

OIL & GAS LEASE

THIS AGREEMENT made this 21 day of October 19 75, between

Elaine B. Flint, a widow and Eloise Ann Flint Griswold, a married
woman dealing in her sole and separate property, being the sole and
only heirs of W. E. Flint, deceased of Las Cruces, N.M.

(Post Office Address)

Carl A. Schellinger, P. O. Box 447, Roswell, N.M.

herein called lessor (whether one or more) and Carl A. Schellinger, P. O. Box 447, Roswell, N.M., lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in Eddy County, New Mexico, to-wit:

Township 18 South, Range 26 East, N.M.P.M.

Section 22: N $\frac{1}{2}$ SE $\frac{1}{4}$

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 80.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of five (5) 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.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 3/16 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of 3/16 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ 80.00 which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the First National Bank of Dona Ana County xx
Box 610, Las Cruces, New Mexico 88001

at First National Bank of Dona Ana County, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment. (See 5-a below)

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or portion thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. 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 on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable 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 hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby ~~agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights~~ ~~and, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.~~

11. Lessee, its successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

3-c. Advance shut-in royalty as above provided shall be equal to \$5.00 per
acre and such payment shall not serve to extend nor to perpetuate this lease
for more than three years from and after the date of the first such shut-in.
5-a. No less than the whole of the surface area herein leased may be pooled
or combined with other lands to form a unit under the meaning of 5 above.

Executed the day and year first above written.

BEFORE EXAMINER QUINTANA

OIL CONSERVATION DIVISION

YATES EXHIBIT NO. 2

CASE NO. 8322

Elaine B. Flint
 Elaine E. Flint

Eloise Ann Griswold
 Eloise Ann Griswold

STATE OF NEW MEXICO,
County of DONA ANA

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 10th day of October Nov., 1975 by Elaine B. Flint, a widow, and Eloise Ann Flint Griswold, a married woman dealing in her sole and separate property.

My Commission expires 2-16, 1979

[Signature]
Notary Public

STATE OF NEW MEXICO,
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF NEW MEXICO,
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF _____
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

No. _____	
OIL AND GAS LEASE NEW MEXICO	
FROM _____	TO _____
Date _____, 19____	
Section _____, Township _____, Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO COUNTY OF <u>Santa Fe</u>	
I hereby certify that this instrument was filed for record on the <u>20</u> day of <u>November</u> , A. D. 19 <u>75</u> , at <u>2:30</u> o'clock <u>P.</u> m., and was duly recorded in Book <u>131</u> at Page <u>1093</u> of the Records of said County. <u>[Signature]</u> County Clerk.	
By <u>[Signature]</u> Deputy.	

STATE OF NEW MEXICO
County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

STATE OF _____
County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

Assignment of Oil and Gas Lease

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, CARL A. SCHELLINGER and GLORIA SCHELLINGER, his wife
 _____ hereinafter called Assignor (whether one or more),
 for and in consideration of One Dollar (\$1.00) receipt of which is hereby acknowledged, does hereby sell, assign, and convey unto
David M. Garland, P.O. Box 2207, Newport Beach, CA 92663
 the entire interest and title in and to the oil and gas lease dated October 21, 1975
 from Elaine B. Flint, a widow and Eloise Ann Flint Griswold, a married woman dealing
in her sole and separate property, being the sole and only heirs of W. E. Flint,
deceased _____, lessor _____,
 to Carl A. Schellinger _____, lessee _____,
 recorded in book 131, page 1093, in so far as said lease covers the following described land in
Eddy _____ County, State of New Mexico _____:

Township 18 South, Range 26 East, N.M.P.M.

Section 22: N $\frac{1}{2}$ SE $\frac{1}{4}$

together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

And for the same consideration the Assignor covenants with the Assignee, its or his heirs, successors or assigns: That the Assignor is the lawful owner of and has good title to the interest above assigned in and to said lease, estate, rights and property, free and clear from all liens, encumbrances or adverse claims; that said lease is a valid and subsisting lease on the lands above described, and all rentals and royalties due thereunder have been paid and all conditions necessary to keep the same in full force have been duly performed; and that the Assignor will warrant and forever defend the same against all persons whomsoever, lawfully claiming or to claim the same, by through and under Assignors, but against none other.

EXECUTED, This 5th day of December, 1975State of New MexicoCounty of Chaves

Individual Acknowledgment—N. M. Short Form

The foregoing instrument was acknowledged before me this 5th day of December, 1975
 by CARL A. SCHELLINGER and GLORIA SCHELLINGER, his wife

My Commission Expires: November 14, 1979

Ruth A. Hall Notary Public
 Post Office Roswell, New Mexico

State of _____
 County of _____

Corporation Acknowledgment—N. M. Short Form

The foregoing instrument was acknowledged before me this _____ day of _____, 19____
 by _____, President
 of _____ a _____ corporation
 on behalf of said corporation.

Notary Public

My Commission Expires: _____

Post Office _____

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the
9 day of June, A. D. 1976 at 2:05 o'clock P.M., and duly recorded
 in Book 137, Page 125 of the Records of Miscellaneous of said County.

MRS. MILDRED BRANCH, County Clerk

By Loren Davis Deputy

ASSIGNMENT OF OIL AND GAS LEASE

THIS ASSIGNMENT made this 23rd day of MARCH, 1976, between DAVID M. GARLAND, a single man, hereinafter referred to as "Assignor", and YATES PETROLEUM CORPORATION, ABO PETROLEUM CORPORATION, YATES DRILLING CO and MYCO INDUSTRIES, INC., all New Mexico corporations, hereinafter collectively referred to as "Assignees",

W I T N E S S E T H:

THAT the undersigned Assignor for and in consideration of the sum of Ten Dollars and other good and valuable consideration in hand paid by Assignees, the receipt and sufficiency of which is hereby acknowledged, does hereby sell, assign, transfer, set over and convey unto said Assignees, their successors and assigns, the following described Oil and Gas Leases covering lands in Eddy County, New Mexico:

Lease No. 1:

Oil and Gas Lease dated October 21, 1975, recorded in Book 131, Page 1093 of the Miscellaneous Records of Eddy County, New Mexico, from Elaine B. Flint, a widow, and Eloise Ann Flint Griswold, a married woman dealing in her sole and separate property, being the sole and only heirs of W. E. Flint, deceased, as lessor, to Carl A. Schellinger, as lessee, and covering the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 22, Township 18 South, Range 26 East, N.M.P.M., containing 80 acres, more or less,

Lease No. 2:

Oil and Gas Lease dated August 29, 1975, recorded in Book 130, Page 811 of the Miscellaneous Records of Eddy County, New Mexico, from Velma O. Ryburn, formerly Velma O. Beard, a widow, as lessor, to Carl A. Schellinger, as lessee, and covering the SW $\frac{1}{4}$ NW $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 22, Township 18 South, Range 26 East, N.M.P.M., containing 40 acres, more or less,

together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

Assignor hereby excepts and reserves unto himself, his heirs and assigns over and above and in addition to the lease royalty, an overriding royalty equal to:

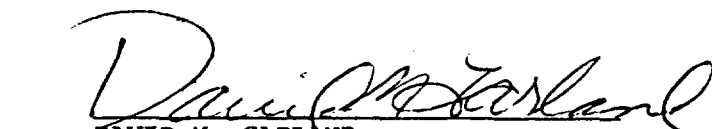
- On Lease No. 1 - 5% of 8/8ths
- On Lease No. 2 - 8.25% of 8/8ths

of the net proceeds received from the sale of all the oil, gas and other hydrocarbon substances produced, saved and marketed from the above assigned premises under and by virtue of the above described leases or any extensions or renewals thereof. All payments made on account of said overriding royalty shall be computed and paid at the same time and in the same manner as royalties payable to the lessors under the terms of said leases are computed and paid, and assignor shall be responsible for his proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. Said obligation shall be the total overriding royalty for which assignees are obligated and shall include all overriding royalties or other obligations payable out of production, if any, heretofore created. No change in ownership of this total overriding royalty shall be binding upon Assignees until such time as Assignees shall have been furnished with either the original, a certified copy or an acceptable reproduction copy of the recorded instrument or instruments effecting the change in ownership.

TO HAVE AND TO HOLD said Oil and Gas Leases and all extensions and renewals thereof unto said Assignees, their successors and assigns, forever.

Assignor covenants with and warrants to Assignees that the above described leases are free and clear of all encumbrances made by Assignor and that he will warrant and defend the same to Assignees against the lawful claims and demands of all persons claiming by, through or under Assignor, but against none other.

EXECUTED this 23RD day of MARCH, 1976.

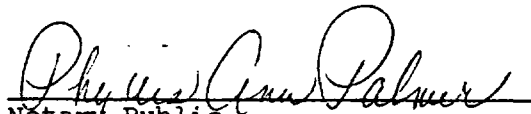

DAVID M. GARLAND

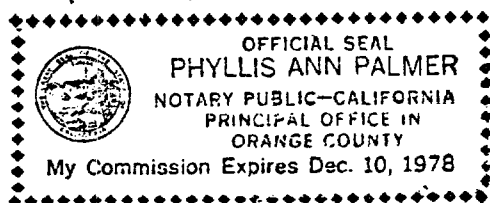
STATE OF CALIFORNIA)
: ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this 23rd day of March, 1976, by David M. Garland, a single man.

My Commission Expires:

12-10-78


Notary Public



STATE OF NEW MEXICO, County of Eddy, ss: I hereby certify that this instrument was filed for record on the 15 day of April 1976 at 1:30 o'clock P. M. and duly recorded in book 135, page 176 of the Records of Misc.

Mildred Branch, County Clerk

By Christina Luernow Deputy