



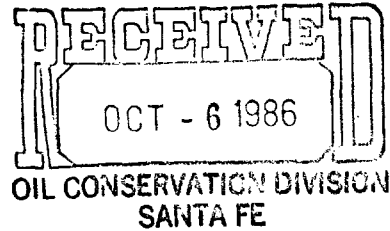
105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

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

October 3, 1986

State of New Mexico
Oil Conservation Division
P.O. Box 871
Santa Fe, New Mexico 87501

Attention: Mr. R.L. Stamets



Case *F. L.*
RLL

RE: Case No. 8987
Order No. R-8313
Application for Yates Petroleum
Corporation for Red Bluff Unit
Portions of:
Township 6 South-Range 24 East
Township 7 South-Range 24 East
CHAVES COUNTY, NEW MEXICO

Dear Mr. Stamets:

Regarding your telephone conversation with Mr. Randy Patterson last week, the enclosed materials are being sent to replace certain pages of the Operating Agreement; a new Unit Agreement; and the geologic exhibits to the captioned Unit.

As you know, Yates Petroleum Corporation has chosen to reduce the size of our proposed Red Bluff Unit. The decision to reduce the size of the unit caused the Federal Lands to be removed from the unit boundaries.

If necessary, please send a revised Final Approval Order reflecting the name change (Red Bluff State Unit) and the Unit boundaries. Should you require anything further, please call.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Jim Ball
Jim Ball
Landman

JB/krg

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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:

BY:

Joel M. Wigley, Secretary

READ & STEVENS, INC.

BY:

Norman L. Stevens, Jr.
Vice President

P.O. Box 1518
Roswell, New Mexico 88201

STATE OF NEW MEXICO)
 : SS
COUNTY OF ~~EL PASO~~ Chaves)

The foregoing instrument was acknowledged before me this 2nd day of October, 1986, by Norman L. Stevens, Jr., Vice President of READ & STEVENS, INC., a New Mexico Corporation, on behalf of said corporation.

My commission expires:

8-11-90

Randall R. Fort
Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES COUNTY, NEW MEXICO

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

ATTEST:

YATES DRILLING COMPANY

BY: _____

BY: Peyton Yates 38
Attorney-in-fact

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 3rd day of October, 1986, by Peyton Yates, Attorney-in-fact of YATES DRILLING COMPANY, a New Mexico Corporation, on behalf of said corporation.

My commission expires:

William S. Stouder
Notary Public

March 1, 1990

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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:

MYCO INDUSTRIES, INC.

BY: _____

BY: Randy G. Patterson qb
Attorney-in-Fact

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of September, 1986, by Randy G. Patterson, Attorney-in-Fact of MYCO INDUSTRIES, INC., a New Mexico Corporation, on behalf of said corporation.

My commission expires:

November 5, 1988

Kathleen R. Griffin
Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner 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:

ABO PETROLEUM CORPORATION

BY: *John M. Martin*

BY: *John D. Yates* 98

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : SS
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of September, 1986, by *John D. Yates*, President of ABO PETROLEUM CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My commission expires:
November 3, 1988

Kathryn R. Griffin
Notary Public

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT, DATED SEPTEMBER 29, 1986,
BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND READ & STEVENS, INC., ET
AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY, NEW MEXICO

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their
respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered
an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 29th day of September,
1986.

OPERATOR

YATES PETROLEUM CORPORATION

By

John A. Yates
Attorney-in-Fact

NON-OPERATORS

ATTEST:

READ & STEVENS, INC.

By

Secretary

By

President

STATE OF NEW MEXICO)

: SS

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of
September, 1986 by John A. Yates, Attorney-in-Fact for YATES
PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

May 14, 1989

Patricia R. Perez
Notary Public

STATE OF NEW MEXICO)

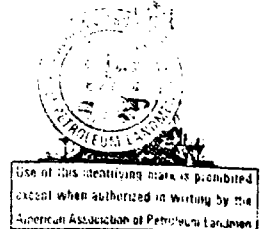
: SS

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this ____ day of
____, 1986 by _____,
for READ & STEVENS, INC., a _____
corporation, on behalf of said corporation.

My commission expires:

Notary Public



A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

RED BLUFF STATE UNIT

OPERATING AGREEMENT

DATED

September 29 86
_____, 19____

BY OPERATOR YATES PETROLEUM CORPORATION

1. INTEREST AREA Township 6 South-Range 24 East, NMPM
All of Section 36
Township 7 South-Range 24 East, NMPM
All of Sections 1,2,3,10,11, 12,13,14,15,22,
23: W $\frac{1}{2}$, NE $\frac{1}{4}$
24: N $\frac{1}{2}$
Containing 7,845.71 acres, more or less.

IN OR PARISH OF CHAVES STATE OF NEW MEXICO

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT, DATED SEPTEMBER 29, 1986,
BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND READ & STEVENS, INC., ET
AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY, NEW MEXICO

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their
respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered
an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 29th day of September,
19 86.

OPERATOR

YATES PETROLEUM CORPORATION

By [Signature]

Attorney-in-Fact

NON-OPERATORS

ATTEST:

READ & STEVENS, INC.

By _____

Secretary

By _____

President

STATE OF NEW MEXICO)
: SS
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of
September, 1986 by John A. Yates, Attorney-in-Fact for YATES
PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

May 14, 1989

Patricia R. Perez
Notary Public

STATE OF NEW MEXICO)
: SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of
_____, 1986 by _____,
for READ & STEVENS, INC., a _____
corporation, on behalf of said corporation.

My commission expires:

Notary Public



Use of this identifying mark is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED SEPTEMBER 29th, 1986,
BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND READ & STEVENS, INC., ET
AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. 1. Lands Subject to Agreement:
Township 6 South-Range 24 East, N.M.P.M.
 Section 36: All
Township 7 South-Range 24 East, N.M.P.M.
 Section 1: All
 Section 2: All
 Section 3: All
 Section 10: All
 Section 11: All
 Section 12: All
 Section 13: All
 Section 14: All
 Section 15: All
 Section 22: All
 Section 23: W $\frac{1}{2}$, NE $\frac{1}{4}$
 Section 24: N $\frac{1}{2}$
 Containing 7845.71 acres, more or less.
 Chaves County, New Mexico
2. Depth Restrictions:
 None
3. Drilling Unit for First Well:
 Proration Unit as established by the New Mexico OCD

II. Percentage interests of Parties Under the Agreement:

Name	Acres	Unit%	INITIAL TEST WELL
YATES PETROLEUM CORPORATION	1,641.43	20.921370%	20.921370%
YATES DRILLING COMPANY	1,641.43	20.921370%	20.921370%
ABO PETROLEUM CORPORATION	1,641.43	20.921370%	20.921370%
MYCO INDUSTRIES, INC.	1,641.42	20.921242%	20.921242%
READ & STEVENS, INC.	1,280.00	16.314648%	16.314648%
	<u>7,845.71</u>	<u>100.000000%</u>	<u>100.000000%</u>

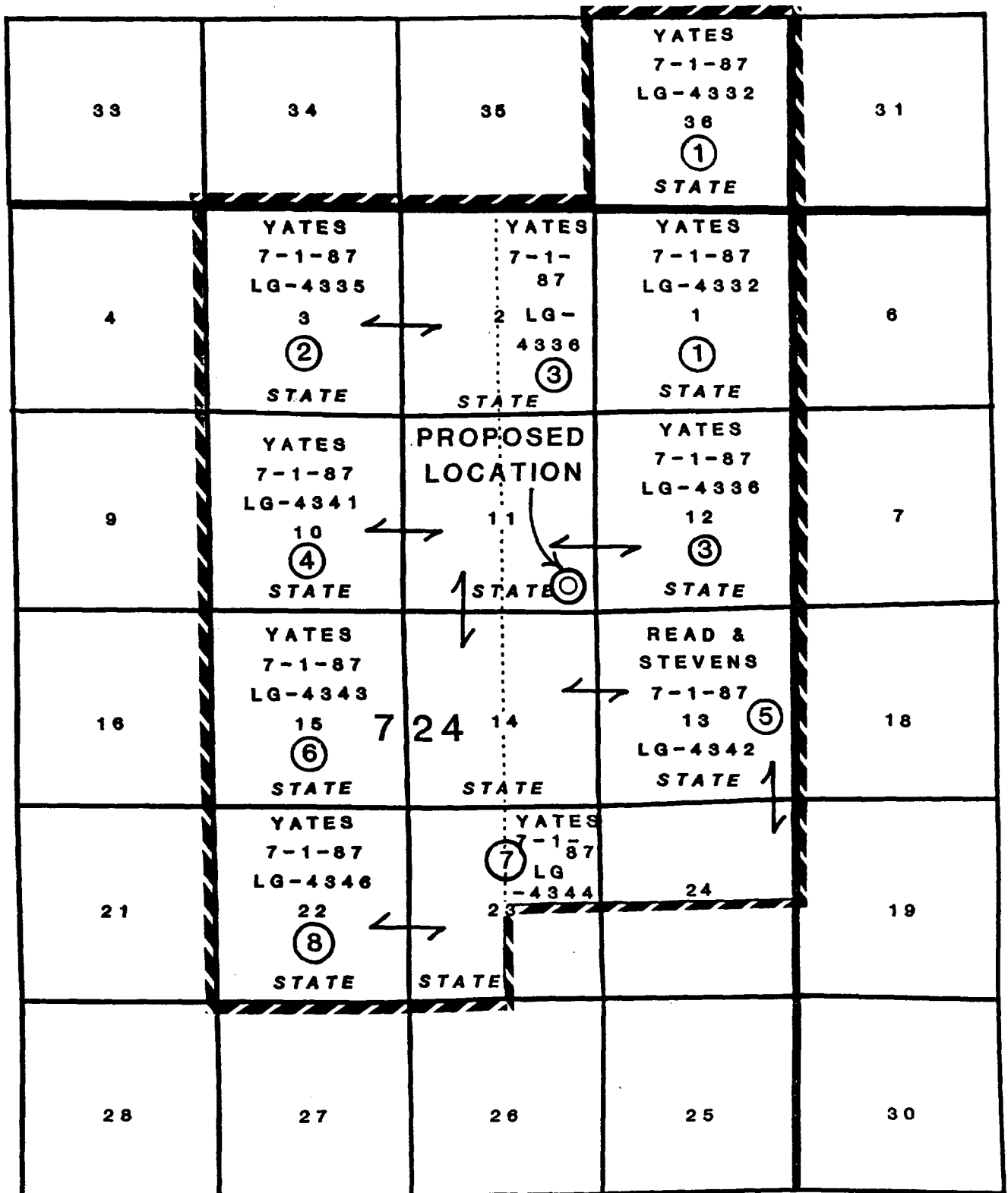
III. Leasehold Interest

See Attached Exhibit A-2

IV. Addresses of Parties to Which Notices Should be Sent:

Read & Stevens, Inc.
 P.O. Box 1518
 Roswell, New Mexico 88201
 ATIN: Mr. Randall Fort

Yates Petroleum Corporation
 Yates Drilling Company
 Abo Petroleum Corporation
 Myco Industries, Inc.
 105 South Fourth Street
 Artesia, New Mexico 88210
 ATIN: Mr. Jim Ball



YATES PETROLEUM
 RED BLUFF STATE UNIT
 EXHIBIT "A"-1
 LEASE OWNERSHIP MAP
 UNIT OUTLINE
 ③ TRACT NUMBER SCALE: 1":4000'

EXHIBIT A-2

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	CRRI %	WORKING INTEREST OWNER PERCENTAGE
1	T6S-R24E Section 36: All T7S-R24E Section 1: Lots 1,2,3,4 S $\frac{1}{2}$ N $\frac{1}{2}$,S $\frac{1}{2}$	1280.84	LG-4332 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MKCO-25%
2	T7S-R24E Section 2: Lots 3,4 S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ Section 3: Lots 1,2,3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$	963.89	LG-4335 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MKCO-25%
3	T7S-R24E Section 2: Lots 1,2 S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ Section 11: E $\frac{1}{2}$ Section 12: All	1280.98	LG-4336 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MKCO-25%
4	T7S-R24E Section 10: All Section 11: W $\frac{1}{2}$ Section 14: W $\frac{1}{2}$	1280.00	LG-4341 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MKCO-25%
5	T7S-R24E Section 13: All Section 14: E $\frac{1}{2}$ Section 24: N $\frac{1}{2}$	1280.00	LG-4342 7/1/87	State 12.5	Read & Stevens, Inc.	First Century Oil Inc.-2.5% FISCO, Inc. 2.5%	Read & Stevens Inc.-100%
6	T7S-R24E Section 15: All	640.00	LG-4343 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MKCO-25%

EXHIBIT A-2

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	CURR %	WORKING INTEREST OWNER PERCENTAGE
7	T7S-R24E Section 23: NE $\frac{1}{4}$	160.00	LG-4344 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MICO-25%
8	T7S-R24E Section 22: All Section 23: W $\frac{1}{2}$	960.00	LG-4346 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MICO-25%
Total: 7845.71 Acres of State Land							

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated September 29, 1986 between Yates Petroleum Corporation, "Operator", and Read & Stevens, Inc., et al, "Non-Operators", covering lands in Chaves County, New Mexico.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT

DATED SEPTEMBER 29, 1986, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND
READ & STEVENS, INC., ET AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY,
NEW MEXICO.

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the
benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in
which operations will be conducted, and Employer's Liability
Insurance with limits of not less than \$100,000.00 per employee.

- (B) Public Liability Insurance:
Bodily Injury - \$500,000.00 each occurrence.

- (C) Automobile Public Liability Insurance:
Bodily Injury - \$250,000.00 each person.
\$500,000.00 each occurrence.

- Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to
the joint account for insurance premiums. Losses not covered by Operator's
insurance (or by insurance required by this agreement to be carried for the
benefit and at the expense of the parties hereto) shall be charged to the
joint account.

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

RED BLUFF STATE UNIT AREA

CHAVES COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 29th day of September
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 lessee
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 Red Bluff
State Unit Area covering the land hereinafter described to give reasonably
effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:
Township 6 South-Range 24 East N.M.P.M.
All of Section 36
Township 7 South-Range 24 East N.M.P.M.
All of Sections 1,2,3,10,11,12,13, 14,15,22,
23: W $\frac{1}{2}$, NE $\frac{1}{4}$
24: N $\frac{1}{2}$
Containing 7,845.71 acres, more or less.
Chaves County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever change in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: YATES PETROLEUM CORPORATION, whose address is: 105 South Fourth Street, Artesia, New Mexico 88210 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an

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 interests 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 this 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 _____ Abo _____ 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 4,000' 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 within 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 five (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 the

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.

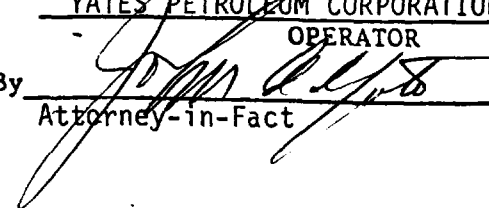
IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

DATE: _____

ATTEST

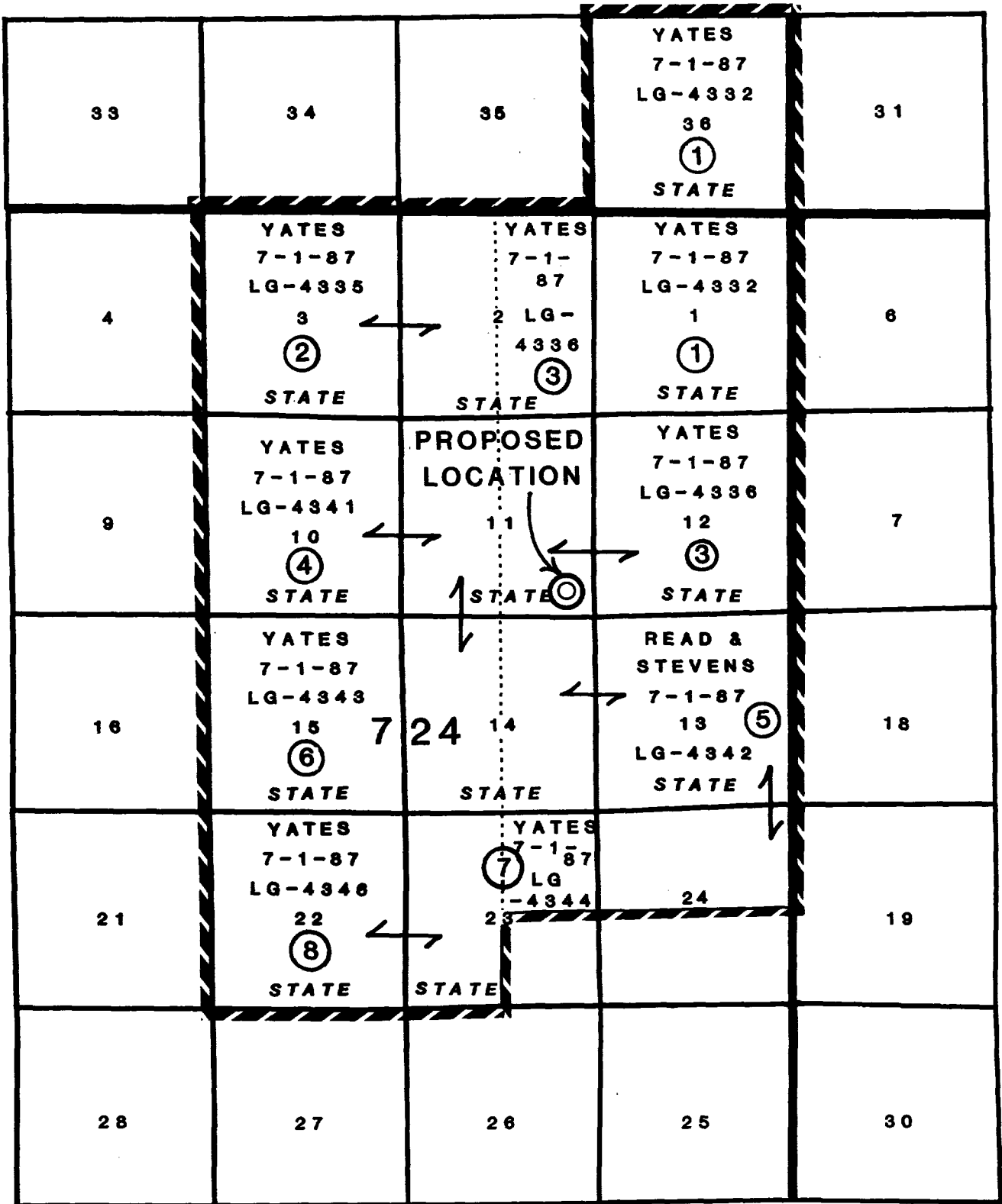
BY _____

YATES PETROLEUM CORPORATION
OPERATOR
By  _____
Attorney-in-Fact

OTHER WORKING INTEREST OWNERS

DATE: _____

Company
BY: _____



YATES PETROLEUM
 RED BLUFF STATE UNIT
 EXHIBIT "A"
 LEASE OWNERSHIP MAP
 UNIT OUTLINE
 ③ TRACT NUMBER SCALE: 1":4000'

EXHIBIT B

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSOR OF RECORD	CRR1%	WORKING INTEREST OWNER PERCENTAGE
1	T6S-R24E Section 36: All T7S-R24E Section 1: Lots 1,2,3,4 S ₁ N ₂ ,S ₃	1280.84	LG-4332 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCOO-25%
2	T7S-R24E Section 2: Lots 3,4 S ₁ NW ₄ ,SW ₄ Section 3: Lots 1,2,3,4, S ₁ N ₂ ,S ₃	963.89	LG-4335 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCOO-25%
3	T7S-R24E Section 2: Lots 1,2 S ₁ NE ₄ ,SE ₄ Section 11: E ₁ Section 12: All	1280.98	LG-4336 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCOO-25%
4	T7S-R24E Section 10: All Section 11: W ₂ Section 14: W ₂	1280.00	LG-4341 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCOO-25%
5	T7S-R24E Section 13: All Section 14: E ₁ Section 24: N ₂	1280.00	LG-4342 7/1/87	State 12.5	Read & Stevens, Inc.	First Century Oil Inc.-2.5% FISCO, Inc. 2.5%	Read & Stevens Inc.-100%
6	T7S-R24E Section 15: All	640.00	LG-4343 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCOO-25%

EXHIBIT B
RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	ORRI %	WORKING INTEREST OWNER PERCENTAGE
7	T7S-R24E Section 23: NE $\frac{1}{4}$	160.00	LG-4344 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCO-25%
8	T7S-R24E Section 22: All Section 23: W $\frac{1}{2}$	960.00	LG-4346 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MCO-25%
Total:		7845.71 Acres of State Land					

Extra Copy for
the
OCD

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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 Agrcement or a counterpart thereof.

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

ATTEST:

YATES DRILLING COMPANY

BY: _____

BY: Peyton Yates ^{JB}
Attorney-in-fact

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 3rd day of October, 1986, by Peyton Yates, Attorney-in-fact of YATES DRILLING COMPANY, a New Mexico Corporation, on behalf of said corporation.

My commission expires:
March 1, 1990

Miriam S. Stolorow
Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner 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:

ABO PETROLEUM CORPORATION

BY: *John H. Yates*

BY: *John H. Yates* 98

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : SS
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of September, 1986, by John H. Yates, President of ABO PETROLEUM CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My commission expires:

November 5, 1988

Kathryn R. Griffin
Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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:

MYCO INDUSTRIES, INC.

BY: _____

BY: *Randy J. Patterson* qb
Attorney-in-Fact

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : SS
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th
day of September, 1986, by *Randy J. Patterson*,
Attorney-in-Fact of MYCO INDUSTRIES, INC., a New Mexico
Corporation, on behalf of said corporation.

My commission expires:

November 5, 1988

William R. Griffin
Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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:

BY: 

Joel M. Wigley, Secretary

READ & STEVENS, INC.

BY: 

Norman L. Stevens, Jr.
Vice President

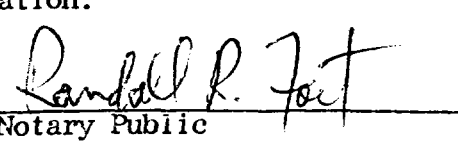
P.O. Box 1518
Roswell, New Mexico 88201

STATE OF NEW MEXICO)
 : SS
COUNTY OF ~~EDDY~~Chaves)

The foregoing instrument was acknowledged before me this 2nd day of October, 1986, by Norman L. Stevens, Jr., Vice President of READ & STEVENS, INC., a New Mexico Corporation, on behalf of said corporation.

My commission expires:

8-11-90


Notary Public

CONSENT AND RATIFICATION
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE RED BLUFF UNIT
CHAVES 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 operating of the Red Bluff Unit embracing lands situated in Chaves County, New Mexico, which said Agreements are dated 29th day of September, 1986, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owner of leasehold itnerests 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:

YATES DRILLING COMPANY

BY: _____

BY: _____ JB

105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this _____ day of _____, 1986, by _____, _____ of YATES DRILLING COMPANY, a New Mexico Corporation, on behalf of said corporation.

My commission expires:

Notary Public

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

RED BLUFF STATE UNIT AREA
CHAVES COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 29th day of September
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 Red Bluff
State Unit Area covering the land hereinafter described to give reasonably
effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:
Township 6 South-Range 24 East N.M.P.M.
All of Section 36
Township 7 South-Range 24 East N.M.P.M.
All of Sections 1,2,3,10,11,12,13, 14,15,22,
23: W $\frac{1}{2}$, NE $\frac{1}{4}$
24: N $\frac{1}{2}$
Containing 7,845.71 acres, more or less.
Chaves County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever change in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: YATES PETROLEUM CORPORATION, whose address is 105 South Fourth Street, Artesia, New Mexico 88210 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an

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 interests 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 this 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 _____ Abo _____ 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 4,000' 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 within 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 five (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 the

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

DATE: _____

ATTEST

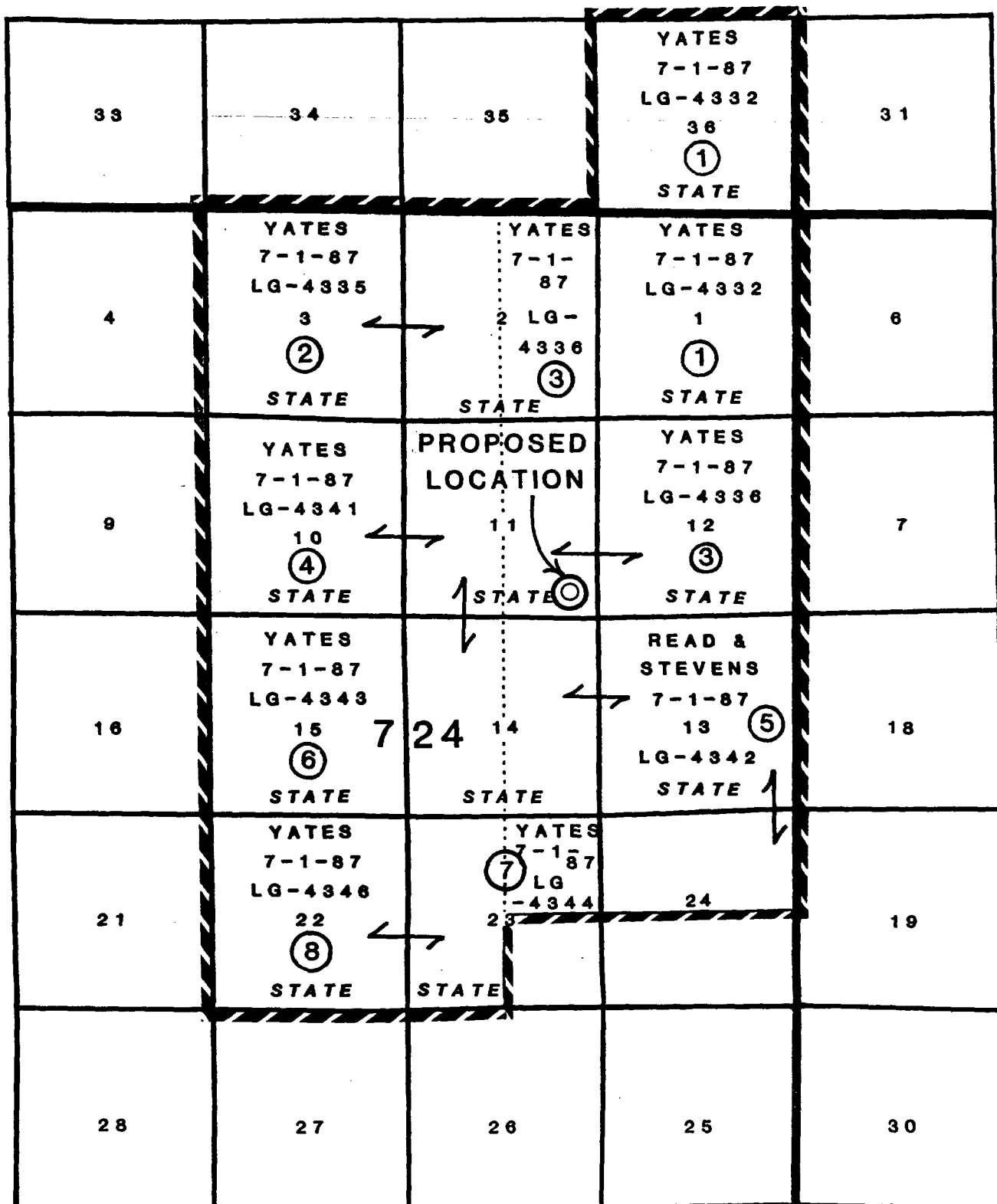
BY _____

YATES PETROLEUM CORPORATION
OPERATOR
By *John A. Yates*
Attorney-in-Fact

OTHER WORKING INTEREST OWNERS

DATE: _____

BY: _____
Company



YATES PETROLEUM
RED BLUFF STATE UNIT
EXHIBIT "A"
LEASE OWNERSHIP MAP
UNIT OUTLINE
③ TRACT NUMBER **SCALE: 1":4000'**

EXHIBIT B

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	CRR1%	WORKING INTEREST OWNER PERCENTAGE
1	T6S-R24E Section 36: All T7S-R24E Section 1: Lots 1,2,3,4 S½N½,S½	1280.84	LG-4332 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
2	T7S-R24E Section 2: Lots 3,4 S½NW¼, SW¼ Section 3: Lots 1,2,3,4, S½N½, S½	963.89	LG-4335 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
3	T7S-R24E Section 2: Lots 1,2 S½NE¼, SE¼ Section 11: E½ Section 12: All	1280.98	LG-4336 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
4	T7S-R24E Section 10: All Section 11: W½ Section 14: W½	1280.00	LG-4341 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
5	T7S-R24E Section 13: All Section 14: E½ Section 24: N½	1280.00	LG-4342 7/1/87	State 12.5	Read & Stevens, Inc.	First Century Oil Inc.-2.5% FISCO, Inc. 2.5%	Read & Stevens Inc.-100%
6	T7S-R24E Section 15: All	640.00	LG-4343 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%

EXHIBIT B

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OPRI %	WORKING INTEREST OWNER PERCENTAGE
7	T7S-R24E Section 23: NE $\frac{1}{4}$	160.00	LG-4344 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MICO--25%
8	T7S-R24E Section 22: All Section 23: W $\frac{1}{2}$	960.00	LG-4346 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MICO--25%
Total: 7845.71 Acres of State Land							

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

RED BLUFF STATE UNIT

OPERATING AGREEMENT

DATED

September 29 86
_____, 19____

BY OPERATOR YATES PETROLEUM CORPORATION

INTEREST AREA Township 6 South-Range 24 East, NMPM
All of Section 36
Township 7 South-Range 24 East, NMPM
All of Sections 1,2,3,10,11, 12,13,14,15,22,
23: W $\frac{1}{2}$, NE $\frac{1}{4}$
24: N $\frac{1}{2}$
Containing 7,845.71 acres, more or less.

IN OR PARISH OF CHAVES STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBLITZ PRODUCTS, BOX 800, TULSA 74101

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT, DATED SEPTEMBER 29, 1986,
BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND READ & STEVENS, INC., ET
AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY, NEW MEXICO

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their
respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered
an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 29th day of September,
19 86.

OPERATOR

YATES PETROLEUM CORPORATION

By

Attorney-in-Fact

NON-OPERATORS

ATTEST:

READ & STEVENS, INC.

By

Secretary

By

President

STATE OF NEW MEXICO)
: ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 29th day of
September, 1986 by John A. Yates, Attorney-in-Fact for YATES
PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

May 14, 1989

Notary Public

STATE OF NEW MEXICO)
: ss
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this ____ day of
, 1986 by _____,
for READ & STEVENS, INC., a _____
corporation, on behalf of said corporation.

My commission expires:

Notary Public

Use of this certifying mark is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED SEPTEMBER 29th, 1986,
BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND READ & STEVENS, INC., ET
AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. 1. Lands Subject to Agreement:
Township 6 South-Range 24 East, N.M.P.M.
Section 36: All
Township 7 South-Range 24 East, N.M.P.M.
Section 1: All
Section 2: All
Section 3: All
Section 10: All
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: All
Section 22: All
Section 23: W $\frac{1}{2}$, NE $\frac{1}{4}$
Section 24: N $\frac{1}{2}$
Containing 7845.71 acres, more or less.
Chaves County, New Mexico
2. Depth Restrictions:
None
3. Drilling Unit for First Well:
Proration Unit as established by the New Mexico OCD

II. Percentage interests of Parties Under the Agreement:

Name	Acres	Unit%	INITIAL TEST WELL
YATES PETROLEUM CORPORATION	1,641.43	20.921370%	20.921370%
YATES DRILLING COMPANY	1,641.43	20.921370%	20.921370%
ABO PETROLEUM CORPORATION	1,641.43	20.921370%	20.921370%
MYCO INDUSTRIES, INC.	1,641.42	20.921242%	20.921242%
READ & STEVENS, INC.	1,280.00	16.314648%	16.314648%
	<u>7,845.71</u>	<u>100.000000%</u>	<u>100.000000%</u>

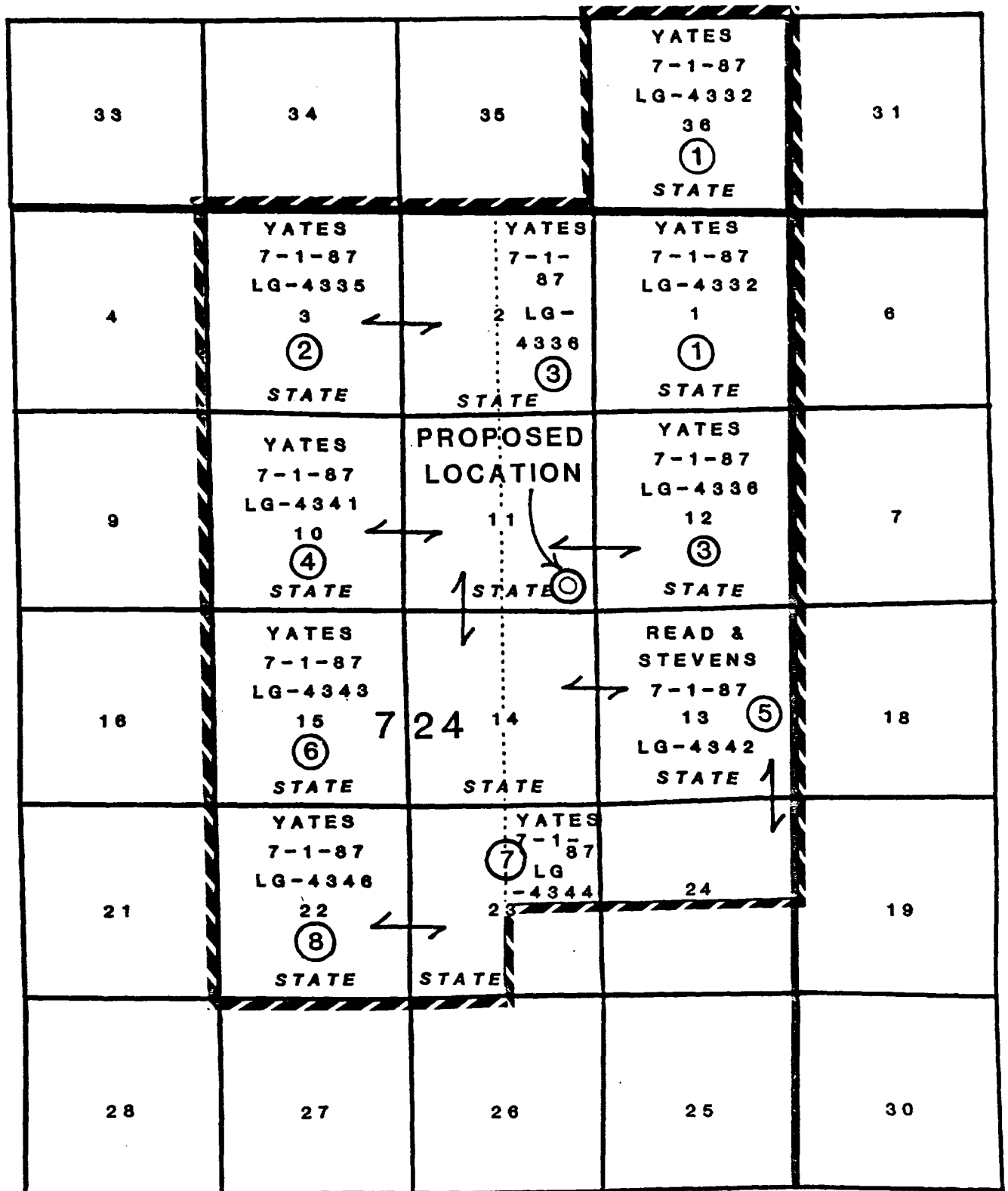
III. Leasehold Interest

See Attached Exhibit A-2

IV. Addresses of Parties to Which Notices Should be Sent:

Read & Stevens, Inc.
P.O. Box 1518
Roswell, New Mexico 88201
ATTN: Mr. Randall Fort

Yates Petroleum Corporation
Yates Drilling Company
Abo Petroleum Corporation
Myco Industries, Inc.
105 South Fourth Street
Artesia, New Mexico 88210
ATTN: Mr. Jim Ball



YATES PETROLEUM
 RED BLUFF TATE UNIT
 EXHIBIT "A"-1
 LEASE OWNERSHIP MAP
 UNIT OUTLINE
 ③ TRACT NUMBER SCALE: 1":4000'

EXHIBIT A-2

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	GRRI%	WORKING INTEREST OWNER PERCENTAGE
1	T6S-R24E Section 36: All T7S-R24E Section 1: Lots 1,2,3,4 S½N½,S½	1280.84	LG-4332 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MYCO-25%
2	T7S-R24E Section 2: Lots 3,4 S½NW¼, SW¼ Section 3: Lots 1,2,3,4, S½N½, S½	963.89	LG-4335 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MYCO-25%
3	T7S-R24E Section 2: Lots 1,2 S½NE¼, SE¼ Section 11: E½ Section 12: All	1280.98	LG-4336 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MYCO-25%
4	T7S-R24E Section 10: All Section 11: W½ Section 14: W½	1280.00	LG-4341 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MYCO-25%
5	T7S-R24E Section 13: All Section 14: E½ Section 24: N½	1280.00	LG-4342 7/1/87	State 12.5	Read & Stevens, Inc.	First Century Oil Inc.-2.5% FISCO, Inc. 2.5%	Read & Stevens Inc.-100%
6	T7S-R24E Section 15: All	640.00	LG-4343 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MYCO-25%

EXHIBIT A-2

RED BLUFF STATE UNIT

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	CRRI%	WORKING INTEREST OWNER PERCENTAGE
7	T7S-R24E Section 23: NE $\frac{1}{4}$	160.00	LG-4344 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
8	T7S-R24E Section 22: All Section 23: W $\frac{1}{2}$	960.00	LG-4346 7/1/87	State 12.5	Yates Petroleum Corporation	None	YPC--25% YDC--25% ABO--25% MXCO-25%
Total: 7845.71 Acres of State Land							

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated September 29, 1986 between Yates Petroleum Corporation, "Operator", and Read & Stevens, Inc., et al, "Non-Operators", covering lands in Chaves County, New Mexico.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT

DATED SEPTEMBER 29, 1986, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND
READ & STEVENS, INC., ET AL, "NON-OPERATORS", COVERING LANDS IN CHAVES COUNTY,
NEW MEXICO.

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the
benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in
which operations will be conducted, and Employer's Liability
Insurance with limits of not less than \$100,000.00 per employee.

- (B) Public Liability Insurance:
Bodily Injury - \$500,000.00 each occurrence.

- (C) Automobile Public Liability Insurance:
Bodily Injury - \$250,000.00 each person.
\$500,000.00 each occurrence.

Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to
the joint account for insurance premiums. Losses not covered by Operator's
insurance (or by insurance required by this agreement to be carried for the
benefit and at the expense of the parties hereto) shall be charged to the
joint account.

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.



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

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

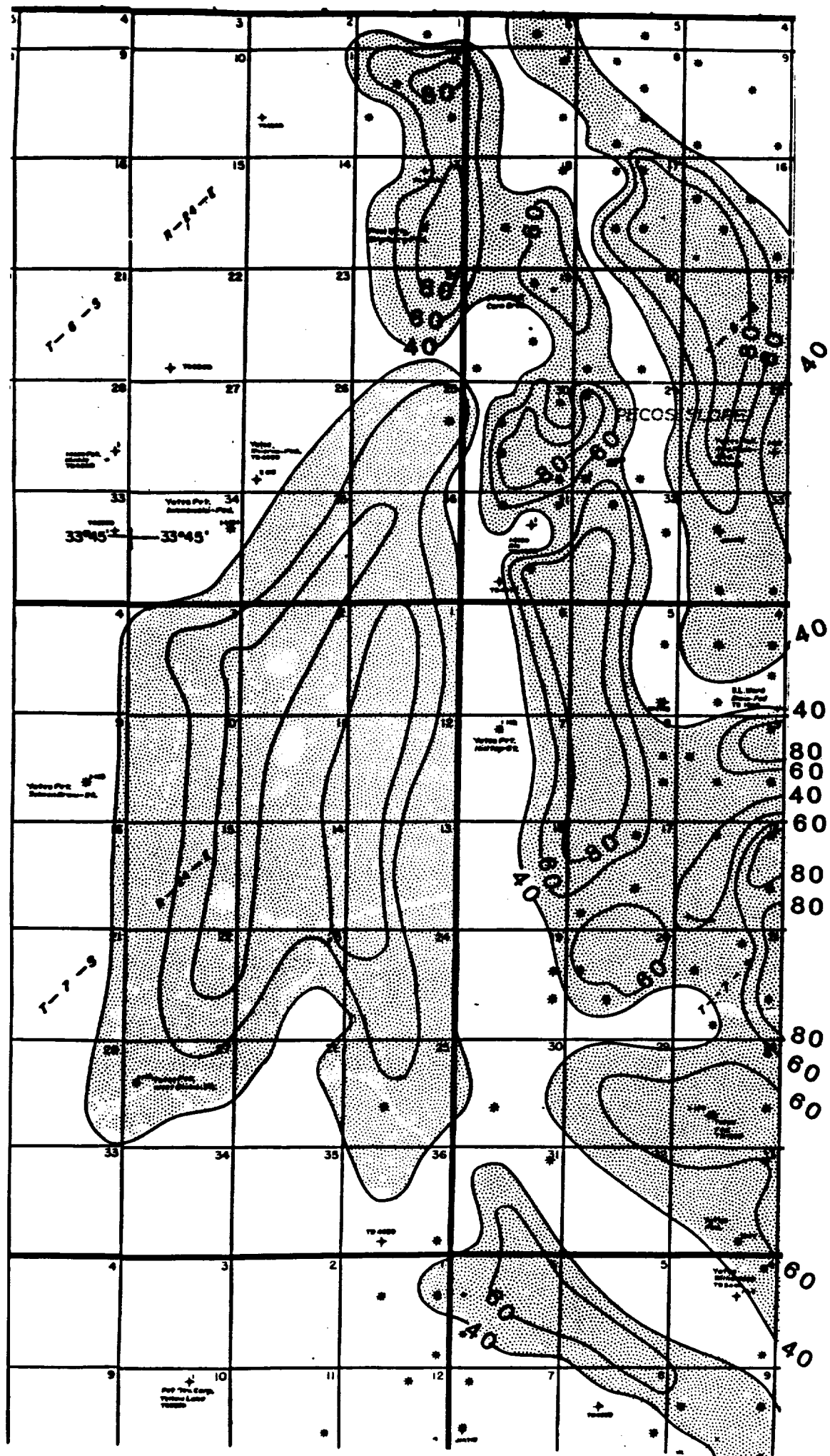
Red Bluff State Unit

Chaves County, New Mexico

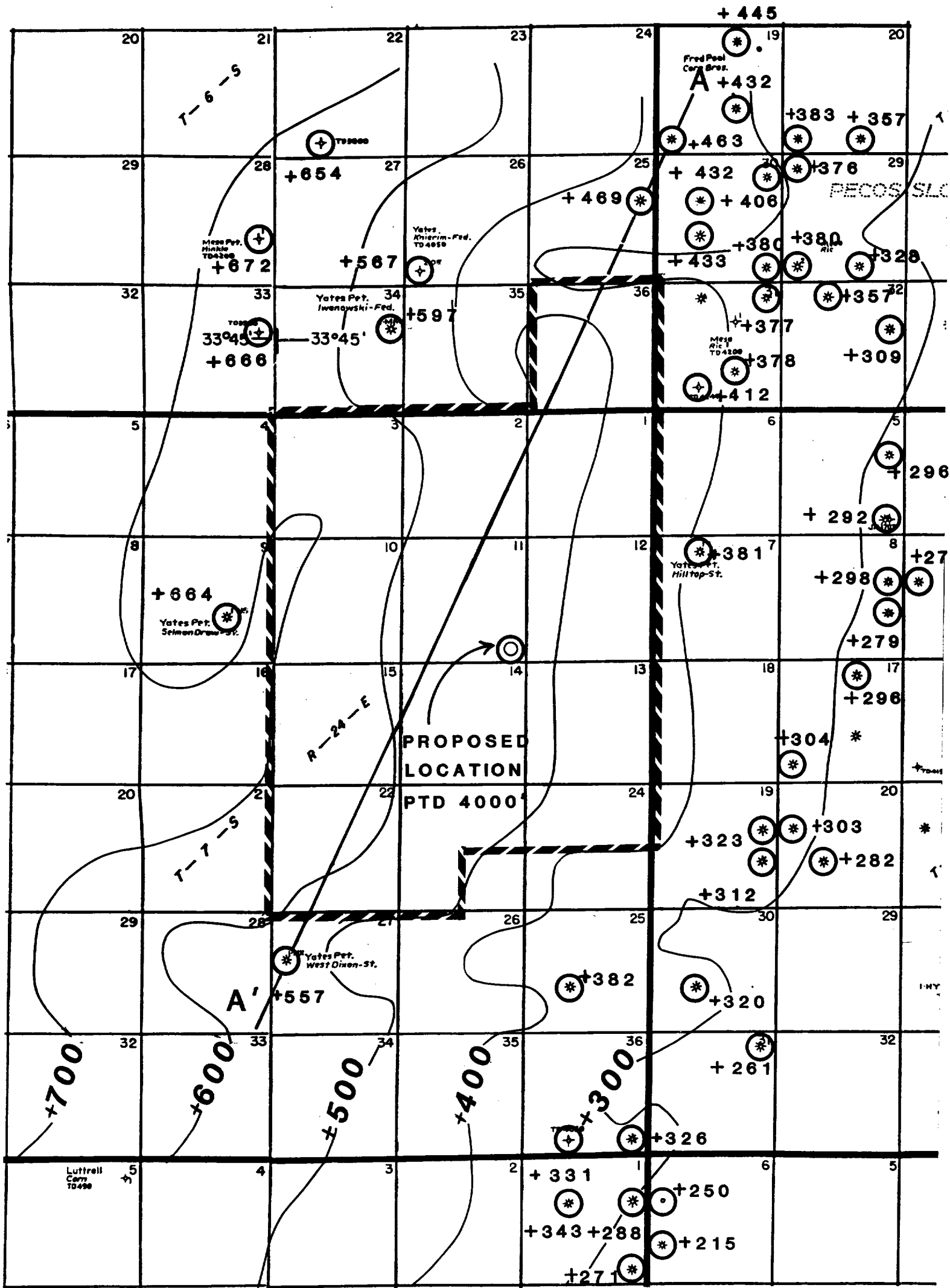
Please find enclosed revised geological exhibits regarding the captioned unit.

As has been discussed by telephone, after reconsidering the unit area in regards to future exploration plans for Township 7S-Range 24E, we have found it necessary to make such revisions. We respectfully request your approval of these revisions.

Leslie Bentz
Geologist



YATES PETROLEUM
RED BLUFF STATE UNIT
REGIONAL ABO ISOLITH
GROSS SAND
C.I. : 20'

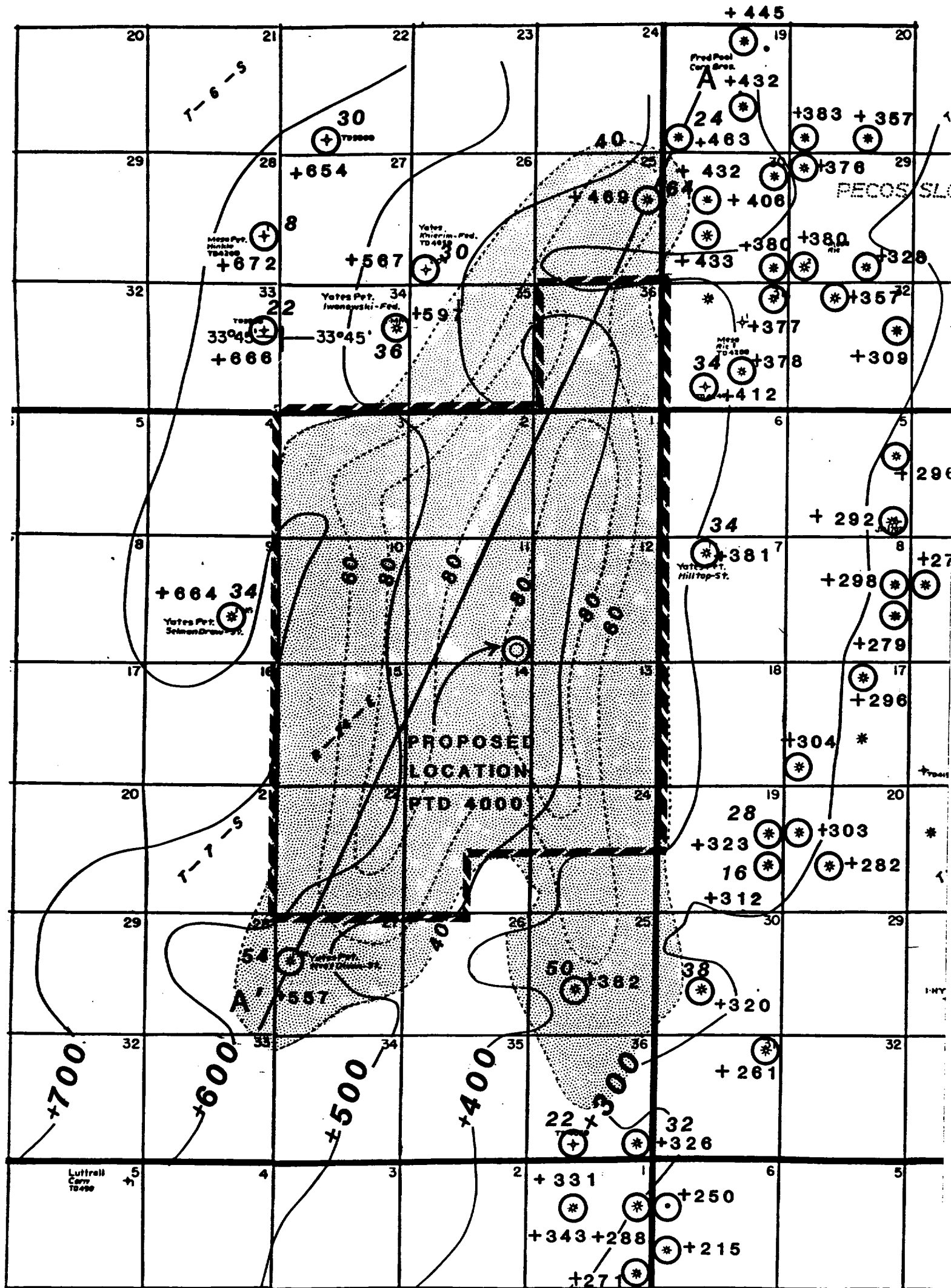


YATES PETROLEUM RED BLUFF STATE UNIT

UNIT OUTLINE

STRUCTURAL CONTOURS
HORIZON: TOP OF ABO
C.I.: 100'

SCALE: 1" : 5000'



YATES PETROLEUM RED BLUFF STATE UNIT

UNIT OUTLINE

STRUCTURAL CONTOURS
HORIZON: TOP OF ABO
C.I.: 100'

ABO ISOLITH
GROSS SAND
C.I.: 20'

SCALE: 1" : 5000'