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**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

March 14, 2000

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210-2118

Attention Mr. Robert Bullock

Re: Preliminary Approval
Indigo State Unit
Lea, County, New Mexico

Dear Mr. Bullock:

This office has received your letter of March 29, 2000 requesting preliminary approval for the proposed Indigo State Unit, Lea County, New Mexico.

A review of the unit area reveals that the Austral State E Well No. 1 located 660 feet from the South Line and 1980 feet from the East Line of Section 6-12S-35E has already penetrated the unitized interval. Since the spacing unit (E/2 of Section 6) for this well does not qualify for exploratory unit status, the acreage should not be a part of the proposed unit area.

In view of the above, preliminary approval of the Indigo State Unit is hereby granted for the following lands:

TOWNSHIP 12 SOUTH, RANGE 35 EAST

Section 5: Lots 1, 2, 3, 4, S/2N/2, S/2
Section 6: Lots 3, 4, 5, 6, 7, SE/4NW/4, E/2SW/4
Section 7: Lots 1, 2, 3, 4, E/2, E/2W/2
Section 8: All
Containing 2,213.70 acres

Preliminary approval is given with the understanding that you amend the unit agreement and all exhibits to exclude Lots 1, 2, S/2NE/4, SE/4 of Section 6, Township 12 South, Range 35 East from the unit area.

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

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

1. Amendment of Article 1, Unit Area of the Unit Agreement.
2. Exhibits "A" and "B" should be revised.
3. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.

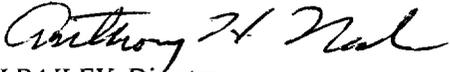
BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12372 Exhibit No. 4
Submitted by:
Yates Petroleum Corporation
Hearing Date: April 20, 2000

4. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.
5. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
6. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
7. A copy of the Unit Operating Agreement (if applicable).
8. Copies of all the well records for the initial unit well.

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

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY: 

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

RP/JB/pm

cc: OCD-Santa Fe, Attention: Mr. Roy Johnson
Campbell, Carr, Berge & Sheridan, P.A. Attn: Mr. William F. Carr