

The Gary-Williams Company

1776 Sherman Street, Suite 1925
Denver, Colorado 80203
(303) 831-4873

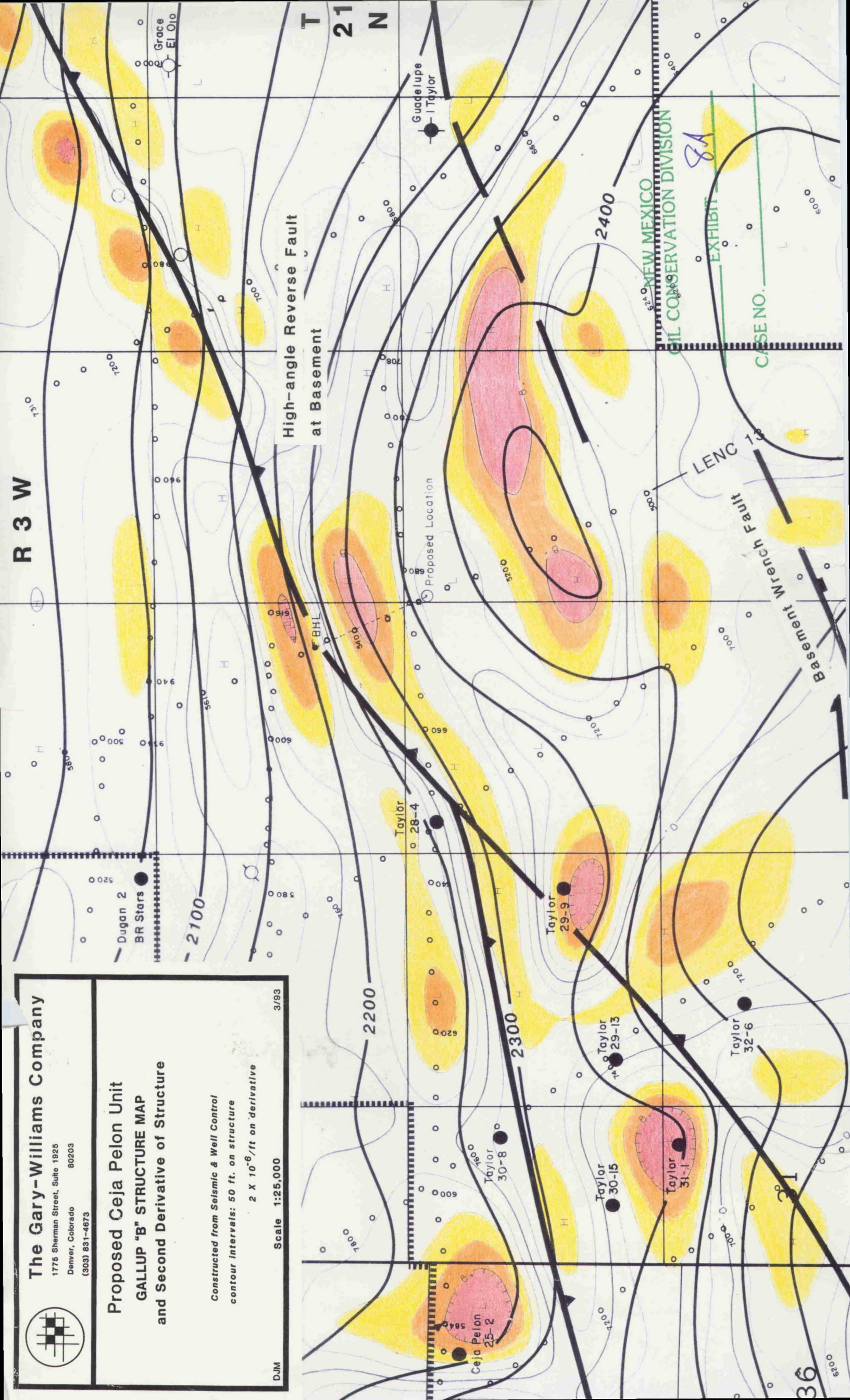
Proposed Ceja Pelon Unit GALLUP "B" STRUCTURE MAP and Second Derivative of Structure

Constructed from Seismic & Well Control
contour intervals: 50 ft. on structure
 2×10^{-6} /ft on derivative

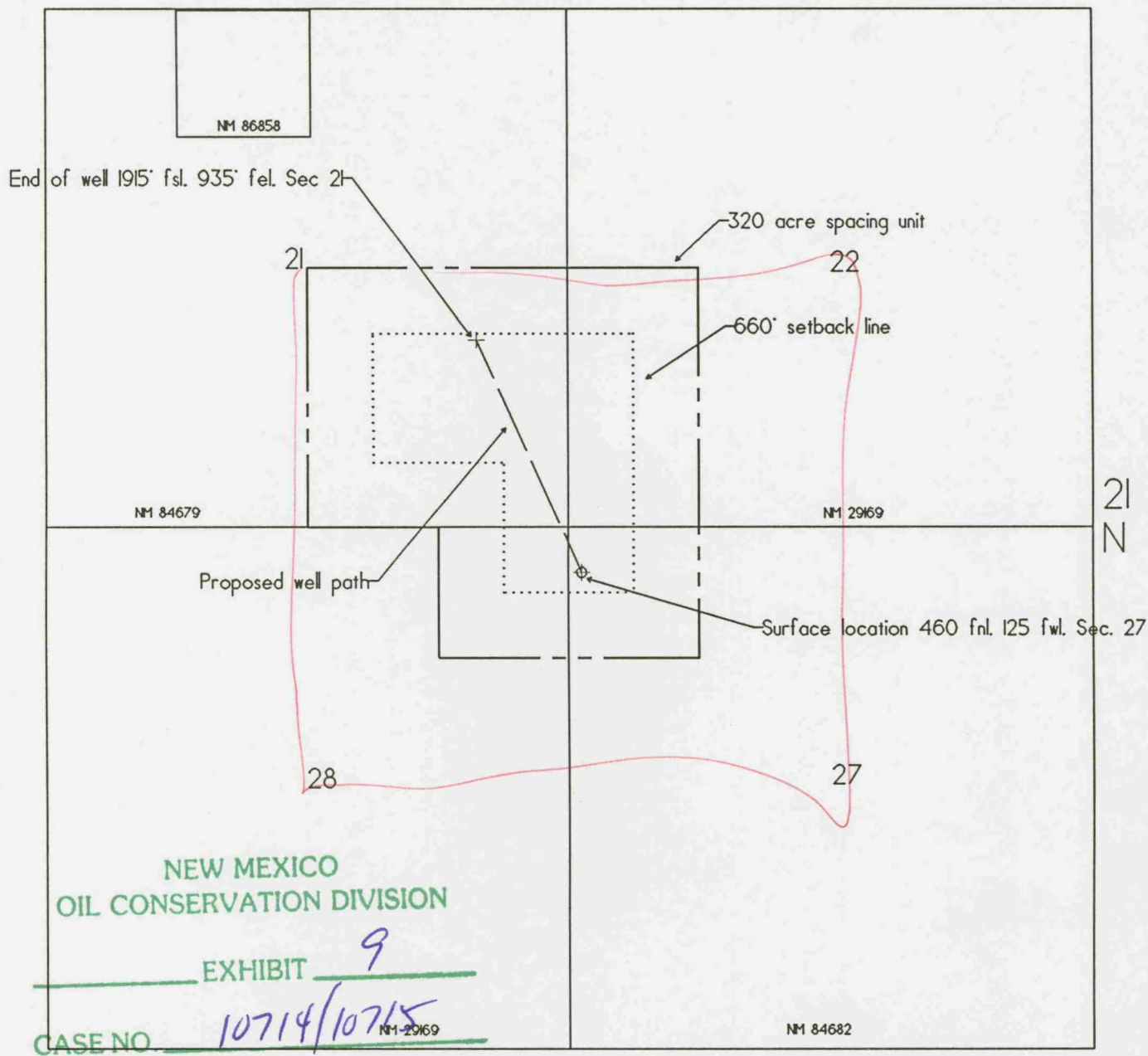
Scale 1:25,000

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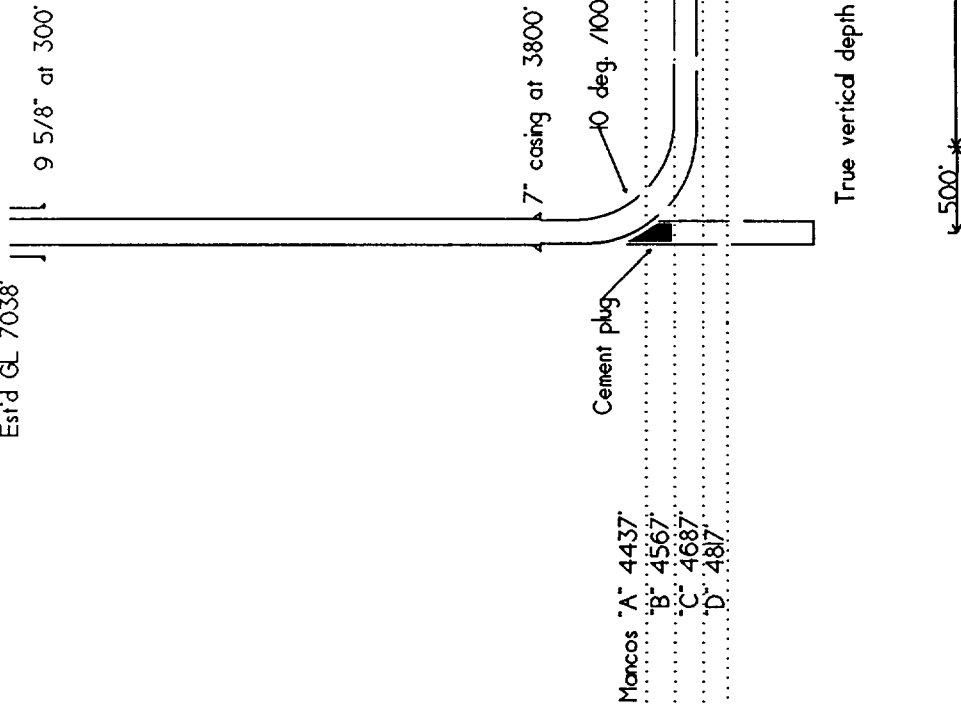


The Gary - Williams Company
Caja Pelon Unit #27-4H
Horizontal Mancos Test
Sandoval County, NM

Plan View of the Proposed Well Bore

Surface Location:
460' fml 125' fml
Sec. 27, T2N-R3W
Est'd GL 7038'

The Gary-Williams Company
Ceja Pelon Unit #27-4H
Horizontal Mancos Test
Sandoval County, NM
Cross Section North 24° deg. West



THE GARY-WILLIAMS COMPANY

Structure : SEC.27-T21N-R3W/CEJA PELON UNIT #27-4H

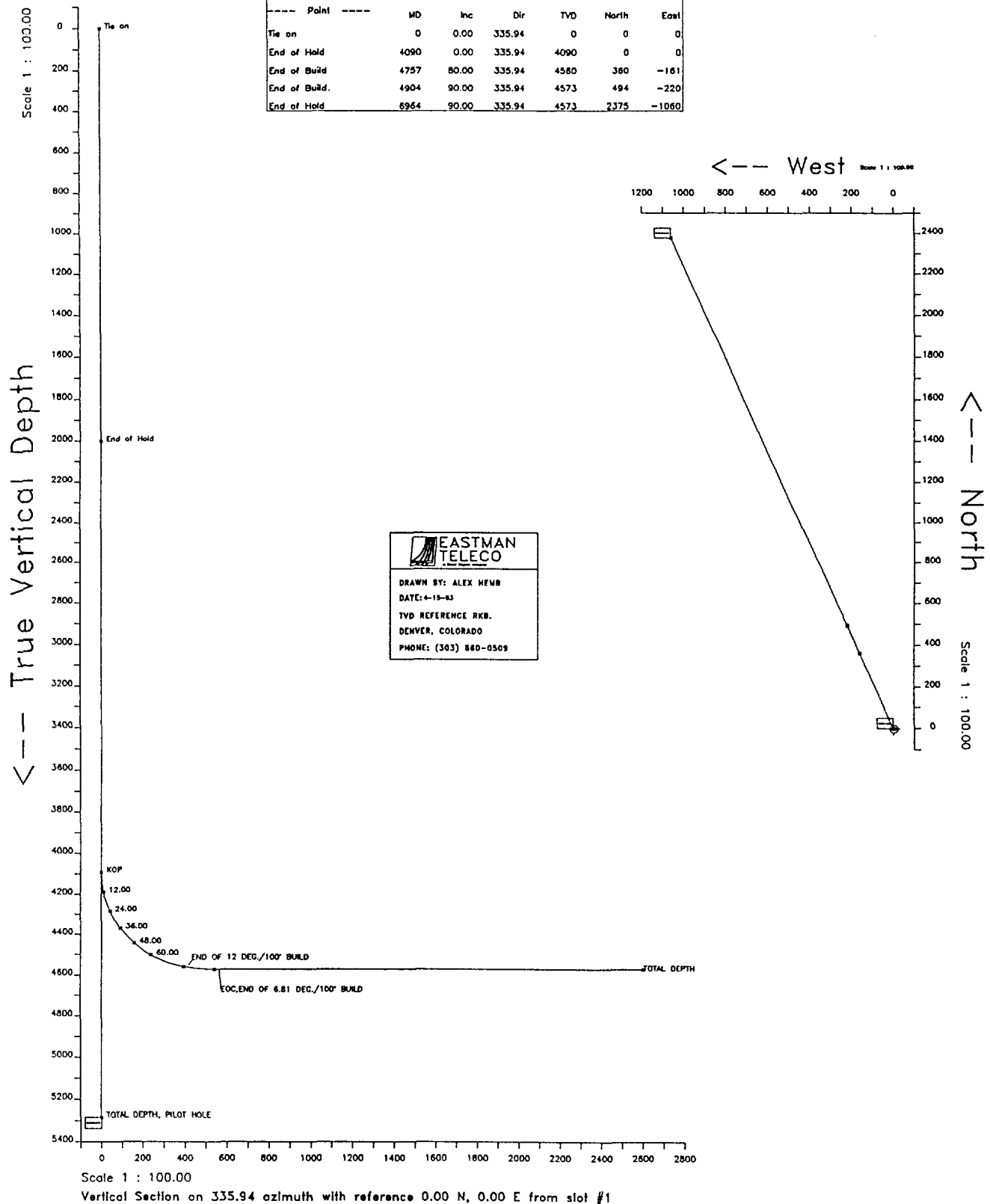
Well : CEJA PELON UNIT #27-4H

Field : SANDOVAL COUNTY

Location : NEW MEXICO

WELL PROFILE DATA

Point	MD	Inc	Dir	TVD	North	East
Tie on	0	0.00	335.94	0	0	0
End of Hold	4090	0.00	335.94	4090	0	0
End of Build	4757	80.00	335.94	4580	380	-181
End of Build	4904	90.00	335.94	4573	494	-220
End of Hold	6964	90.00	335.94	4573	2375	-1060



**EASTMAN
TELECO**

DRAWN BY: ALEX HENB
DATE: 4-19-83
TVD REFERENCE RKB.
DENVER, COLORADO
PHONE: (303) 860-0509

Drilling Plan

Attached to the Gary-Williams Company
Application for Permit to Drill
Ceja Pelon #27-4H

Objective: Drill a vertical well to the base of the Mancos formation. Log the well and identify the horizontal drilling target. Plug back the well and drill a horizontal leg a maximum of 2600 feet of displacement in a direction of N 24° W. Complete the well leaving the lateral portion of the well open hole.

See attached wellbore schematic for details.

Well Name: Ceja Pelon #27-4H.

Surface Location: 460 fnl, 125 fwl, Section 27, T21N, R3W Sandoval County, New Mexico.

ESTIMATED TOPS OF GEOLOGIC MARKERS:

<u>Name</u>	<u>Estimated top, TVD, ft.</u>	<u>Rel. Sea level</u>
Pictured Cliffs	1317	+5735
Lewis	1412	+5640
Chacra	1733	+5319
Cliff House	2182	+4870
Menefee	2767	+4285
Point Lookout	3487	+3565
Mancos	3675	+3377
Mancos "A"	4437	+2615
Mancos "B"	4567	+2485
Mancos "C"	4687	+2365
Mancos "D"	4817	+2235
Tocito	4987	+2065
Semilla	5185	+1867
TD	5285	+1767

ESTIMATED DEPTHS OF ANTICIPATED WATER, OIL, AND GAS ZONES

Water: All current fresh water zones will be shallower than 250 ft. and will be isolated behind surface casing.

Oil and Gas: Oil and gas is expected from the Mancos "A", "B", "C", and "D".

OPERATOR'S MINIMUM BLOWOUT PREVENTION SYSTEM

The BOP pressure rating was selected by subtracting a pressure gradient of 0.22 psi/ft from the expected pressure of 1600 psi in the Mancos formation. The calculations are as follows:

$$1600 \text{ psi} - (0.22 \text{ psi/ft} * 4800') = 544 \text{ psi}$$

A 3M blowout prevention system will be used during the drilling phase of this project. Minimum 3M specifications as stated in Onshore Oil and Gas Order #2 will be followed. A blowout preventer schematic and choke manifold schematic are attached.

The following variances from minimum standards are requested:

None

BOP equipment shall generally consist of a set of blind rams, a set of pipe rams, an annular BOP and a rotating head. All BOP's shall pass an 11 inch diameter object when fully opened.

The entire stack will be nipped up on 11" 3M slip on casing head welded to the 9 5/8" surface casing.

A tapered drill string will not be used. Pipe rams will be dressed for 4.5" OD drill pipe while drilling the 8 3/4" hole and 3.5" drill pipe while drilling the 6 1/4" hole.

H₂S gas is not anticipated. H₂S trim will not be required.

A full opening stabbing valve will be kept on the rig floor at all times with appropriate threads and subs for the drill string.

A mud-gas separator will be installed on the bloop line during air drilling operations. This will allow an almost complete recovery of any oil encountered during drilling.

BOP TESTING PROCEDURE

After nipple up of BOP stack, a test plug will be installed. Pipe and blind rams will be tested to 3000 psi. Annular preventers will be tested to 1500 psi. All tests will be conducted using water and the pressure must hold for 10 minutes with no measurable leakoff.

The choke manifold will be tested to 3000 psi from the stack to the most downstream valve. The kill line will be tested to 3000 psi.

The above test procedures will be repeated at 14 day intervals or following repairs; or, whenever a seal subject to test pressure is broken.

The annular preventers will be functionally operated weekly. The ram preventers will be operated each trip.

All BOPE tests will be recorded in the driller's log.

CASING

The weights and grades of the casing to be run are as follows:

<u>Size OD</u>	<u>Interval</u>	<u>Weight</u>	<u>Grade</u>	<u>Thread</u>	<u>Hole Size</u>
9 5/8	0-300	36#	J-55	ST&C	12 1/4
7	0-3800	36#	J-55	ST&C	8 3/4
N/A	0-6900				6 1/4*

*Open hole completion will be used unless hole conditions are unstable.

The design safety factors for the above casing program are calculated as follows:

Design pressure gradient = 0.483 psi/ft (9.3 lb/gal)

Design factor collapse = 1.125

Design factor yield = 1.00

Design factor tension = 1.80

The horizontal section will be left open hole.

CEMENTING PROGRAM

PILOT HOLE PLUG - The pilot hole will be plugged with cement from 4090' to 4400'. This will isolate the vertical pilot from the horizontal well.

SURFACE CASING - The surface casing will be cemented to surface with premium cement containing 2% CaCl. A centralizer will be attached to the shoe joint and insert type float equipment will be used.

INTERMEDIATE CASING - The intermediate casing will be cemented with 150 sacks 50/50 Pozmix followed by 120 sacks premium cement. The bottom 3 joints will be centralized, and a guide shoe and float collar will be used. A cement bond log will be run after cementing the intermediate casing to locate the top of cement.

PRODUCTION LINER - None.

CASING PRESSURE TESTS

The surface and intermediate inch casing strings will be pressure tested before the shoe is drilled. The test pressure will be 1000 psi.

Acceptable leakoff will be 50 psi or less in 30 minutes.

MUD PROGRAM

The mud system to be used on the Johnson 4-14 well is:

0 - 300' Fresh water gel
300 - 3800' LSND
3800 - TD' Air mist (2% KCl water with polymer) *

The expected mud weight from the surface casing shoe to 3800 feet is 8.5 to 9.0 lb./gal.

* Both the vertical pilot hole and the horizontal hole will be air drilled. The pilot hole (vertical) will be filled with 9.0 lb./gal drilling mud prior to setting the cement kick-off plug.

A mud-gas separator will be used during mist drilling to recover oil encountered and to safely vent gas away from the well site.

PROPOSED TESTING, LOGGING, AND CORING PROGRAMS

No drill stem tests or cores are planned.

The logging program will consist of:

Run #1) a gamma ray-caliper, dual induction, and compensated neutron-litho density logs from 3800' to base of surface casing (300').

Run #2) the same logs as above plus a FMS and mechanical properties log from TD of the pilot hole (5285') to base of intermediate casing (3800').

The curve and horizontal hole will be logged with gamma ray while drilling. No other logs will be run in the horizontal portion of the well.

EXPECTED BOTTOM HOLE PRESSURES

The expected bottom hole pressure in the Mancos is 1600 psi. The expected bottom hole temperature is 150°F.

DIRECTIONAL DRILLING PLAN

See attached well schematic.

Kick off point: 573' above target horizon

Build up rate: 10° per 100' overall rate.

Maximum displacement: 2600'

Hole azimuth: N 24° W

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF THE GARY-WILLIAMS
COMPANY FOR A UNIT AGREEMENT,
ETC., SANDOVAL COUNTY,
NEW MEXICO.

NO. 10,714

AFFIDAVIT

CITY AND COUNTY OF DENVER)
STATE OF COLORADO)

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	10
CASE NO.	10714

Craig Ambler, being duly sworn upon his oath, deposes and states:

1. I am over 18 years of age and have personal knowledge of the matters stated herein.

2. I am the landman for Applicant.

3. There are two fee tracts within the proposed Ceja Pelon Unit: (a) the S1/3NW1/4 of Section 33, Township 21 North, Range 3 West, N.M. P.M. ("Fee Tract A"); and (b) the SW1/4 of Section 33, Township 21 North, Range 3 West, N.M.P.M. ("Fee Tract B").

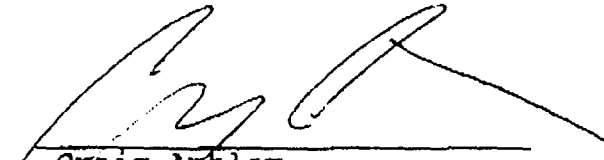
4. Fee Tract A is subject to an oil and gas lease dated February 1, 1989 from Eloisa M. Gutierrez to Gary-Williams Oil Producer, Inc. (now known as The Gary-Williams Company), a true and correct copy of which is attached hereto as Exhibit A.

5. Fee Tract B is subject to an oil and gas lease dated April 26, 1993 from Reynaldo Lovato and wife Cypria A. Lovato to The Gary-Williams Company, a true and correct copy of which is attached hereto as Exhibit B.

6. As a result of the foregoing, Fee Tracts A and B are subject to lease and will be committed to the Ceja Pelon Unit pursuant to the unitization clause in paragraph 12 of each lease.

Presented @ the 5/20/93 hearing

7. The Commissioner of Public Lands has declined to commit its interest to the Ceja Pelon Unit, pursuant to his letter dated May 5, 1993, a true and correct copy of which is attached hereto as Exhibit C.



Craig Ambler

SUBSCRIBED AND SWORN TO BEFORE ME on this 13th day of May, 1993, by Craig Ambler.

My Commission Expires:

9-13-95



Jeri L. Breaux, Notary Public



OIL AND GAS LEASE

Billings Blue Print
Billings, Montana

AGREEMENT, Made and entered into the 1st day of February, 1989, by and between

ELOISA M. GUTIERREZ, a widow

whose post office address is Box 31, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and
GARY-WILLIAMS OIL PRODUCER, INC., whose post office address is 115 Inverness Drive East, Englewood, Colo.
80112-5116

WITNESSETH, That the Lessor, for and in consideration of ten and more DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land

situated in the County of Sandoval, State of New Mexico, described as follows, to-wit:

Township 21 North, Range 3 West

Section 33: The South fifty-three and one-third (53 1/3) acres of the NW 1/4 being the same lands as described in that certain Warranty Deed dated September 4, 1967, recorded in Vol. DR 24, Page 484, in the records of the County Clerk of Sandoval County, New Mexico

and containing 53.333 acres, more or less.

five (5) 5-4-89

1. It is agreed that this lease shall remain in force for a term of ~~XX~~ years from ~~XXXX~~ and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the month of the well, payable monthly at the prevailing market rate.

4. Where shut-in from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate thereon, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the said Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe lines below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to include such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations on a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations on a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and the undersigned Lessor, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written

NEW MEXICO
OIL CONSERVATION DIVISION

Eloisa M. Gutierrez
Eloisa M. Gutierrez

EXHIBIT A

CASE NO.

10714

STATE OF NEW MEXICO

COUNTY OF SANDOVAL

SS

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this 27th day of MARCH, A. D. 1989, before me, a Notary Public, in and for said County and State, personally appeared Eloisa M. Gutierrez

to me known to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that she executed the same as her 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 notarial seal, the day and year first above written. My commission expires Notary Public

STATE OF 8-13-90
COUNTY OF SS

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this day of A. D. 19, before me, a Notary Public, in and for said County and State, personally appeared

to me known to be the identical person described in and 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 notarial seal, the day and year first above written. My commission expires Notary Public

STATE OF
COUNTY OF SS

ACKNOWLEDGMENT, Montana or Colorado

I, a Notary Public, in and for said County and State, do hereby certify that personally known to me to be the person whose name subscribed to the within instrument, appeared before me this day in person and acknowledged that signed, sealed and delivered the said instrument of writing as free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal this day of A. D. 19. My commission expires Notary Public

No	
OIL AND GAS LEASE	
FROM	
TO	
Dated	19
Lot	Block
Section	Township
County	Range
No. of Acres	Term
STATE OF New Mexico	
COUNTY OF Sandoval	
This instrument was filed for record on the 27th day of April, 1989 at 11:49 o'clock A. M. and duly recorded in Book 752-753 of the records of this office.	
By	County Clerk-Register of Deeds
When Recorded	Deputy
Return to GARY-WILLIAMS OIL PRODUCER 115 Inverness Drive East Englewood, Colorado 80112 ATTN: Kay White	

STATE OF
COUNTY OF SS

ACKNOWLEDGMENT, CORPORATION

Before me, the undersigned, a Notary Public, in and for said County and State, on this day of 19, personally appeared

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 Notary Public

P. O.

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 26th day of April, 19 93, by and between
Reynaldo Lovato and Cypria A. Lovato, husband and wife

whose post office address is Box 14, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and
The Gary-Williams Company whose post office address is 370 17th Street, Suite 5300 Denver, CO 80202, hereinafter called Lessee;

WITNESSETH, That the Lessor, for and in consideration of Ten and no/100 DOLLARS
cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised,
leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the
exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of
whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care
of said products, all that certain tract of land situated in the County of Sandoval

State of New Mexico, described as follows, to-wit: NEW MEXICO

OIL CONSERVATION DIVISION

See Exhibit A attached hereto and made a part hereof

EXHIBIT B

10714

and containing 213.66 acres, more or less.

five (5)

CASE NO.

1. It is agreed that this lease shall remain in force for a term of ten years from this date, and if operations are continued as hereinafter provided,
nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided,
If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith, then this lease shall continue in force so long as operations are being continu-
ously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not
more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a
subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause
after the primary term, this lease shall not terminate if Lessee commences additional drilling or reworking operations within ninety (90) days from
date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such opera-
tions at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased
premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as other-
wise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the pri-
mary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a
release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth
(1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is
found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable
monthly at the prevailing market rate for gas.

3rd. To pay Lessor or for gas produced from any oil well and used off the premises or in the manufacture of gasoline and any other product
a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One
Dollar per year per net royalty ever retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next
ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the
period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties
(including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole
and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from
the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and
remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment
or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or
documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments
thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's
ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's
operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for
any act or omission of any other leaseholder.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after
production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the lease-
hold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas,
or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority
similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or
gas, may be reformed to include such non-producing formations. The forming or reformation of any unit shall be accomplished by Lessee executing
and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon
which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or re-
working operations on a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were
production, drilling or reworking operations on a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein speci-
fied, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production
allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease
and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize,
pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general
area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time,
with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this
lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or
operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the
drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agree-
ment. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of
development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the produc-
tion allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having
been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made
hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit
plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and
this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented
by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any
time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands. In the event of default of payment by
Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessee, for themselves and their heirs, successors and assigns,
hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in
any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all
such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute
this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

Reynaldo Lovato
Reynaldo Lovato

Cypria A. Lovato
Cypria A. Lovato

Nim6461

Exhibit A

Attached to and made a part of that certain Oil and Gas Lease dated April 26, 1993 by and between Reynaldo Lovato and Cypria A. Lovato, husband and wife as Lessor and The Gary-Williams Company as Lessee.

Legal Description:

Parcel No. 1 A tract of land containing 106.33 acres, including the mineral rights, in the Southwest Quarter (SW/4) of Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico

Bounded: On the North by land of Fabian Gutierrez;
On the East by land of Section 33: SE/4;
On the South by land of Gavina M. Aragon;
On the West by land of Section 32;

and more particularly described as follows:

Tie Point: Beginning at Corner #1 of this parcel, being the Southwest Corner of said Section 33, Twp. 21 North, Rge. 3 West, N.M.P.M., thence running North $0^{\circ} 08' E.$, 1754.4 feet distant to NW Corner #2;

Sec. Line: Thence running North 89° 59' E., 2640 feet distant to NE Corner #3; Thence running South 0° 08' W., 1754.4 feet distant to SE Corner #4; Thence running W. 2640 feet distant to SW Corner #1, the beginning corner, and comprising an area of 106.33 acres, more or less.

This being the same land as described in that certain Warranty Deed dated July 2, 1963 and filed January 18, 1973, recorded in DR 43, pg. 207.

Parcel No. 2 A tract of land containing 53.33 acres, (fifty three and one-third acres) in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico, Patent Number 952109 given to Francisco Montoya,

Bounded: On the North by Government Land;
On the South by land belonging to Guadelupe
Montoya;
On the East by Government Land (BLM);
On the West by Government Land (BLM).

This being the same land as described in that certain Warranty Deed dated September 4, 1967, filed January 19, 1968 and recorded in Vol. DR 24, pg. 484, Sandoval County, New Mexico.

Parcel No. 3 A tract of land containing 54.0 acres in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico in Patent No. 952109.

Bounded: On the North by land of Louis Montoya;
On the East by BLM Land;
On the South by land by R. Lovato;
On the West by BLM Land.

This being the same as described in Warranty Deed dated August 16, 1965, between Gavina M. Aragon, et al, Grantors, and Reynaldo Lovato, Grantee, and filed May 27, 1968 being duly recorded in Vol. DR 25, pg. 564, Sandoval County, New Mexico.

New Mexico

STATE OF _____
COUNTY OF SANDOVAL } ss.

Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah,
Nebraska, North Dakota, South Dakota
ACKNOWLEDGMENT—INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 12TH

day of MAY, 19 93, personally appeared Reynaldo Lovato and Cypria A. Lovato
husband and wife
and _____

_____ to me known to be the identical person S described in and who executed
the within and foregoing instrument of writing and acknowledged in me that they duly executed the same as their free
and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires 05.28.96

St Lawrence M. McCoy
Notary Public.
Address: P.O. Box 103 CUBA, N.M. 87013

STATE OF _____
COUNTY OF _____ } ss.

Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah,
Nebraska, North Dakota, South Dakota
ACKNOWLEDGMENT—INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this _____

day of _____, 19 _____, personally appeared _____

and _____

_____ to me known to be the identical person _____ described in and who executed
the within and foregoing instrument of writing and acknowledged in me that _____ duly 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 hand and affixed my notarial seal the day and year last above written.

My Commission Expires _____

Notary Public.
Address: _____

STATE OF _____
COUNTY OF _____ } ss.

ACKNOWLEDGMENT (For use by Corporation)

On this _____ day of _____, A.D. 19 _____, before me personally
appeared _____ to me personally known, who, being by
me duly sworn, did say that he is the _____ of _____
and that the seal affixed to said instrument is the corporate seal of
said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said
_____ acknowledged said instrument to be free act and deed of said corporation.

Witness my hand and seal this _____ day of _____, A.D. 19 _____.

Notary Public.

(SEAL)

Address: _____

My Commission expires _____

No. _____	FROM _____	TO _____	Dated _____ 19 _____	No. Acres _____	County _____	Term _____	This instrument was filed for record on the _____ day of _____ 19 _____ at _____ o'clock _____ M., and duly recorded in _____ Volume _____ Page _____ of the records of this office.	County Clerk _____	By _____ Deputy _____	When recorded return to _____
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JIM BACA
COMMISSIONER

State of New Mexico
OFFICE OF THE
Commissioner of Public Lands
Santa Fe

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

May 5, 1993

Hinkle, Cox, Eaton, Coffield & Hensley
P. O. Box 2068
Santa Fe, New Mexico 87504-2068

Attn: Mr. James Bruce

Re: Ceja Pelon Unit Area
Sandoval County, New Mexico

Dear Mr. Bruce:

This office is in receipt of your letter of April 29, 1993 wherein you have requested the Commissioner's position regarding preliminary approval of the Ceja Pelon Unit Area, Sandoval County, New Mexico.

Please be advised that the Commissioner of Public Lands feels that it is not in the best interest of the State to commit Lease No. LG-2849, All Sec. 36-T21N-4W containing 640.00 Acres to the unit agreement at this time.

We would like to take the opportunity to thank UnitSource (out of Denver), and the Gary-Williams Company for their cooperation regarding the proposed unit.

Please notify all interested parties of this action.

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

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY:

Floyd O. Prando
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.

cc: Reader File

UnitSource-Attn: Mr. Paul S. Conner w/encl
The Gary-William Company
BLM-Albuquerque, NM Attn: Ms. Jane Clancy
OCD-Attn: Mr. Michael Stogner

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT *C*
10714
CASE NO
RECEIVED

MAY 08 1993

Hinkle, Cox, Eaton, Coffield & Hensley
Santa Fe, New Mexico 87501