

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

M.S. 6/26/86 (8:00 AM)
DEC 6 26 86
J 10/26 6-26

CASE NO. 8925

Order No. R-8252

APPLICATION OF YATES PETROLEUM
CORPORATION FOR A UNIT AGREEMENT,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 25,
1986, at Santa Fe, New Mexico, before Examiner Michael E.
Stogner.

NOW, on this _____ day of ^{July}~~June~~, 1986, the Division
Director, having considered the testimony, the record, and the

*Examiner
Stogner*

BE

State

(1) The Sandsage^{State} Unit Agreement is hereby approved *for all oil and gas in any and all formations underlying those lands described in Exhibit "A" attached hereto and made a part hereof.*

(2) The plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Division within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) All plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) This order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico ~~and the Director of the appropriate agency of the United States Department of Interior~~; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

R. L. STAMETS,
Director

S E A L

EXHIBIT "A"
Order No. R-

SANDSAGE STATE UNIT AREA

LEA COUNTY, NEW MEXICO

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 8: E/2

Section 9: All

Section 16: All

Section 17: E/2

Section 20: E/2, SW/4

Section 21: All

Section 29: N/2

Comprising 3,360.00 acres, more or less, of State and Fee
lands, ~~is~~

Unit Name Sandsage State Unit
 Operator Yates Petroleum Corporation
 County Lea

OCD

DATE	OCC CASE NO.	8925	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.	R-8252	July 18, 1986	3,360.00	3,040.00	-0-	320.00	STRICT	5 yrs. & so long as

CPL: 7/28/1986
 OCD: 7/8/1986
 BLM: N/A

UNIT AREA

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 8: E/2
 Section 9: All
 Section 16: All
 Section 17: E/2
 Section 20: E/2, SW/4
 Section 21: All
 Section 29: N/2

TERMINATED
 EFFECTIVE DATE 7-12-87
 App: 7-14-87

2nd well was not timely drilled

Unit Name Sandstage State Unit
 Operator Yates Petroleum Corporation
 County Lea

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	ACREAGE		LESSEE
								RATIFIED	NOT RATIFIED	
1.	LG-3681	MIL. Inst	20	15S	35E	SW/4	6/3/86	160.00		Yates Petroleum
2.	LG-3682-2	MIL. Inst	21	15S	35E	NE/4	6/13/86	160.00		M & W Lovington
3.	LG-3683	MIL Inst	29	15S	35E	N/2	6/3/86	320.00		Yates Petroleum
4.	LG-3726	C. S.	16	15S	35E	NW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	6/3/86	480.00		Yates Petroleum
5.	LG-3798	MIL. Inst	9	15S	35E	NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	6/3/86	520.00		Yates Petroleum
6.	LG-3859	MIL. Inst.	8	15S	35E	SE/4	6/3/86	160.00		Yates Petroleum
7.	LG-4031	MIL Inst.	9	15S	35E	NE/4NW/4, W/2SW/4	6/4/86	120.00		Cal-Mon Oil Comp
8.	V-486	MIL. Inst.	8	15S	35E	NE/4	7/25/86	160.00		Kerr-McGee Corpo
9.	LG-4535	MIL. Inst.	20	15S	35E	NE/4	6/3/86	160.00		Yates Petroleum
10.	V-652	C. S.	16	15S	35E	NE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	7/24/86	160.00		Great Western Dr
11.	LG-5032	MIL. Inst.	21	15S	35E	W/2	7/18/86	320.00		Phillips Petrole
*12.	V-1123	MIL. Inst.	20	15S	*35E	*SE/4			160.00	Mitchell Energy
13.	V-1860	MIL. Inst.	21	15S	35E	SE/4	6/3/86	160.00		Yates Petroleum

TERMINATED

EFFECTIVE DATE 7-28-87
 APP: 7. 22. 87

JHD Well was NOT Timely drilled



S. P. YATES
PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

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

July 27, 1986

Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501-2088

Attention: Mr. M.E. Stogner

RE: Case # 8925
Sandsage State Unit
Township 15 South-Range 35 East
LEA COUNTY, NEW MEXICO

Dear Mr. Stogner:

Enclosed is an original signature for the consent and Ratification on the captioned unit. Please replace the telecopy you presently have in your records with this original. If you have any questions, please do not hesitate to call.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION


Jim Ball
Landman

JB/krq



W. J. "JIM" BALL, JR.
LANDMAN

105 South 4th Street
Artesia New Mexico 88210

Bus: (505) 748-1471
Res: (505) 623-8485

State of New Mexico



JIM BACA
COMMISSIONER

Commissioner of Public Lands

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

July 28, 1986

Yates Petroleum Corporation
Attn: Mr. Jim Ball
207 South Fourth Street
Artesia, New Mexico 88210

Re: Sandsage State Unit
Lea County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date granted you final approval to the Sandsage State Unit Agreement, Lea County, New Mexico. It is our understanding that Tract No. 12 is not committed to the unit at this time. The effective date of your agreement is July 28, 1986. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

As per your conversation with this office please submit a revised Exhibit "A" and "B" schedule reflecting the current changes which have recently occurred on this date.

Enclosed are Five (5) Certificates of Approval.

Your filing fee in the amount of \$210.00 has been received.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

JB/FOP/pm
encls.

cc: OCD-Santa Fe, New Mexico



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO
SANDSAGE STATE UNIT
LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated June 1, 1986, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the 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 area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 28th day of July, 19 86.



COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

**UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE**

SANDSAGE STATE

UNIT AREA

LEA

COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of June
19 86 by and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other
oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec 3, Chap. 88, Laws 1943) as amended
by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N. M. Statutes
1978 Annot.), to consent to and approve the development or operation of State Lands
under agreements made by lessees of State Land jointly or severally with other lessees
where such agreements provide for the unit operation or development of part of or all
of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap.
19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of
lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil
and gas lease embracing State Lands so that the length of the term of said lease may
coincide with the term of such agreements for the unit operation and development of
part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Depart-
ment of the State of New Mexico (hereinafter referred to as the "Division"), is
authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being
Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve
this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Sandsage
State Unit Area covering the land hereinafter described to give reasonably
effective control of operations therein; and

owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interest according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy five percent (75%) of the working interests qualified to vote is owned by one party to the agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the _____
Austin Lime formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 13,200 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances

in paying quantities is ~~completed to the satisfaction~~ of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:

Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated,) of intention to cancel on account of any alleged breach of said covenant for reasonable development and

decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination with- in which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

5.5 Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this Agreement unless at the expiration of five years (5) after the first day of the month following the effective date of this Agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to

the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA:

The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same

conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the secondary term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands

committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the primary term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in 5 years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to Division. Likewise, the failure to comply with a

drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Commission, and in conformity with all applicable laws and lawful regulations.

19. APPERANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement, shall be suspended while, but only so long as, the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized

substances involved on ~~account thereof~~, ~~without~~ liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment or revenue.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

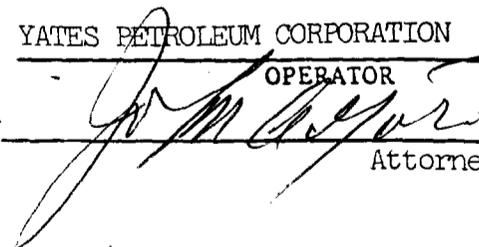
IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

YATES PETROLEUM CORPORATION

OPERATOR

By



Attorney-in-Fact

DATE: 6-3-86

ATTEST

BY _____

OTHER WORKING INTEREST OWNERS

Company

DATE: _____

BY: _____

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 3rd day of June, 1986 by John A. Yates, Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:
March 1, 1990

Miriam S. Stalow
Notary Public

EXHIBIT B TO UNIT AGREEMENT
SANDSAGE STATE UNIT AGREEMENT
Schedule of Tract Numbers, Ownership and Participation

TRACT NO.	DESCRIPTION	ACRES	BASIC		LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
			LEASE NO. & EXP. DATE	ROYALTY			
1	T15S-R35E Sec. 20: SW $\frac{1}{4}$	160.00	LG-3681 8/1/86	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. 25% each
2	T15S-R35E Sec. 21: NE $\frac{1}{4}$	160.00	LG-3682 8/1/86	State 1/8	Gas Producing Enterprises, Inc.	None	M & W of Lovington, Inc. 100%
3	T15S-R35E Sec. 29: N/2	320.00	LG-3683 8/1/86	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. 25% each
4	T15S-R35E Sec. 16: NW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	480.00	LG-3726 9/1/86	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. 25% each
5	T15S-R35E Sec. 9: NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	520.00	LG-3798 10/1/86	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Co. Abo Petroleum Corp. Myco Industries, Inc. 25% each
6	T15S-R35E Sec. 8: SE $\frac{1}{4}$	160.00	LG-3859 11/1/86	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. 25% each

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
7	T15S-R35E Sec. 9: NE $\frac{1}{4}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	120.00	LG-4031 2/1/87	State 1/8	Cal-Mon Oil Company	6.25% ORRI Cal-Mon Oil Corporation 2.8125% Robert L. Monaghan .3125% A.T. Carlton 3.1250%	John H. Hendrix 12.5000 Estoril Producing Corporation 12.5000 Jack O. McCall 10.0000 Joe R. Henderson 6.2500 Ernest Angelo, Jr. 7.5000 Jack Markham 2.5000 Jan Oil Company 5.0000 George A. Thomas 2.5000 William T. Thomas 2.5000 Joe N. Gifford 2.9167 Bascom L. Mitchell 2.9167 partnership 5.8334 M.B. Wisenbaker 2.9166 J.M. Welborn 2.5000 James S. Dubose 10.0000 Robert L. Monaghan 1.2500 Cal-Mon Oil Company 11.2500 DCM Oil and Gas Corporation 2.5000 Horseshoe Oil & Gas Corporation 2.5000
8	T15S-R35E Sec. 8: NE $\frac{1}{4}$	160.00	V-486 4/1/87	State 1/6	Kerr-McGee Corporation	3.53% ORRI Roger Allen .50% Randy Smith .50% Andy Lattu .38% Larry Schulz .20% James King .21% W.W. Gibson .33% Earl Chisholm 1.00% Bob Stevens .20% Eugene Core	Kerr-McGee Corporation 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
9	T155-R35E Sec. 20: NE $\frac{1}{4}$	160.00	LG-4535 9/1/87	State 1/8	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc. 25% each
10	T155-R35E Sec. 16: NE $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	160.00	V-652 12/1/87	State 1/6	Great Western Drilling Company	None	Great Western Drilling Company 100%
11	T155-R35E Sec. 21: W/2	320.00	LG-5032 1/1/88	State 1/8	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
12	T155-R35E Sec. 20: SE $\frac{1}{4}$	160.00	V-1123 7/1/89	State 1/6	Mitchell Energy Corporation	None	Mitchell Energy Corporation 100%
13	T155-R35E Sec. 21: SE $\frac{1}{4}$	160.00	V-1860 6/1/91	State 1/6	Yates Petroleum Corporation	None	Yates Petroleum Corporation Mitchell Energy Corporation 50% each
<u>Total: 3040.00 - Acres of New Mexico Lands</u>							

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
14	T15S-R35E Sec. 17: E/2SE/4	20.0000	Higgins Trust Inc. 10/3/86	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
15	T15S-R35E Sec. 17: NE/4	2.5000	LeRoy M. Hostetler 10/29/86	1/6	Great Western Drilling Company	3.3333% ORRI Raymond L. Noble 1.2697% Llewellyn B. Culbert .3174% Gerald V. Mendenhall .5554%	Great Western Drilling Company 100%
						Grant R. Evans .2977% Donald R. McClung .2977% Samuel H. Peppiatt .3571% Anita Rambo Dunlap .0595% Kenneth N. Dunlap .0595% Joseph Schuchardt III .1190%	
						Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
16	T15S-R35E Sec. 17: NE/4	2.5000	L.C. Clark, Jr. 4/18/89	3/16	Yates Petroleum Corporation 40% Yates Drilling Company 20% Abo Petroleum Corporation 20% Myco Industries, Inc. 20%	None	Yates Petroleum Corporation-40% Yates Drilling Company -20% Abo Petroleum Corporation -20% Myco Industries, Inc. -20%
17	T15S-R35E Sec. 17: NE/4	20.0000	Russell Mainard 4/18/89	3/16	Yates Petroleum Corporation 40% Yates Drilling Company 20% Abo Petroleum Corporation 20% Myco Industries, Inc. 20%	None	Yates Petroleum Corporation -40% Yates Drilling Company -20% Abo Petroleum Corporation -20% Myco Industries, Inc. -20%
18	T15S-R35E Sec. 17: NE/4	20.0000	Mildred Lindsey 5/5/89	3/16	Yates Petroleum Corporation 40% Yates Drilling Company 20% Abo Petroleum Corporation 20% Myco Industries, Inc. 20%	None	Yates Petroleum Corporation-40% Yates Drilling Company -20% Abo Petroleum Corporation -20% Myco Industries, Inc. -20%
19	T15S-R35E Sec. 17: NE/4	2.5000	Marilyn J. Williams Formerly Marilyn J. Darland 5/10/89	3/16	Yates Petroleum Corporation 40% Yates Drilling Company 20% Abo Petroleum Corporation 20% Myco Industries, Inc. 20%	None	Yates Petroleum Corporation-40% Yates Drilling Company -20% Abo Petroleum Corporation -20% Myco Industries, Inc. -20%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
20	T15S-R35E Sec. 17: NE/4	5.5555	Carlton James Carmichael Estate HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
21	T15S-R35E Sec. 17: NE/4	5.5555	Madalyn Dotson Bailey HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO- DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
22	T15S-R35E Sec. 17: NE/4	5.5555	F10 Brown Little HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
23	T15S-R35E Sec. 17: NE/4	25.5556	Mary Jo Dotson HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
24	T155-R35E Sec. 17: NE/4	5.5555	Conrad M. Gathings HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%
25	T155-R35E Sec. 17: NE/4	25.5556	Mary Scott Gould by her Attorney-in- Fact, Ralph B. Shank HBP	1/6	Great Western Drilling Company	3.333% ORRI Raymond L. Noble 1.2697% Llewellyn B. Culbert .3174% Gerald V. Mendenhall .5554% Grant R. Evans .2977% Donald R. McClung .2977% Samuel H. Peppiatt .3571% Anita Rambo Dunlap .0595% Kenneth N. Dunlap .0595% Joseph Schuchardt III .1190%	Great Western Drilling Company 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
26	T15S-R35E Sec. 17: NE/4	5.5555	Mary M. Stokes 3/16 and her husband Jerry F. Stokes HBP		Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%
27	T15S-R35E Sec. 17: NE/4	5.5555	H.D. White HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
28	T15S-R35E Sec. 17: NE/4	2.7778	Elva Moad HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
29	T15S-R35E Sec. 17: NE/4	1.3890	Harry H. Jung and his wife, Virginia M. Jung HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OTHER - PERCENTAGE
30	T15S-R35E Sec. 17: NE/4	1.3890	Carroll Cobb and his wife Glenda Cobb HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%
31	T15S-R35E Sec. 17: E/2SE/4	4.4445	Madalyn Dotson 3/16 Bailey now Madalyn Lansford HBP		Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	_OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
32	T15S-R35E Sec. 17: E/2SE/4	4.4445	Flo Brown Little HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
33	T15S-R35E Sec. 17: E/2SE/4	14.4444	Mary Joe Dotson HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
			Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%				

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
34	T15S-R35E Sec. 17: E/2SE/4	4.4445	Conrad M. Gathings HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
35	T15S-R35E Sec. 17: E/2SE/4	14.4444	Mary Scott Gould, by her Attorney-in- Fact, Ralph B. Shank HBP	1/6	Great Western Drilling Company	3.3333% ORRI Raymond L. Noble 1.2697% Llewellyn B. Culbert .3174% Gerald V. Mendenhall .5554%	Great Western Drilling Company 100%
			Grant R. Evans .2977% Donald R. McClung .2977% Samuel H. Peppiatt .3571% Anita Rambo Dunlap .0595% Kenneth N. Dunlap .0594% Joseph Schuchardt III .1190%				
			Joseph Schuchardt III .0446%				

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OTHER - PERCENTAGE
36	T15S-R35E Sec. 17: E/2SE/4	4.4445	H.D. White HBP	3/16	Great Western Drilling Company	1.2500% ORRRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt Anita Rambo Dunlap Kenneth N. Dunlap Joseph Schuchardt III	Great Western Drilling Company 100%
37	T15S-R35E Sec. 17: E/2SE/4	2.2222	Elva Moad HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt Anita Rambo Dunlap Kenneth N. Dunlap Joseph Schuchardt III	Great Western Drilling Company 100%

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
38	T15S-R35E Sec. 17: E/2SE/4	1.1111	Harry H. Jung and his wife, Virginia M. Jung HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
39	T15S-R35E Sec. 17: E/2SE/4	1.1111	Carroll Cobb and his wife, Glenda Cobb HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
40	T15S-R35E Sec. 17: E/2SE/4	4.4444	Carlton James Carmichael Estate HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
41	T15S-R35E Sec. 17: E/2SE/4	4.4444	Mary Stokes HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
42	T15S-R35E Sec. 17: W/2SE/4	6.6667	Madalyn Dotson Bailey HBP	3/16	Great Western Drilling Company	1.2500 ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
43	T15S-R35E Sec. 17: W/2SE/4	6.6667	Flo Brown Little HBP	3/16	Great Western Drilling Company	1.2500 ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
44	T15S-R35E Sec. 17: W/2SE/4	16.6666	Mary Joe Dotson HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
45	T15S-R35E Sec. 17: W/2SE/4	6.6667	Conrad M. Gathings HBP	3/16	Great Western Drilling Company	1.2500 ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
			Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339%			Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	
			Joseph Schuchardt III .0446%				

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OTHER - PERCENTAGE
46	T15S-R35E Sec. 17: W/2SE/4	16.6666	Mary Scott Gould, by her Attorney-in- Fact, Ralph B. Shank HBP	1/6	Great Western Drilling Company	3.3333% ORRI Raymond L. Noble 1.2697% Llewellyn B. Culbert .3174% Gerald V. Mendenhall .5554%	Great Western Drilling Company 100%
47	T15S-R35E Sec. 17: W/2SE/4	6.6667	H.D. White HBP	3/16	Great Western Drilling Company	1.2500 ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Feppiat .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	
						Anita Rambo Dunlap .0595% Kenneth N. Dunlap .0595% Joseph Schuchardt III .1190%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
48	T15S-R35E Sec. 17: W/2SE/4	3.3334	Elva Moad HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
49	T15S-R35E Sec. 17: W/2SE/4	1.6666	Harry H. Jung and his wife, Virginia M. Jung HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Anita Rambo Dunlap .1339% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
50	T15S-R35E Sec. 17: W/2SE/4	1.6666	Carroll Cobb and his wife, Glenda Cobb HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
51	T15S-R35E Sec. 17: W/2SE/4	6.6667	Carlton James Carmichael Estate HBP	3/16	Great Western Drilling Company	1.2500% ORRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083%	Great Western Drilling Company 100%
						Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	

TRACT NO.	DESCRIPTION	ACRES	BASIC		LESSOR OF RECORD	OVERRIDE OR PRO-DUCTION PAYMENT AND PERCENTAGE		WORKING INTEREST OWNER - PERCENTAGE
			LEASE NO. & EXP. DATE	ROYALTY				
52	T15S-R35E Sec. 17: W/2SE/4	6.6667	Mary M. Stokes 3/16 and her husband Jerry F. Stokes HBP		Great Western Drilling Company	1.2500% OVRRI Raymond L. Noble .4762% Llewellyn B. Culbert .1190% Gerald V. Mendenhall .2083% Grant R. Evans .1117% Donald R. McClung .1117% Samuel H. Peppiatt .1339% Anita Rambo Dunlap .0223% Kenneth N. Dunlap .0223% Joseph Schuchardt III .0446%	Great Western Drilling Company 100%	
53	T15S-R35E Sec. 17: NE/4	3.75	James Reed McCrory Unleased					
54	T15S-R35E Sec. 17: NE/4	3.75	LIBERTY NATIONAL BANK, a New Mexico Corporation as Trustee for the W.T. Reed Trust Unleased					
55	T15S-R35E Sec. 17: NE/4	10.00	Home Stake Royalty Corporation Unleased					

TRACT NO.	DESCRIPTION	ACRES	BASIC LEASE NO. & EXP. DATE	ROYALTY	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER - PERCENTAGE
56	T15S-R35E Sec. 17: NE/4	5.00	Baruch-Foster Corporation Unleased				

Total: 320.00 Acres of Fee Lands

Recapitulation

3040.00 Acres State Lands	90.47619%
320.00 Acres Fee Lands	9.52381%
<u>3360.00 Acres Total</u>	<u>100.00000%</u>

OIL & GAS LEASE

THIS AGREEMENT made this 26th day of June 1986 between

James Reed McCrory, dealing in his separate property,
of P. O. Box 25764, Albuquerque, New Mexico 87125
phone number (505) 247-8883 of
YATES PETROLEUM CORPORATION-40%; YATES DRILLING COMPANY-20%; ABO PETROLEUM CORPORATION-20%;
and MYCO INDUSTRIES, INC. 20% all New Mexico Corporations.

herein called lessor (whether one or more) and _____, 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, water, 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 Lea County, New Mexico, to-wit:

Township 15 South-Range 35 East
Section 17: N $\frac{1}{2}$

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 320.00 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 4 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, $\frac{1}{2}$ 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 $\frac{1}{2}$ of the gas so sold or used, provided that on gas sold at the wells the royalty shall be $\frac{1}{4}$ 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 \$ (See Par. #12) \$320.00 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 Liberty National Bank Bank
P. O. Box 1627, Lovington, New Mexico 88260

at _____, 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.

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 horizon 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 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, 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 under the warranty, 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/heir 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.

12. This is a paid up lease and all rentals are paid in full for the term of this lease. The name of the depository bank is inserted herein solely for the purpose of shut-in royalty payments.

Exhibit "A" attached and signed for identification.

Executed the day and year first above written.


 James Reed McCrory

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease, dated June 26, 1986, by and between James Reed McCrory, Lessor and YATES PETROLEUM CORPORATION, etal., Lessee.

A-1 The terms typed hereafter shall take precedence over any terms contained in the attached lease.

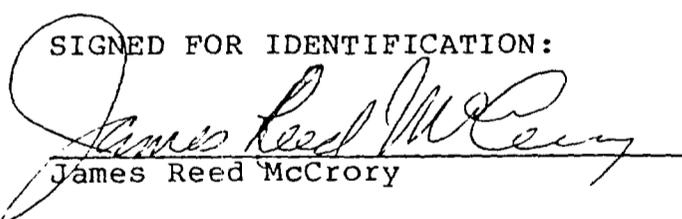
A-2 Although Lessee has the right hereunder to use the surface estate of the above described lands, Lessee shall nevertheless pay to the surface owner reasonable sums for damages to the surface estate, including reasonable sums for damages to water rights and improvements, and for damages to livestock and grazing lands. Surface damage payments to the surface owner shall be at least the customary or going rate.

A-3 Lessee's right to continue this lease beyond the primary term by payment of "shut-in gas royalty" shall be limited to a maximum period of four (4) years from the expiration of the primary term of this lease.

A-4 At the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on "said land" and thereafter continue such program until all the New Mexico Oil Conservation Commission or other governing State or Federal Regulatory Agency proration units have been drilled, allowing not more than one hundred eighty (180) days to elapse between the completion or abandonment of one well and commencement of operations for the drilling of another well. Should Lessee fail to commence this program or subsequently default in the performance thereof, then in either event this lease shall terminate as to all lands covered hereby, save and except the New Mexico Oil Conservation Commission or other governing State or Federal Regulatory Agency proration unit for each producing well or shut-in well. There shall be no liability on the continuous drilling program, save and except for the termination of this lease as to nonproductive proration units as above provided.

A-5 Notwithstanding anything to the contrary elsewhere in this lease, this lease is made by Lessor without warranty of any kind, express or implied.

SIGNED FOR IDENTIFICATION:


James Reed McCrory


Approved

6-21-86

4-year OIL & GAS LEASE

THIS AGREEMENT made this 26th day of June 1986, between

Liberty National Bank, Trustee for the W. T. Reed Trust

P. O. BOX 1627 or Lovington, NM 88260

YATES PETROLEUM CORPORATION-40%; YATES DRILLING COMPANY-20%; ABO PETROLEUM CORPORATION-20%; and MYGO INDUSTRIES, INC.-20%; all New Mexico Corporations.

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 Lea County, New Mexico, to-wit:

Township 15 South-Range 35 East Section 17: N1/2

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 320.00 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 4 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, 3/4 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 3/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/4 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 \$ (SEE PAR. #12) \$320.00 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 Liberty National Bank

at P. O. Box 1627, Lovington, NM 88260

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.

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 horizon 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 proration 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 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, 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 under the warranty, 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.

12. This is a paid up lease and all rentals are paid in full for the term of this lease. The name of the depository bank is inserted herein solely for the purpose of shut-in royalty payments

Exhibit "A" attached and signed for identification.

Executed the day and year first above written.

ATTEST: [Signature] VP & CASHIER

Liberty National Bank, Trustee for the W. T. Reed Trust by: [Signature] A.T.O. ID#85-6084126

85-6094548

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease, dated June 26,, 1986, by and between Liberty National Bank, Trustee for the W. T. Reed Trust, Lessor and YATES PETROLEUM CORPORATION etal., Lessee.

A-1 The terms typed hereafter shall take precedence over any terms contained in the attached lease.

A-2 Although Lessee has the right hereunder to use the surface estate of the above described lands, Lessee shall nevertheless pay to the surface owner reasonable sums for damages to the surface estate, including reasonable sums for damages to water rights and improvements, and for damages to livestock and grazing lands. Surface damage payments to the surface owner shall be at least the customary or going rate.

A-3 Lessee's right to continue this lease beyond the primary term by payment of "shut-in gas royalty" shall be limited to a maximum period of four (4) years from the expiration of the primary term of this lease.

A-4 At the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on "said land" and thereafter continue such program until all the New Mexico Oil Conservation Commission or other governing State or Federal Regulatory Agency proration units have been drilled, allowing not more than one hundred eighty (180) days to elapse between the completion or abandonment of one well and commencement of operations for the drilling of another well. Should Lessee fail to commence this program or subsequently default in the performance thereof, then in either event this lease shall terminate as to all lands covered hereby, save and except the New Mexico Oil Conservation Commission or other governing State or Federal Regulatory Agency proration unit for each producing well or shut-in well. There shall be no liability on the continuous drilling program, save and except for the termination of this lease as to nonproductive proration units as above provided.

A-5 Notwithstanding anything to the contrary elsewhere in this lease, this lease is made by Lessor without warranty of any kind, express or implied.

SIGNED FOR IDENTIFICATION:

by: Ikki Clark, A.T.O.
Liberty National Bank,
Trustee for the W. T. Reed Trust


Approved
6-21-86

STATE OF OKLAHOMA,

ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

County of _____

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19_____, personally appeared _____ personally known to me to be the identical person . . . who executed the within and foregoing instrument, and acknowledged to me that executed the same as _____ free and voluntary act and deed, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my official seal the day and year first above written.

My commission expires _____

Notary Public

STATE OF OKLAHOMA,

ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

County of _____

Before me, the undersigned a Notary Public, in and for said County and State, on this _____ day of _____, 19_____, personally appeared _____ personally known to me to be the identical person . . . who executed the within and foregoing instrument, and acknowledged to me that executed the same as _____ free and voluntary act and deed, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my official seal the day and year first above written.

My commission expires _____

Notary Public

STATE OF OKLAHOMA,

ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

County of _____

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19_____, personally appeared _____ personally known to me to be the identical person . . . who executed the within and foregoing instrument, and acknowledged to me that executed the same as _____ free and voluntary act and deed, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my official seal the day and year first above written.

My commission expires _____

Notary Public

No. _____	Oil and Gas Lease	FROM	TO	Date _____, 19_____,	Section _____, Township _____, Range _____, County, Oklahoma	No. of Acres _____ Term _____	STATE OF OKLAHOMA,	County of _____	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 _____	Record and Mail to: _____
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STATE OF OKLAHOMA,

ss.

(ACKNOWLEDGMENT FOR CORPORATION)

County of Tulsa

On this 16th day of June A. D., 1986 before me, the undersigned, a Notary Public, in and for the County and State aforesaid, personally appeared Robert C. Simpson

to me known to be the identical person . . . who subscribed the name of the maker thereof to the foregoing instrument as its _____ and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires 9-14-89

Mary E. Schaub
Notary Public



PHILLIPS PETROLEUM COMPANY

HOUSTON, TEXAS 77001
BOX 1967

EXPLORATION AND PRODUCTION GROUP

BELLAIRE, TEXAS
6330 WEST LOOP SOUTH
PHILLIPS BUILDING

July 16, 1986

Yates Petroleum Corporation
207 South Fourth St.
Artesia, New Mexico 88210

Attn: Jim Ball

Re: G.F. 28832 - F/O
W/2 Section 21-15S-35E
Farmout 3,360 acres
State Unit
Lea Co., New Mexico

Gentlemen:

Please find enclosed copies of Unit Agreement dated June 1, 1986, Operating Agreement dated June 1, 1986, and Consent and Ratification of Unit Agreement and Unit Operating Agreement, which have all been executed by Phillips Petroleum Company subject to your acceptance of the following changes to the Operating Agreement.

1. Line 14, Article X., change the expenditure allowed from \$15,000 to \$10,000.
2. Article XV.E., delete this provision and replace with the following:

It is expressly agreed if a party sells to themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the option to also sell to said purchaser at the same or better price. In the event any party hereto makes an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell at the same or higher price.
3. Article XV.G.2. - line 13, replace 'quarterly' with 'monthly'.
4. Exhibit "D", Phillips' interest shall not be charged for insurance costs beyond mandatory state requirements as Phillips is self-insured.
5. Exhibit "E", delete reference to participating percentages less than 50% in the second and third paragraphs.
6. Exhibit "E" 7., delete and replace with the following:

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas

account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (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 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

7. Contributing Party shall be defined as any party which farms out its interest to the unit and does not participate in the drilling of the Initial, Substitute, or Optional Test Well.
8. Earning Party shall be defined as a party which participates in the drilling of the Initial, Substitute, or Optional Test Well.
9. A Contributing Party shall have the option to convert from an overriding royalty interest to a working interest upon payout of the Initial, Substitute, or Optional Test Well only. A Contributing Party would be on a working interest basis on all subsequent wells with an option to either join in drilling the well or going non-consent under the provisions of Article VI.B.2.

If you are agreeable to the above, please execute both copies of this Letter Agreement, returning one copy to the attention of Ray O. Manning.

Very truly yours,

PHILLIPS PETROLEUM COMPANY

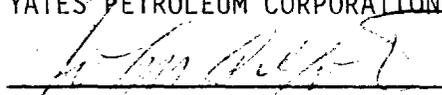


F. D. Gorham III
Attorney-in-Fact *FDG ROM*

FDG/ROM/lc

AGREED TO AND ACCEPTED THIS 22ND
DAY OF July, 1986.

YATES PETROLEUM CORPORATION

By: 

Title: Attorney-in-Fact

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE SANDSAGE STATE UNIT
LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and *Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

* PHILLIPS PETROLEUM COMPANY

By F. D. Gorham III EJW ROM
F. D. GORHAM III, ATTORNEY-IN-FACT
P. O. Box 1967
Houston, TX 77001

*Subject to Conditional Letter of Acceptance dated July 16, 1986 for said Unit Operating Agreement.

STATE OF Texas)
COUNTY OF Harris) : ss

The foregoing instrument was acknowledged before me this 18th day of July, 1986 by F. D. GORHAM III, ATTORNEY-IN-FACT for PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:
October 23, 1989

Barbara J. Burkart
Notary Public



KERR-MCGEE CORPORATION

KERR-MCGEE CENTER • OKLAHOMA CITY, OKLAHOMA 73125

EXPLORATION AND PRODUCTION DIVISION

TELECOPIER COVER LETTER

PLEASE DELIVER THE FOLLOWING PAGES TO:

TELECOPIER NO: 505-1746-6480

NAME: Yates
Attn: Jim Ball

LOCATION: Artesia, N.M.

FROM: Barry Hill

LOCATION: OKC.

TOTAL NUMBER OF PAGES 2 (INCLUDING COVER LETTER)

IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL US BACK AS SOON AS POSSIBLE.

OPERATOR: _____

PHONE: _____

DATE: _____

TIME: _____

707 50 01 JUL

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE SANDSAGE STATE UNIT
LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

HORSESHOE OIL & GAS CORPORATION

By Jane B. McCrea
Secretary

By George E. McCrea
President

P. O. Box 870
San Angelo, Texas 76902

STATE OF TEXAS X
 X ss
COUNTY OF TOM GREEN X

The foregoing instrument was acknowledged before me this 20th day of June, 1986 by George E. McCrea, President for Horseshoe Oil & Gas Corporation, a Texas corporation, on behalf of said corporation.

My commission expires:
8-23-88

Nancy J. Gaty
Notary Public in and for
Tom Green County, Texas

CONSENT AND RATIFICATION

UNIT AGREEMENT AND UNIT OPERATING AGREEMENT

FOR THE SANDSAGE STATE UNIT

LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Ernestine Welborn
ERNESTINE Welborn, his wife

J.M. Welborn
J.M. Welborn

Suite 1212, 1500 Broadway
Lubbock, TX 79401

STATE OF Texas)
COUNTY OF Lubbock) : SS

The foregoing instrument was acknowledged before me this 7 day of July, 1986 by J.M. WELBORN and ERNESTINE, his wife.

My commission expires:
5/23/87

Nancy Stence
Notary Public NANCY STENCE

CONSENT AND RATIFICATION

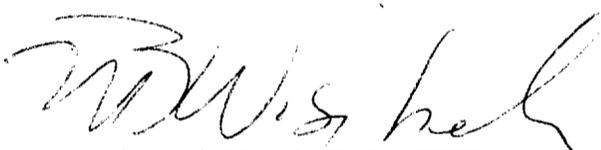
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT

FOR THE SANDSAGE STATE UNIT

LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.



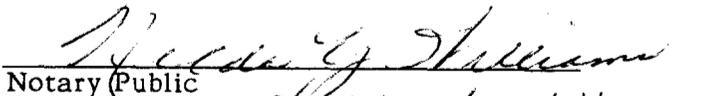
M. B. Wisenbaker

3131 Turtle Creek Blvd.
Suite 900
Dallas, Texas 75219

STATE OF Texas)
COUNTY OF Dallas) : ss

The foregoing instrument was acknowledged before me this 18th day of July, 1986 by M. B. Wisenbaker.

My Commission Expires:
Dec. 17, 1988


Notary Public
Printed Name: Nelda Y. Williams

CONSENT AND RATIFICATION

UNIT AGREEMENT AND UNIT OPERATING AGREEMENT

FOR THE SANDSAGE STATE UNIT

LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

MYCO INDUSTRIES, INC.

By Frank Yates
Attorney-in-Fact

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 6th day of June, 1986 by Frank Yates, Attorney-in-Fact for MYCO INDUSTRIES, INC., a New Mexico corporation, on behalf of said corporation.

My commission expires:
March 1, 1990

Trisiam S. Stollow
Notary Public

CONSENT AND RATIFICATION

UNIT AGREEMENT AND UNIT OPERATING AGREEMENT

FOR THE SANDSAGE STATE UNIT

LEA COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement and Unit Operating Agreement for the development and operation of the Sandsage State Unit embracing lands situated in Lea County, New Mexico, which said Agreement is dated June 1, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold interests being committed to said Unit Agreement and Unit Operating Agreement do hereby consent to said Unit Agreement and Unit Operating Agreement and ratify all the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ABO PETROLEUM CORPORATION

By *John A. Yates*
Attorney-in-Fact

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 12th day of June, 1986 by John A. Yates, Attorney-in-Fact for ABO PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:
March 1, 1990

Trivian S. Stoulow
Notary Public



207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1331

S. P. YATES
PRESIDENT
MARTIN YATES, III
VICE PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. TREAS.



August 20, 1986



ATTN: Mr. M. E. Stogner

RE: Case No. 8925
Order No. R-8252
Sandsage State Unit
Yates Petroleum Corporation,
Operator
Lea County, New Mexico

Dear Mr. Stogner:

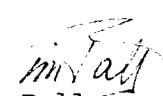
There have been revisions to almost the entire set of pages to the captioned Operating Agreement and the Exhibit B to the Unit Agreement since I last sent you revised pages. Rather than sending your office additional revised pages I felt I would be more prudent to send an entire current Operating Agreement and a current Exhibit B to the Unit Agreement which reflects the revisions.

Please destroy the old Operating Agreement and Exhibit B to the Unit Agreement you were sent months earlier and replace each instrument with the enclosures accompanying this letter.

If you have any questions, please do not hesitate to call.

Very truly yours,

YATES PETROLEUM CORPORATION


Jim Ball
Landman

JB:rj

Enclosures

cc: Commissioner of Public Lands
P. O. Box 1148
Santa Fe, NM 87504-1148
Attn: Mr. Floyd Prando, Director