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PATRICK H. LYONS
COMMISSIONER

OIL CONSERVATION
DIVISION *State of New Mexico*
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

November 5, 2003

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

Attention: Mr. Robert Bullock

Re: Preliminary Approval
Proposed Cash State Exploratory Unit
Lea County, New Mexico

Dear Mr. Bullock:

This office has received the unexecuted copy of the unit agreement, which you have submitted for the proposed Cash State Exploratory Unit area, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

Preliminary approval is also given with the understanding that Tract No. 22, containing 43.58 acres described as Lots 1, 5 of Section 3, Township 11 South, Range 34 East, is unleased at this time. If it is determined that this tract can be leased by the State of New Mexico at a future date in time, Tract No. 22 must be committed to the unit agreement pursuant to Article 22 of the Cash State Exploratory Unit Agreement.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 19.2.100.51, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.

3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. Copies of all the well records for the initial unit well.
8. Your filing fee in the amount of \$360.00 has been received.
9. On Exhibit "B", Tract No. 3, delete the SE/4NW/4.
10. On Exhibit "B", Tract No. 6, the correct acreage is 319.58 acres.
11. On Exhibit "B", Tract No. 9, the correct land description is Lots 1,2,3,4, S/2.
12. On Exhibit "B", Change Tract No. 23 to Tract No. 24.
13. On Exhibit "B", include as Tract No. 23, the "accreted land abutting 9.95 acres of Lots 1 and 5 containing 9.95 acres in Section 3, Township 11 South, Range 34 East. (See Attached Tract Book Plat). The Lease Number is V-683 and the lessee of record is Castle Exploration Company, Inc.
14. On Exhibit "B", Page 3, please update the total acreage.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS



BY:
JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

PL/JB/pm

cc: QCD-Santa Fe, Attention: Mr. Roy Johnson.
William F. Carr