> COD</p>		<p><input checked="" type="checkbox"/> Certified</p>	
<p>5. Received By: (Print Name)</p> <p></p>		<p>7. Date of Delivery</p> <p>2-30-88</p>	
<p>6. Signature: (Addressee or Agent)</p> <p>X <i>Shelene Lawrence</i></p>		<p>8. Addressee's Address (Only if requested and fee is paid)</p> <p>Field APKST Cor #5</p>	

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

# FedEx USA Airbill

Tracking Number

4244509916

**1 From (please print)**

Date 4-1-98 Sender's FedEx Account Number 1205-7980-0

Sender's Name Robert Bullock Phone (505) 748-1471

Company YATES PETROLEUM CORP/OFFICE

Dept./Floor/Suite/Room

Address 105 S 4TH ST

City ARTESIA State NM Zip 88210

**2 Your Internal Billing Reference Information**  
(Optional first 24 characters will appear on invoice)

**3 To (please print)**

Recipient's Name Ann McConville Phone (214) 363-3008

Dept./Floor/Suite/Room

Company Five States 1995-B/D, Ltd.

Address 4925 Greenville, Ave #1220 (We Cannot Deliver to P.O. Boxes or P.O. Zip Codes)

(To "HOLD" at FedEx location, print FedEx address here)

City Dallas State TX Zip 75206

**For HOLD at FedEx location check here**

Hold **Monday** (Not available at all locations)  
 Hold **Saturday** (Not available at all locations)  
 Hold **Wednesday** (Not available at all locations)  
 Hold **Thursday** (Not available at all locations)  
 Hold **Friday** (Not available at all locations)  
 Hold **First Overflight** (Not available at all locations)  
 Hold **Standard Overnight** (Not available at all locations)

**For Saturday Delivery check here**

Extra Charge (Not available at all locations)  
 Not available at all locations  
 Extra Charge (Not available at all locations)  
 Not available at all locations  
 Extra Charge (Not available at all locations)  
 Not available at all locations

**Service Conditions, Declared Value and Limit of Liability** - By using this Airbill, you agree to the service conditions in our current Service Guide or U.S. Government Service Guide. Both are available on request. SEE BACK OF SERVICE GUIDE FOR THIS AIRBILL FOR INFORMATION AND ADDITIONAL TERMS. We will not be responsible for any claim in excess of \$100 per package when the result of loss, damage, or delay, non-delivery, misdelivery, or misrouting, unless you declare a higher value, pay an additional charge, and document your actual loss in a timely manner. Your right to recover from us for any loss includes domestic value of the package, loss or delay, interest, post, attorney's fees, costs and other forms of damage, whether direct, incidental, consequential, or special, and is limited to the maximum declared value but cannot exceed actual documented loss. The maximum declared value for any FedEx Letter and FedEx Pak is \$500. Federal Express may, upon your request, and with some limitations, return all transportation charges paid. See the FedEx Service Guide for further details.

Questions? Call 1-800-Go-FedEx (1-800-463-3339)

The World On Time

**4a Express Package Service Packages under 150 lbs.**  
 Next Business Morning (Next business morning)  
 Next Business Afternoon (Next business afternoon)  
 Next Business Day (Next business day)

1419974

Sender's Copy  
0069120100

**NB/ FedEx First Overnight**  
(Fastest next business morning delivery to select locations)  
(Higher rates apply)

\*FedEx Letter Rate not available.  
Minimum charge.  
One pound FedEx 2Day rate.

**4b Express Freight Service Packages over 150 lbs.**  
 FedEx Overnight Freight (Next business day service)  
 FedEx 2Day Freight (Second business day service for any distance)  
 FedEx Express Saver Freight (Up to 3 business day service based upon distance)

(Call for delivery schedule. See back for detailed descriptions of freight products.)

**5 Packaging**  
 Letter  Pak  Box  Tube  Other  
(Declared value limit \$500)

**6 Special Handling**  
Does this shipment contain dangerous goods?  
 Dry Ice (Dry Ice 9, UN 1845 III) (Dangerous Goods Shipper's Declaration not required)  Yes (No fee required)  No (No fee required)  
 CA  Cargo Aircraft Only

**7 Payment**

Bill to:  Sender (Account no. in section 7 will be billed)  Recipient  Third Party  Credit Card  Cash

FedEx Account No. \_\_\_\_\_

Credit Card No. \_\_\_\_\_

Total Packages \_\_\_\_\_ Total Weight \_\_\_\_\_ Total Declared Value \$ 00

\*When declaring a value higher than \$100 per shipment, you pay an additional charge. See SERVICE CONDITIONS, DECLARED VALUE AND LIMIT OF LIABILITY section for further information.

**8 Release Signature** Sign to authorize delivery without obtaining signature.

Your signature authorizes Federal Express to deliver this shipment without obtaining a signature and agrees to indemnify and hold harmless Federal Express from any resulting claims.

272

Rev. 04/98  
Printed in U.S.A.  
CAFE 207

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

OPERATOR

YATES PETROLEUM CORPORATION

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

NON-OPERATORS

YATES DRILLING COMPANY

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

ABO PETROLEUM CORPORATION

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

MYCO INDUSTRIES, INC.

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

UMC PETROLEUM CORPORATION

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

ROY. G. BARTON JR. TRUSTEE OF R.G. BARTON,  
SR. & O. BARTON REVOCABLE TRUST

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

MARK L. SHIDLER, INC.

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

BRISTOL RESOURCES CORPORATION

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

FIVE STATES 1995 - B, LTD.  
FIVE STATES 1995 - D, LTD.

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

A.L. CONE PARTNERSHIP

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

FUEL PRODUCTS, INC.

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

AMERISTATE OIL & GAS, INC.  
AMERISTATE EXPLORATION L.L.C.

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

MARILYN CONE TRUSTEE FOR  
D.C. CONE TRUST

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

\_\_\_\_\_  
S.E. CONE, JR.

\_\_\_\_\_  
KATHERINE CONE KECK

\_\_\_\_\_  
MARJORIE CONE KASTMAN

\_\_\_\_\_  
CLIFFORD CONE

\_\_\_\_\_  
KENNETH G. CONE

\_\_\_\_\_  
JOHN F. HERBIG, JR.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

**NON-OPERATORS**

AMERIND OIL COMPANY LTD.

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

HEIRS OF TOM W. SCHNAUBERT

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

HEIRS OF LUCRETIA E. CONLON

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

\_\_\_\_\_  
FLO SCOTT BROWN

\_\_\_\_\_  
DAN FIELD

\_\_\_\_\_  
CONSTANCE COBB KEEN

\_\_\_\_\_  
JOAN GARRISON TRUST

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

STATE OF NEW MEXICO )  
 :§  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_ for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

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

STATE OF NEW MEXICO )  
 :§  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998, by Peyton Yates, Attorney-in-Fact for Yates Drilling Company, John Yates, Jr., Attorney-in-Fact for Abo Petroleum Corporation and Frank Yates, Jr., Attorney-in-Fact for Myco Industries, Inc., all New Mexico corporations, on behalf of said corporation.

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

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ for \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_

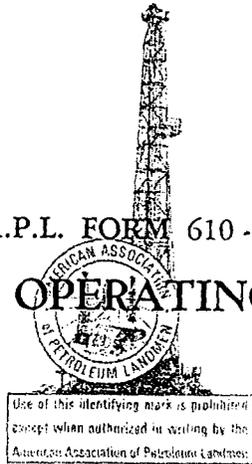
My commission expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_

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

A.A.P.L. FORM 610 - 1977  
MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

November 26 , 1997 ,

OPERATOR Yates Petroleum Corporation

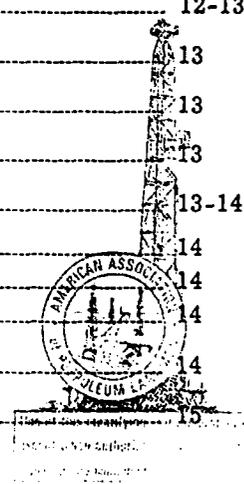
CONTRACT AREA Township 16 South, Range 35 East, NMPM

Section 2: Lots 11, 12, 13, 14, SW/4

COUNTY OR ~~PARISH~~ OF Lea STATE OF New Mexico

**TABLE OF CONTENTS**

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	DEFINITIONS .....	1
II.	EXHIBITS .....	1
III.	INTERESTS OF PARTIES .....	2
	A. OIL AND GAS INTERESTS .....	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION .....	2
IV.	TITLES .....	2
	A. TITLE EXAMINATION .....	2
	B. LOSS OF TITLE .....	2
	1. Failure of Title .....	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due .....	3
	3. Other Losses .....	3
V.	OPERATOR .....	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR .....	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR .....	4
	1. Resignation or Removal of Operator .....	4
	2. Selection of Successor Operator .....	4
	C. EMPLOYEES .....	4
	D. DRILLING CONTRACTS .....	4
VI.	DRILLING AND DEVELOPMENT .....	4
	A. INITIAL WELL .....	4
	B. SUBSEQUENT OPERATIONS .....	5
	1. Proposed Operations .....	5
	2. Operations by Less than All Parties .....	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND .....	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION .....	7
	E. ABANDONMENT OF WELLS .....	7
	1. Abandonment of Dry Holes .....	7
	2. Abandonment of Wells that have Produced .....	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES .....	8
	A. LIABILITY OF PARTIES .....	8
	B. LIENS AND PAYMENT DEFAULTS .....	8
	C. PAYMENTS AND ACCOUNTING .....	8
	D. LIMITATION OF EXPENDITURES .....	9
	1. Drill or Deepen .....	9
	2. Rework or Plug Back .....	9
	3. Other Operations .....	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS .....	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES .....	9-10
	G. TAXES .....	10
	H. INSURANCE .....	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST .....	10
	A. SURRENDER OF LEASES .....	10-11
	B. RENEWAL OR EXTENSION OF LEASES .....	11
	C. ACREAGE OR CASH CONTRIBUTION .....	11
	D. SUBSEQUENTLY CREATED INTEREST .....	11-12
	E. MAINTENANCE OF UNIFORM INTEREST .....	12
	F. WAIVER OF RIGHT TO PARTITION .....	12
	<del>G. PREFERENTIAL RIGHT TO PURCHASE .....</del>	<del>12</del>
IX.	INTERNAL REVENUE CODE ELECTION .....	12-13
X.	CLAIMS AND LAWSUITS .....	13
XI.	FORCE MAJEURE .....	13
XII.	NOTICES .....	13
XIII.	TERM OF AGREEMENT .....	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS .....	14
	A. LAWS, REGULATIONS AND ORDERS .....	14
	B. GOVERNING LAW .....	14
XV.	OTHER PROVISIONS .....	14
XVI.	MISCELLANEOUS .....	14



OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico corporation, 105 S. 4th St., Artesia, N.M., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

[X] A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
(2) Restrictions, if any, as to depths or formations,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.

[ ] B. Exhibit "B", Form of Lease.

[X] C. Exhibit "C", Accounting Procedure.

[X] D. Exhibit "D", Insurance.

[X] E. Exhibit "E", Gas Balancing Agreement.

[X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

**ARTICLE III.  
INTERESTS OF PARTIES**

**A. Oil and Gas Interests:**

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

**B. Interest of Parties in Costs and Production:**

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

**ARTICLE IV.  
TITLES**

**A. Title Examination:**

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

**B. Loss of Title:**

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and (a) The party whose oil and gas lease or interest is affected by the title failure, shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its  
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of  
3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the  
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-  
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of  
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract  
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled  
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall  
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable  
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;  
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-  
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,  
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-  
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by  
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared  
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24  
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,  
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously  
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against  
28 the party who failed to make such payment. Unless the party who failed to make the required payment  
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-  
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of  
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-  
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in  
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event  
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of  
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an  
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the  
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following  
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost  
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an  
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production  
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable  
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said  
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-  
47 terests; and

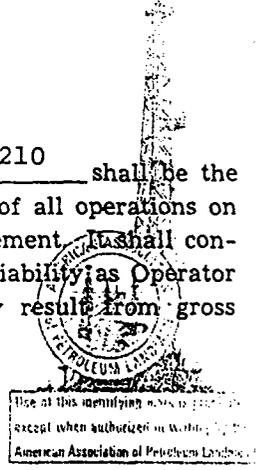
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
50 coming a party to this agreement.

51  
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
55 the Contract Area.

56  
57 **ARTICLE V.**  
58 **OPERATOR**

59  
60 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

61  
62 YATES PETROLEUM CORPORATION, 105 South 4th St., Artesia, N.M. 88210 shall be the  
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
67 negligence or willful misconduct.



1 B. Resignation or Removal of Operator and Selection of Successor:

2  
3 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice  
4 thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the  
5 Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any  
6 action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or  
7 refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership,  
8 by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on owner-  
9 ship as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting  
10 interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M.  
11 on the first day of the calendar month following the expiration of ninety (90) days after the giving of  
12 notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor  
13 Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effect-  
14 ive date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of  
15 a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary,  
16 parent or successor corporation shall not be the basis for removal of Operator.

17  
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-  
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning  
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that  
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the  
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown  
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the  
24 Operator that was removed.

25  
26 C. Employees:

27  
28 The number of employees used by Operator in conducting operations hereunder, their selection,  
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,  
30 and all such employees shall be the employees of Operator.

31  
32 D. Drilling Contracts:

33  
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual  
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the  
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate  
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-  
38 menced, and such work shall be performed by Operator under the same terms and conditions as are  
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-  
40 ilar nature.

41  
42 ARTICLE VI.  
43 DRILLING AND DEVELOPMENT

44  
45 A. Initial Well:

46  
47 On or before the 1st day of August, 1998, Operator shall commence the drill-  
48 ing of a well for oil and gas at the following location:

49  
50 Township 16 South, Range 35 East, NMPM  
51 Section 2: 3300' FSL and 760' FWL  
52 Lea County, New Mexico

53 and shall thereafter continue the drilling of the well with due diligence to test the Morrow  
54 formation at 12,375'.

55  
56  
57  
58 unless granite or other practically impenetrable substance or condition in the hole, which renders  
59 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or  
60 abandon the well at a lesser depth.

61  
62 Operator shall make reasonable tests of all formations encountered during drilling which give in-  
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited  
64 in its application to a specific formation or formations, in which event Operator shall be required to  
65 test only the formation or formations to which this agreement may apply.

66  
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes  
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties, and shall  
69 plug and abandon same as provided in Article VI.E.1. hereof.

1 B. Subsequent Operations:  
2

3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.  
16

17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article  
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to  
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect  
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of  
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period  
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed  
23 operation and complete it with due diligence. Operator shall perform all work for the account of the  
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-  
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform  
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-  
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when  
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms  
29 and conditions of this agreement.  
30

31 If less than all parties approve any proposed operation, the proposing party, immediately after the  
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest  
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-  
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)  
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the  
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",  
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its  
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify  
39 all parties of such decision.  
40

41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in  
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting  
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such  
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole  
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions  
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall  
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned  
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.  
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such  
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party  
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and  
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,  
55 calculated at the well, or market value thereof if such share is not sold (after deducting production  
56 taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof,  
57 payable out of or measured by the production from such well accruing with respect to such interest until it reverts)  
58 shall equal the total of the following:  
59

60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and  
68

69 (b) 200% of that portion of the costs and expenses of drilling reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

1 200% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty  
17 and other burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52  
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.

57  
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.

63  
64 **C. Right to Take Production in Kind:**

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

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced  
from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

1 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate  
 2 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of  
 3 production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
 5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
 6 to receive payment direct from the purchaser thereof for its share of all production.

7  
 8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
 9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
 10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
 11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
 12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
 13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
 14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
 15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
 16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
 17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
 18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
 19 share of gas production without first giving such other party thirty (30) days notice of such intended  
 20 sale.

21  
 22 In the event any party hereto is not at any time taking or marketing its share of gas production and Operator  
 23 is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such  
 24 party's share of gas production, or in the event any party has contracted to sell its share of gas produced from  
 25 the contract Area to a purchaser which does not at any time while this agreement is in effect take the full share  
 26 of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas  
 27 Balancing Agreement attached hereto as Exhibit "E" and incorporated herein shall automatically become  
 28 effective.

29 **D. Access to Contract Area and Information:**

30  
 31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
 32 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
 33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
 34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
 35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
 36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
 37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
 38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
 39 information.

40  
 41 **E. Abandonment of Wells:**

42  
 43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
 44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
 45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
 46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
 47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
 48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
 49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
 50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
 51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
 52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
 54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
 55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
 56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
 57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
 58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
 59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
 60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
 61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable  
 62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
 63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
 64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
 65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
 66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
 67 formation or formations then open to production. If the interest of the abandoning party includes  
 68 an oil and gas interest, such party shall execute and deliver to the non-abandoning parties an  
 69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
 70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

1 vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit  
2 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is  
3 located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon  
4 the relationship of their respective percentages of participation in the Contract Area to the aggregate of  
5 the percentages of participation in the Contract Area of all assignees. There shall be no readjustment  
6 of interest in the remaining portion of the Contract Area.  
7

8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-  
9 eration of or production from the well in the interval or intervals then open other than the royalties  
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to  
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
12 templated by this agreement, plus any additional cost and charges which may arise as the result of  
13 the separate ownership of the assigned well.  
14

15 **ARTICLE VII.**  
16 **EXPENDITURES AND LIABILITY OF PARTIES**

17  
18 **A. Liability of Parties:**  
19

20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible  
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing  
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are  
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall  
24 this agreement, be construed as creating, a mining or other partnership or association, or to render the  
25 parties liable as partners. It is not the intention of the parties that this contract is  
26 made or intended for the benefit of any third person.

27 **B. Liens and Payment Defaults:**  
28

29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a  
30 security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure  
31 payment of its share of expense, together with interest thereon at the rate provided in the Accounting  
32 Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the  
33 Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies  
34 of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator  
35 for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
36 rights or security interest as security for the payment thereof. In addition, upon default by any Non-  
37 Operator in the payment of its share of expense, Operator shall have the right, without prejudice to  
38 other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's  
39 share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any de-  
41 fault. Operator grants a like lien and security interest to the Non-Operators to secure payment of Op-  
42 erator's proportionate share of expense.  
43

44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of  
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by  
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-  
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-  
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.  
49

50 **C. Payments and Accounting:**  
51

52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses  
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall  
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-  
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate  
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and  
57 received.  
58

59 Operator, at its election, shall have the right from time to time to demand and receive from the  
60 other parties payment in advance of their respective shares of the estimated amount of the expense to  
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only  
62 by submission to each such party of an itemized statement of such estimated expense, together with  
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-  
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party  
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-  
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the  
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be  
68 made monthly between advances and actual expense to the end that each party shall bear and pay its  
69 proportionate share of actual expenses incurred, and no more.  
70

1 D. Limitation of Expenditures:

2

3 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, ex-  
4 cept any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being  
5 understood that the consent to the drilling or deepening shall include:

6

7  ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and~~  
8 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

9

10  Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When  
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-  
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties  
13 receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holi-  
14 days) in which to elect to participate in the setting of casing and the completion attempt. Such election,  
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such  
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice  
17 to reply within the period above fixed shall constitute an election by that party not to participate in  
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and  
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or  
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to  
21 the operations thereafter conducted by less than all parties.

22

23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged  
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-  
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include  
26 consent to all necessary expenditures in conducting such operations and completing and equipping of  
27 said well, including necessary tankage and/or surface facilities.

28

29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require  
30 an expenditure in excess of TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00)  
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-  
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-  
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different  
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with  
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-  
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,  
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project  
38 costing in excess of FIFTEEN THOUSAND----- Dollars (\$ 15,000.00).

39

40 E. Royalties, Overriding Royalties and Other Payments:

41

42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of  
43 1/8 of 8/8ths due on its share of production and shall hold the other parties free  
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-  
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above  
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account  
47 for or cause to be accounted for, such interest to the owners thereof.

48 No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor  
49 or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis,  
50 the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

51 It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A",  
52 such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it  
53 contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases.  
54 It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the  
55 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  
56 leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

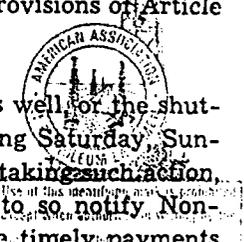
54 F. Rentals, Shut-in Well Payments and Minimum Royalties:

55

56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of  
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their  
58 expense. In the event two or more parties own and have contributed interests in the same lease to this  
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all  
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-  
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum  
62 royalty through mistake or oversight where such payment is required to continue the lease in force,  
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article  
64 IV.B.2.

65

66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well for the shut-  
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-  
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action,  
69 but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-  
70 Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments



1 of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article  
2 IV.B.3.

3  
4 **G. Taxes:**

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 **H. Insurance:**

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 **ARTICLE VIII.**  
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48  
49 **A. Surrender of Leases:**

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall  
70

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23 without warranty  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment/of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions  
36 of leases, located within the Unit Area.

37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage  
54 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds-inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

**E. Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

**F. Waiver of Right to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

**ARTICLE IX.  
INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence, as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

1 such party shall give any notices or take any other action inconsistent with the election made hereby.  
2 If any present or future income tax laws of the state or states in which the Contract Area is located or  
3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",  
4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that  
5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as  
6 may be permitted or required by such laws. In making the foregoing election, each such party states that  
7 the income derived by such party from Operations hereunder can be adequately determined without the  
8 computation of partnership taxable income.

9  
10 **ARTICLE X.**  
11 **CLAIMS AND LAWSUITS**

12  
13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-  
14 penditure does not exceed FIFTEEN THOUSAND----- Dollars  
15 (\$ 15,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount  
16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the  
17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-  
18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense  
19 of the parties. If a claim is made against any party or if any party is sued on account of any matter  
20 arising from operations hereunder over which such individual has no control because of the rights given  
21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall  
22 be treated as any other claim or suit involving operations hereunder.

23  
24 **ARTICLE XI.**  
25 **FORCE MAJEURE**

26  
27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations  
28 under this agreement, other than the obligation to make money payments, that party shall give to all  
29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;  
30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,  
31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party  
32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33  
34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not  
35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its  
36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party  
37 concerned.

38  
39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other  
40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,  
41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,  
42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not  
43 reasonably within the control of the party claiming suspension.

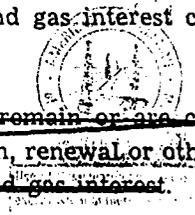
44  
45 **ARTICLE XII.**  
46 **NOTICES**

47  
48 All notices authorized or required between the parties, and required by any of the provisions of  
49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail  
50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to  
51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any  
52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,  
53 and the time for such party to give any notice in response thereto shall run from the date the originat-  
54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in  
55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,  
56 or when sent by teletype. Each party shall have the right to change its address at any time, and from  
57 time to time, by giving written notice hereof to all other parties.

58  
59 **ARTICLE XIII.**  
60 **TERM OF AGREEMENT**

61  
62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-  
63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall  
64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-  
65 tributed by any other party beyond the term of this agreement.

66  
67  ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-~~  
68 ~~tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-~~  
69 ~~wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~



1 ~~XX~~ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
4 tion, and for an additional period of 180 days from cessation of all production; provided, however,  
5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
7 erations have been completed and if production results therefrom, this agreement shall continue in  
8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
11 tions are commenced within 120 days from the date of abandonment of said well.

12  
13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
14 any liability which has accrued or attached prior to the date of such termination.

15  
16 **ARTICLE XIV.**  
17 **COMPLIANCE WITH LAWS AND REGULATIONS**

18  
19 **A. Laws, Regulations and Orders:**

20  
21 This agreement shall be subject to the conservation laws of the state in which the committed  
22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
24 orders.

25  
26 **B. Governing Law:**

27  
28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
30 terpretation or construction, shall be governed and determined by the law of the state in which the  
31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
32 of the land in the Contract Area is located shall govern.

33  
34 **ARTICLE XV.**  
35 **OTHER PROVISIONS**

36  
37 **A. Not included.**

38 **B. Not included.**

39 **C. Not included.**

40  
41 **D. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required**  
42 **to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that**  
43 **may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized**  
44 **area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or**  
45 **gas and other minerals which may be owned by a third party or which, failing in such operation, may revert**  
46 **to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the**  
47 **premises, failing in which certain rights would terminate, the following shall apply. Should less than all**  
48 **of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in**  
49 **such operation, those parties desiring to participate shall have the right to do so at their sole cost,**  
50 **risk, and expense. Promptly following the conclusion of such operation, each of those parties not**  
51 **participating agree to execute and deliver an appropriate assignment to the total interest of each**  
52 **non-participating party in and to the lease, leases, or rights which would have terminated or which**  
53 **otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights**  
54 **within the balance of the drilling unit upon which the well was drilled, excepting, however, wells**  
55 **theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to**  
56 **the participating parties in the proportion that they bore the expense attributable to the**  
57 **non-participating parties' interest.**

58  
59 **E. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to**  
60 **any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All**  
61 **production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a**  
62 **third party purchaser. It is expressly agreed if prior written consent is given to a party selling to**  
63 **themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the**  
64 **option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes**  
65 **an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell**  
66 **at the same or higher price.**

67  
68 **F. Prior to commencement of any well drilled under this agreement, each non-operator must tender to the**  
69 **operator its share of dry hole cost, as set out on Authority for Expenditure proposing such well.**

70 **G. This Operating Agreement shall supercede that certain Operating Agreement dated**  
**January 2, 1985 known as the Townsend Operating Agreement - Mesa Petroleum Co.,**  
**Operator.**

G. ARTICLE XV. OTHER PROVISIONS

Cost Allocation Formula

The entire cost of drilling the well will be initially borne by the working interest owners of the Deep Unit with no right to be reimbursed by the working interest owners of the shallow unit, unless the well is to be completed in the Shallow Unit in which case the working interest owners of the shallow unit will reimburse the working interest owners of the Deep Unit in accordance with the following formula:

All Pre-casing Point Costs which can be isolated to the Shallow Unit or the Deep Unit, (e.g., logging, testing, coring, fishing, etc.) will be paid for by the participating owners of those particular zones. All other Pre-casing Point Costs ("remaining costs") shall be borne by various participating owners, according to their respective participating interests in the units involved as follows:

$$\frac{\text{Participants in the Shallow Unit}}{2} \times \frac{\text{Footage to base of Shallow Unit}}{\text{TOTAL DEPTH}} \times \text{REMAINING COSTS}$$

$$\frac{\text{Participants in the Deep Unit}}{2} \times \frac{\text{Footage to base of Deep Unit}}{\text{TOTAL DEPTH}} \times \text{REMAINING COSTS}$$

$$\text{plus: } 100\% \times \frac{\text{Footage from base of Shallow Unit to Total Depth}}{\text{TOTAL DEPTH}} \times \text{REMAINING COSTS}$$

Should a dual completion attempt be made in both the Deep Unit and the Shallow Unit, all completion costs that can be isolated to the Deep or Shallow Units shall be paid for by the participating owners of those units. All other costs, with the exception of casing and tubing shall be paid for equally by the participants in Shallow Unit and the Participants in the Deep Unit. All casing and tubing shall be paid for as follows:

Average costs of casing and tubing from the surface to the base of the Shallow Unit:

Participants in the Shallow Unit - 1/2;  
Participants in the Deep Unit - 1/2.

Average costs of casing and tubing from the Base of the Shallow Unit to total depth: Participants in the Deep Unit - 100%.

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

OPERATOR

YATES PETROLEUM CORPORATION

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

NON-OPERATORS

YATES DRILLING COMPANY

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

ABO PETROLEUM CORPORATION

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

MYCO INDUSTRIES, INC.

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

UMC PETROLEUM CORPORATION

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

ROY. G. BARTON JR. TRUSTEE OF R.G. BARTON,  
SR. & O. BARTON REVOCABLE TRUST

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

MARK L. SHIDLER, INC.

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

BRISTOL RESOURCES CORPORATION

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

FIVE STATES 1995 - B, LTD.  
FIVE STATES 1995 - D, LTD.

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

A.L. CONE PARTNERSHIP

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

FUEL PRODUCTS, INC.

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

AMERISTATE OIL & GAS, INC.  
AMERISTATE EXPLORATION L.L.C.

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

MARILYN CONE TRUSTEE FOR  
D.C. CONE TRUST

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

\_\_\_\_\_  
S.E. CONE, JR.

\_\_\_\_\_  
KATHERINE CONE KECK

\_\_\_\_\_  
MARJORIE CONE KASTMAN

\_\_\_\_\_  
CLIFFORD CONE

\_\_\_\_\_  
KENNETH G. CONE

\_\_\_\_\_  
JOHN F. HERBIG, JR.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

**NON-OPERATORS**

AMERIND OIL COMPANY LTD.

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

HEIRS OF TOM W. SCHNAUBERT

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

HEIRS OF LUCRETIA E. CONLON

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

\_\_\_\_\_  
FLO SCOTT BROWN

\_\_\_\_\_  
DAN FIELD

\_\_\_\_\_  
CONSTANCE COBB KEEN

\_\_\_\_\_  
JOAN GARRISON TRUST

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, ET AL, "NON-OPERATORS".

STATE OF NEW MEXICO )  
 :§  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_ for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

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

STATE OF NEW MEXICO )  
 :§  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998, by Peyton Yates, Attorney-in-Fact for Yates Drilling Company, John Yates, Jr., Attorney-in-Fact for Abo Petroleum Corporation and Frank Yates, Jr., Attorney-in-Fact for Myco Industries, Inc., all New Mexico corporations, on behalf of said corporation.

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

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_, \_\_\_\_\_ for \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_

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

STATE OF \_\_\_\_\_ )  
 :§  
COUNT OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1998 by \_\_\_\_\_

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

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND OCEAN ENERGY, INC., "NON-OPERATOR".

**EXHIBIT "A"**

**I. CONTRACT LANDS:**

Township 16 South, Range 35 East, NMPM  
 Section 2: Lots 11, 12, 13, 14, SW/4  
 Lea County, New Mexico

**II. DEPTH RESTRICTION:**

Shallow Unit - From surface to 11,000'  
 Deep Unit - From 11,000' below the surface to 100' below total depth drilled in the initial test well.

**III. PERCENTAGE INTERESTS OF PARTIES UNDER THE AGREEMENT:**

Shallow Unit - Lot 13

Yates Petroleum Corporation	70.00%
Yates Drilling Company	10.00%
Abo Petroleum Corporation	10.00%
Myco Industries, Inc.	<u>10.00%</u>
	100.00

Deep Unit - Lots 11, 12, 13, 14, SW/4

Five States 1995-B Ltd.	5.4026%
Five States 1995-D Ltd.	5.4026%
Mark L. Shidler, Inc.	.2732%
Bristol Resources Corp.	3.0371%
A.L. Cone Partnership	.4150%
S.E. Cone, Jr.	.1491%
Katherine Cone Keck	.1445%
Roy G. Barton, Jr., Trustee	.1383%
Marjorie Cone Kastman	.0615%
Clifford Cone	.0369%
Kenneth G. Cone	.0369%
Amerind Oil Company Ltd.	7.1810%
Ameristate Oil & Gas Inc.	.0072%
Fuel Products, Inc.	.0072%
John F. Herbig, Jr.	.0072%
Flo Scott Brown	.0868%
Dan Field	1.5625%
Marilyn Cone, Trustee DC Cone Trust	.1563%
Constance Cobb Keen	.0130%
Heirs of Tom W. Schnaubert	.0065%
Laverna Howard Trustee,	
Joan Garrison Trust	.0065%
Heirs of Lucretia E. Conlon	.3906%
Yates Petroleum Corporation, et al	37.9775%
Ocean Energy, Inc.	<u>37.5000%</u>

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND OCEAN ENERGY, INC., "NON-OPERATOR".

**IV. LEASES SUBJECT TO THIS AGREEMENT:**

1. State of New Mexico VA-604  
Held by Production  
Lessee: Yates Petroleum Corporation, et al  
Covering: Township 16 South, Range 35 East, NMPM  
Section 2: Lots 11, 13, NW/4SW/4  
Lea County, New Mexico
  
2. State of New Mexico E-7720  
Held by Production  
Lessee: Ocean Energy, Inc.  
Covering: Township 16 South, Range 35 East, NMPM  
Section 2: Lot 14, E/2SW/4  
Lea County, New Mexico
  
3. State of New Mexico E-3003  
Held by Production  
Lessee: Five States 1995-B & D, Ltd., et al  
Covering: Township 16 South, Range 35 East, NMPM  
Section 2: Lot 12  
Lea County, New Mexico  
rights from 11,000' to 12,375'
  
4. Lessor: Mike Field  
Lessee: Amerind Oil Company Ltd.  
Date: June 15, 1994 as extended December 24, 1997  
Term: Four years, as extended  
Mineral Int. 1/8 mineral interest  
Recorded: Book 502, Page 340, as extended Book 846, Page 338
  
5. Lessor: Charles R. Jones, separate property, et al  
Lessee: Amerind Oil Company, Ltd.  
Date: May 16, 1995  
Term: Three years  
Mineral Int. 1/16 mineral interest  
Recorded: Book 517, Page 147
  
6. Lessor: Owen W. McWhorter, Jr., separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: June 14, 1994  
Term: Five years  
Mineral Int. 1/960 mineral interest  
Recorded: Book 502, Page 332
  
7. Lessor: H.D. White, separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: June 2, 1994  
Term: Five years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 502, Page 336
  
8. Lessor: Elova L. Miller, separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: June 16, 1994  
Term: Five years  
Mineral Int. 1/288 mineral interest  
Recorded: Book 502, Page 348
  
9. Lessor: Nova Jean Marley  
Lessee: Amerind Oil Company, Ltd.  
Date: June 17, 1994  
Term: Five years  
Mineral Int. 1/1152 mineral interest  
Recorded: Book 502, Page 350

10. Lessor: Mary Ann Gathings  
Lessee: Amerind Oil Company, Ltd.  
Date: June 27, 1994  
Term: Five years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 502, Page 352
11. Lessor: Rita D. Schenck, Klein Bank & Rowdy Schenck, Co-Trustees of Trust B under the Kirby D. Schenck & Rita D. Schenck Revocable Trust  
Lessee: Amerind Oil Company, Ltd  
Date: May 1, 1995  
Term: Three years  
Mineral Int. 3/32 mineral interest  
Recorded: Book 518, Page 371
12. Lessor: Rita D. Schenck, William C. Schenck & Western Commerce Bank, Co-Trustees of Trust A-2  
Lessee: Amerind Oil Company, Ltd.  
Date: May 1, 1995  
Term: Three years  
Mineral Int. 3/32 mineral interest  
Recorded: Book 518, Page 376
13. Lessor: Weigl Family Living Trust dated 9-25-97  
Lessee: Amerind Oil Company, Ltd.  
Date: June 2, 1994  
Term: Five years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 502, Page 334
14. Lessor: Emory Isenberg, separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: July 5, 1994  
Term: Three years, with option to renew for two years  
Mineral Int. 1/48 mineral interest  
Recorded: Book 503, Page 188
15. Lessor: Charels R. Wiggins  
Lessee: Amerind Oil Company, Ltd.  
Date: July 5, 1994  
Term: Three years, with option to renew for two years  
Mineral Int. 1/48 mineral interest  
Recorded: Book 503, Page 821
16. Lessor: Mary Scott Gould  
Lessee: Amerind Oil Company, Ltd.  
Date: May 11, 1995  
Term: Three years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 516, Page 148
17. Lessor: Tom R. Cone  
Lessee: Amerind Oil Company, Ltd.  
Date: May 16, 1995  
Term: Three years  
Mineral Int. 1/80 mineral interest  
Recorded: Book 516, Page 483
18. Lessor: William H. Griswold  
Lessee: Amerind Oil Company, Ltd.  
Date: May 24, 1995  
Term: Three years  
Mineral Int. 1/80 mineral interest  
Recorded: Book 517, Page 391
19. Lessor: Elaine B. Flint Grandchildren's Trust Benefit  
Lessee: Amerind Oil Company, Ltd.  
Date: May 24, 1995  
Term: Three years  
Mineral Int. 1/80 mineral interest  
Recorded: Book 517, Page 393

20. Lessor: David D. Griswold  
Lessee: Amerind Oil Company, Ltd.  
Date: May 24, 1995  
Term: Three years  
Mineral Int. 1/80 mineral interest  
Recorded: Book 517, Page 395
21. Lessor: Elaine B. Flint Grandchildren's Trust Benefit  
Eloise F. Griswold Trust 8-21-71  
Lessee: Amerind Oil Company, Ltd.  
Date: May 24, 1995  
Term: Three years  
Mineral Int. 1/40 mineral interest  
Recorded: Book 517, Page 397
22. Lessor: Cathie C. McCown, separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: May 16, 1995  
Term: Three years  
Mineral Int. 1/80 mineral interest  
Recorded: Book 518, Page 367
23. Lessor: Marion S. Bennett, Ind. Exec. and sole beneficiary under the will of  
Nell C. Shelton  
Lessee: Amerind Oil Company, Ltd.  
Date: May 20, 1995  
Term: Three years  
Mineral Int. 1/640 mineral interest  
Recorded: Book 518, Page 369
24. Lessor: Hurwitz Living Trust dated 9-27-91  
Lessee: Amerind Oil Company, Ltd.  
Date: August 17, 1994  
Term: Five years  
Mineral Int. 1/48 mineral interest  
Recorded: Book 505, Page 410
25. Lessor: Lawrance C. Dotson, Ind. Exec. Estate of Mary Joe Dotson  
Lessee: Amerind Oil Company, Ltd.  
Date: July 5, 1994  
Term: Five years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 510, Page 665
26. Lessor: Carl A. Schellinger, et ux  
Lessee: Ameristate Oil & Gas, Inc. (1/3), Fuel Products, Inc. (1/3) and  
John F. Herbig, Jr. (1/3)  
Date: May 23, 1996  
Term: Two years  
Mineral Int. 1/576 mineral interest  
Recorded: Book 733, Page 254
27. Lessor: Roy G. Barton and Opal Barton, Revocable Trust dated 1-28-82  
Lessee: Ameristate Exploration, L.L.C.  
Date: May 23, 1996  
Term: Two years  
Mineral Int. 3/64  
Recorded: Book 733, Page 257
28. Lessor: S.E. Cone, Jr.  
Lessee: Amerind Oil Company, Ltd.  
Date: February 4, 1997 as extended December 22, 1997  
Term: Two years, as extended  
Mineral Int. 97/1920 mineral interest  
Recorded: Book 781, Page 92 as extended Book 846, Page 336
29. Lessor: Madlyn Dotson Lansford, separate property  
Lessee: Amerind Oil Company, Ltd.  
Date: March 27, 1997  
Term: Three years  
Mineral Int. 1/144 mineral interest  
Recorded: Book 792, Page 422

30. Lessor: Harry H. Jung  
 Lessee: Amerind Oil Company, Ltd  
 Date: March 27, 1997  
 Term: Three years  
 Mineral Int. 1/1152 mineral interest  
 Recorded: Book 799, Page 604
31. Lessor: Clara C. Carmichael Living Trust dated 4-19-93  
 Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%,  
 Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%  
 Date: February 12, 1998  
 Term: One year  
 Mineral Int. 1/288 mineral interest  
 Recorded: Book 862, Page 14
32. Lessor: Carlton J. Carmichael, Jr., Trustee under the Last Will and Testament of  
 Carlton J. Carmichael  
 Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%  
 Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%  
 Date: March 5, 1998  
 Term: One year  
 Mineral Int. 1/288 mineral interest  
 Recorded: Book 863, Page 174
33. Lessor: W. Chris Barnhill, et ux  
 Lessee: Yates Petroleum Corporation 70%, Yates Drilling Company 10%,  
 Abo Petroleum Corporation 10% and Myco Industries, Inc. 10%  
 Date: February 12, 1998  
 Term: One year  
 Mineral Int. 1/32 mineral interest  
 Recorded: Book 861, Page 337
34. Lessor: Mary Carolyn Johnston  
 Lessee:  
 Date:  
 Term:  
 Mineral Int.  
 Recorded:
35. Lessor: Charles M. Fuchtman  
 Lessee:  
 Date:  
 Term:  
 Mineral Int.  
 Recorded:

\*Note: The legal description for leases No. 4-33 is:

Township 16 South, Range 35 East  
 Section 2: SW/4SW/4  
 Lea County, New Mexico

**V. ADDRESSES OF THE PARTIES:**

Ocean Energy, Inc.  
410 17th Street, Suite 1400  
Denver, Colorado 80202

Mark L. Shidler, Inc.  
911 Walker, Suite 565  
San Jacinto Building  
Houston, Texas 77002

Five States 1995 - B, Ltd.  
Five States 1995 - D, Ltd.  
4925 Greenville Ave. #1220  
Dallas, Texas 75206  
Attn: Ms. Ann McConville

S. E. Cone, Jr.  
P.O. Box 10321  
Lubbock, TX 79404

Katherine Cone Keck  
1801 Ave. of the Stars, Suite 446  
Los Angeles, CA 90067

Roy G. Barton Jr., Trustee of R.G.  
Barton, Sr. & O. Barton Revocable Trust  
P.O. Box 978  
Hobbs, NM 88241

Clifford Cone  
P.O. Box 1629  
Lovington, NM 88260

Fuel Products, Inc.  
P.O. Box 3098  
Midland, TX 79702

Marilyn Cone Trustee  
DC Cone Trust  
P.O. Box 64244  
Lubbock, TX 79464

Lavena Howard Trustee  
Joan Garrison Trust  
5221 Ira  
Ft. Worth, TX 76117

Heirs of Lucretia E. Conlon  
c/o Charles M. Fuchtman  
P.O. Box 10109  
Huntsville, AL 35801

Ameristate Oil & Gas, Inc.  
Ameristate Exploration L.L.C.  
1211 W. Texas  
Midland, TX 79701

Bristol Resources Corporation  
6655 S. Lewis, Suite 200  
Tulsa, OK 74136  
Attn: Mr. Ed. Watts

A. L. Cone Partnership  
P.O. Box 3457, Briercroft #12  
Lubbock, TX 79452

John F. Herbig, Jr.  
Suite 280, One Marienfeld Place  
Midland, TX 79701

Amerind Oil Company, Ltd.  
415 W. Wall St.  
Midland, TX 79701

Marjorie Cone Kastman  
P.O. Box 5930  
Lubbock, TX 79408

Kenneth G. Cone  
P.O. Box 11310  
Midland, TX 79702

Flo Scott Brown  
8610 Miami Ave.  
Midland, TX 79423

Heirs of Tom W. Schnaubert  
c/o Mary Irwinsey  
4404 Odessa Ave.  
Ft. Worth, TX 76117

Constance Cobb Keen  
4915-D 94th Street  
Lubbock, TX 79424

EXHIBIT " C "

Attached to and made a part of that certain operating agreement dated November 26, 1997, between Yates Petroleum Corporation, "OPERATOR" and UMC Petroleum Corporation, Amerind Oil Company Ltd. and Mark L. Shidler, Inc., "NON-OPERATORS".

ACCOUNTING PROCEDURE  
 JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

### 4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

### 9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

**10. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

**11. Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**12. Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- ( ) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( ) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5,400.00  
 Producing Well Rate \$ 540.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

**B. Overhead - Percentage Basis**

(1) Operator shall charge the Joint Account at the following rates:

**(a) Development**

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

**(b) Operating**

\_\_\_\_\_ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

**2. Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 2 % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

**3. Amendment of Rates**

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

**IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

**1. Purchases**

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

**2. Transfers and Dispositions**

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

**A. New Material (Condition A)**

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

**(2) Line Pipe**

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

**B. Good Used Material (Condition B)**

Material in sound and serviceable condition and suitable for reuse without reconditioning:

**(1) Material moved to the Joint Property**

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

**(2) Material moved from the Joint Property**

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

**D. Obsolete Material**

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

**E. Pricing Conditions**

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "D"

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.

(B) Public Liability Insurance:  
Bodily Injury \$500,000.00 each occurrence.

(C) Automobile Public Liability Insurance:  
Bodily Injury \$250,000.00 each person.  
\$500,000.00 each occurrence.

Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of ¶6, it is expressly agreed that any underproduced 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 provided for in ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED NOVEMBER 26, 1997, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND UMC PETROLEUM CORPORATION, AMERIND OIL COMPANY LTD. AND MARK L. SHIDLER, INC., "NON-OPERATORS".

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

- (7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-I) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001 .