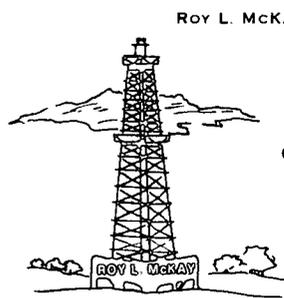


McKay Oil Corporation



ROY L. MCKAY, PRESIDENT HOME OFFICE P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505/623-4735
DFW) OFFICE FIRST CITY TOWER, SUITE 590
201 E. ABRAM, ARLINGTON, TX 76010 817-265-5515

RECEIVED
AUG 28 1986
OIL & GAS
OIL CONSERVATION DIVISION
SANTA FE

*NSL-2287
RULE-104F(I)*

August 25, 1986

*South Four Nib Draw Federal No. 2
West Pecos Slope Abo Gas Pool
1/4 Sec. 24 - SW/4, Section 24*

Oil Conservation Division
New Mexico State Land Office
P.O. Box 2088
Santa Fe, New Mexico 87501

Attention: Dave Catanach

RE: Well Location
SW/4 Sec. 24-6S-22E
Chaves County, New Mexico

Gentlemen:

McKay Oil Corporation desires to drill a Federal lease in the SW/4 of Section 24, Township 6 South, Range 22 East, NMPM. (See Attachment "A") Due to topography and geological problems, McKay Oil is requesting an unorthodox location.

The well was originally staked at 1980' feet from the South line and 1980' feet from the West line. Due to the terrain, the BLM would not approve this location or any other normal location within this particular drilling spacing unit. (See Attachment "B")

The Northern half of this quarter section was chosen because of geological data on wells to the South and East. Not much is know about the area to the North or West and an unorthox location would also be required anywhere in the South half of this quarter section. Therefore, it is our opinion that this location would be the only economical and productive location to drill. (See attachment "C")

All minerals surrounding this proration unit are leased to McKay Oil Corporation. (See Attachment "A")

Therefore, McKay Oil requests that the O.C.D. approve the unorthodox location located at 1116' feet from the West line and 2333' feet from the South line Section 24, Township 6 South, Range 22 East, NMPM, which has been approved by the BLM and the Eastern New Mexico Archological Service.

page 2 of 2
O.C.D.
August 25, 1986

McKay Oil Corporation would request and appreciate your immediate attention to this matter. Thank you for your cooperation and assistance.

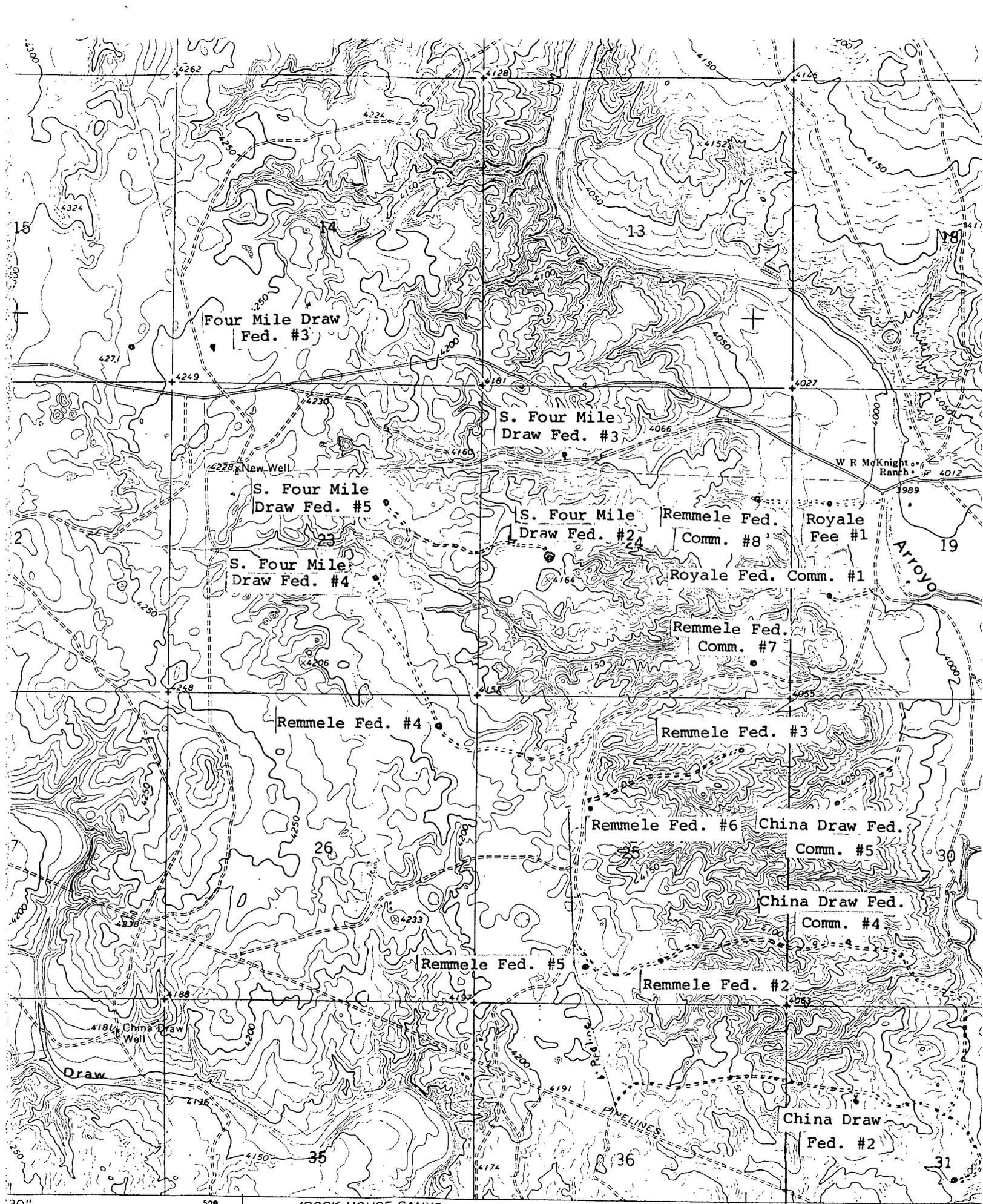
Very truly yours,

McKAY OIL CORPORATION


James L. Schultz
Contracts & Land

Attachements

9 36192 U.S.	10 MIDLAND MAP CO	11 MTS C. Mesa 2-4-85 Tula Brown H. R. Brown	12 MTS E. Mesa 2-4-85 Tula Brown H. R. Brown	7 Miller-Fed. U.S.	8 Middle Fork U.S.
16 Mesa Pet. Roach-St 709276 U.S.	22 "Fourmile Draw-Fed." U.S.	14 "Four Mile Draw" U.S.	13 U.S.	18 U.S.	17 W.R. McKnight McKay Oil Transwestern Gas, 11-1-88 32923 U.S.
21 McKay Oil Transwestern Gas, 5-1-91 36194 U.S.	22 So. Four Mile Draw U.S.	23 McKay Oil Transwestern Gas, 5-1-91 36194 U.S.	24 McKay Oil Transwestern Gas, 5-1-91 36194 U.S.	19 U.S.	20 Stevens O U.S.
28 McKay Oil Transwestern Gas, 5-1-91 36195 U.S.	27 U.S.	26 McKay Oil Transwestern Gas, 5-1-91 36195 U.S.	25 "Remmele" 6 U.S.	30 China Draw Fed. Comm U.S.	29 Stevens U.S.
33 McKay Oil Transwestern Gas, 5-1-91 36196 U.S.	34 McKay Oil Transwestern Gas, 5-1-91 36196 U.S.	35 McKay Oil Transwestern Gas, 5-1-91 36196 U.S.	36 Stevens Oper. McKnight TO 3161 "China Draw-St" State 2,433 MUL U.S.	31 China Draw Federal U.S.	32 Transwesth (McKay Oil 66 5578 U.S.
4 State U.S.	3 U.S.	2 U.S.	1 U.S.	5 U.S.	5 U.S.
9 Rault Pet. Eadleman- Fed. U.S.	10 U.S.	11 U.S.	12 U.S.	7 U.S.	8 U.S.
16 U.S.	15 U.S.	14 U.S.	13 U.S.	18 U.S.	17 U.S.



Four Mile Draw
Fed. #3

S. Four Mile
Draw Fed. #5

S. Four Mile
Draw Fed. #4

S. Four Mile
Draw Fed. #3

S. Four Mile
Draw Fed. #2

Remmele Fed. #4

Remmele Fed. #3

Remmele Fed. #6 China Draw Fed.
Comm. #5

China Draw Fed.
Comm. #4

Remmele Fed. #5

Remmele Fed. #2

China Draw
Fed. #2

W R McKnight
Ranch

Royale
Fee #1

Royale Fed. Comm. #1

Remmele Fed.
Comm. #7

Arroyo

China Draw
Wall

PIPELINES

(ROCK HOUSE CANYON)
5051 II NW

SCALE 1:24 000

Attachment B

(Memorial Expl. et al)
HBP
36193

Memorial Expl. et al
5-1-91
36192

Memorial Expl. et al
HBP
32323

14

13

18

"Four Mile Draw - Fed."
U.S.

U.S.

U.S.

McKay Oil
Memorial Expl. et al
5-1-91
36194

McKay Oil
Memorial Expl. et al
5-1-91
36194

McKay Oil
Memorial
Expl. et al
5-1-91
36195

Memorial Expl.
McKay Oil, et al
HBP
32324

Mesa
MTS, V2
11-26-82

23

24

19

S. Four Mile
Draw #2
U.S.

Ruby
Kennon
Ray
P-334

U.S.

U.S.

McKay Oil
Memorial Expl. et al
11-1-88
U.S. 32321

W.R. Mc
Knight

Ruby
Kennon
Ray
P-334

McKay Oil
Memorial Expl.
5-1-91
36195

McKay Oil
(Memorial Expl. et al)
5-1-91
36195

Memorial Expl.
McKay Oil, et al
11-1-88
32325

McKay Oil
Trans-
west'n
Gas, et al
5-1-91
36195

Stevens Oil
Mitchell Ener. et al
Rio Petro, et al 3125%
3-27-86
26

U.S.

25

30

"Remmele - Fed."

(McKay Oil)
Memorial Expl. et al
5-1-91
36195

W.R. Mc
Knight

W.R. McKnight

U.S.

Stevens Oil
Mitchell Ener. et al
Rio Petro, et al 3125%
3-27-86
U.S.

Stevens
Oper.
31300
U.S.

(MEG Per) S
Sun.
U.S.

J.M.
McKnight
et al
Q4

McKay
China
Draw
Co. n.

Memorial Expl.
McKay Oil et al
11-1-88
32325
31

35

36

McKay Oil
Memorial Expl. et al
5-1-91
36196

Gladys
E. J. M.
McKnight
et al
U.S.

Stevens Oper.
McKnight
TO 3161

"China Draw - Fed."
U.S.

U.S.

State

OIL & GAS LEASE

THIS AGREEMENT made this 20th day of May 19 86, between

Marjorie E. Tatum, a widow

Star Route, Box 108, McAlister, N.M. 88427

of _____
(Post Office Address)

herein called lessor (whether one or more) and McKay Oil Corporation, Roswell, N.M., lessee:

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

Chaves County, New Mexico, to-wit:

Township 6 South, Range 22 East, N.M.P.M.

Section 26: W $\frac{1}{2}$ SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$

Section 35: NW $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 320.0 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of five (5) years from this date (called "primary term"), and as long thereafter as oil or gas is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, one-eighth 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 or other gaseous substance produced from said land used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth of the gas used, provided that on gas sold on or off the premises the royalty shall be one-eighth 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. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders.

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 \$ 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

First National

Bank at Tucumcari, New Mexico 88401, 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 junk 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 free use. 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 heirs, 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, express 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.

Executed the day and year first above written.

Marjorie E. Tatum

(Marjorie E. Tatum SS#585-18-9965)