

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial Number

NM 55125

OIL AND GAS LEASE
(COMPETITIVE PUBLIC DOMAIN LANDS)

THIS INDENTURE OF LEASE, entered into, as of May 1, 1983, by and between the UNITED STATES OF AMERICA, through the Bureau of Land Management, hereinafter called lessor, and Yates Petroleum Corporation, 207 South 4th Street, Artesia, New Mexico 88210

hereinafter called lessee, under, pursuant, and subject to the terms and provisions of the Act of February 25, 1920, (41 Stat. 437), as amended, (30 U.S.C. Sec. 181 *et seq*), hereinafter referred to as the Act, and to all reasonable regulations of the Secretary of the Interior now or hereafter in force when not inconsistent with any express and specific provisions herein, which are made a part hereof.

WITNESSETH:

Sec. 1. *Rights of lessee* - That lessor, in consideration of rents and royalties to be paid, and the conditions and covenants to be observed as herein set forth, does hereby grant and lease to lessee the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all the oil and gas deposits, except helium gas, in or under the following-described tracts of land situated in the Getty field:

T. 20 S., R. 29 E., NMPM
Sec. 13: NW $\frac{1}{4}$

Eddy County, New Mexico

ANNUAL RENTALS AND OTHER DOCUMENTS
WITH REMITTANCES ARE TO BE MAILED
BY CERTIFIED MAIL TO: CASHIER UNIT,
BUREAU OF LAND MANAGEMENT, P.O. BOX
1449, SANTE FE, NEW MEXICO 87501

containing 160.00 acres, more or less, together with the right to construct and maintain thereupon all works, buildings, plants, waterways, roads, telegraph or telephone lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary to the full enjoyment thereof, for a period of five (5) years, and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior, the provisions of said agreement to govern the lands subject thereto where inconsistencies with the terms of this lease occur.

Sec. 2. In consideration of the foregoing, lessee agrees:

(a) *Bonds* - (1) To maintain any bond furnished by the lessee as a condition for the issuance of this lease.

(2) To furnish prior to beginning of drilling operations and maintain at all times thereafter as required by lessor a bond in the penal sum of \$10,000 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms of this lease, unless a bond in that amount is already being maintained or unless such a bond furnished by an operator of the lease is accepted, or unless a bond has been filed under 43 CFR 3104 applicable to this lease.

(b) *Cooperative or unit plan* - Within thirty (30) days of demand, or, if the leased land is committed to an approved unit or cooperative plan and such plan is terminated prior to the expiration of this lease, within thirty (30) days of demand made thereafter, to subscribe to and to operate under such reasonable cooperative or unit plan for the development and operation of the area, field, or pool, or part thereof, embracing the lands included herein as the Secretary of the Interior may then determine to be practicable and necessary or advisable, which plan shall adequately protect the rights of all parties in interest, including the United States.

(c) *Wells* - (1) To drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of lessor, or lands of the United States leased at a lower royalty rate, or as to which the royalties and rentals are paid into different funds than are those of this lease; or in lieu of any part of such drilling and production, with the consent of the Director of the Geological Survey, to compensate lessor, in full, each month for the estimated loss of royalty through drainage in the amount determined by said Director.

(2) At the election of lessee, to drill and produce other wells in conformity with any system of well spacing or production allotments affecting the field or area in which the leased lands are situated, which is authorized and sanctioned by applicable law or by the Secretary of the Interior.

(3) Promptly after due notice, in writing, to drill and produce such other wells as the Secretary of the Interior may reasonably require in order that the leased premises may be properly and timely developed and operated with good operating practice.

YATES PETROLEUM CORPORATION
Case No. 9431
7/20/88 Examiner Hearing
Exhibit No. 2

(1) It is expressly agreed that the Secretary of the Interior may establish reasonable minimum values for purposes of computing royalty on any or all oil, gas, natural gasoline, and other products obtained from gas, due consideration being given to the highest price paid for a part or for a majority of production of like quality in the same field, to the price received by lessee, to posted prices, and to other relevant matters and, whenever appropriate, after notice and opportunity to be heard.

(3) When paid in value, such royalties on production shall be due and payable monthly on the last day of the month next following the month in which produced. When paid in amount of production, such royalty products shall be delivered in merchantable condition on the premises where produced without cost to lessor, unless otherwise agreed to by the parties hereto, at such times and in such tanks provided by lessee as reasonably may be required by lessor, but in no case shall lessee be required to hold such royalty oil or other products in storage beyond the last day of the month next following the month in which produced nor be responsible or held liable for the loss or destruction of royalty oil or other products in storage from causes over which he has no control.

(4) Rentals or minimum royalties may be waived, suspended, or reduced; and royalties on the entire leasehold or any portion thereof segregated for royalty purpose may be reduced if the Secretary of the Interior finds that, for the purpose of encouraging the greatest ultimate recovery of oil or gas and in the interest of conservation of natural resources, it is necessary, in his judgment, to do so in order to promote development, or because the lease cannot be successfully operated under the terms fixed herein.

(e) *Payments* - Unless otherwise directed by the Secretary of the Interior, to make rental, royalty, or other payments to lessor, to the order of the Bureau of Land Management at the places mentioned in the regulation 43 CFR 3103.1-2. If there is no well on the leased lands capable of producing oil or gas in paying quantities, the failure to pay rental on or before the anniversary date shall automatically terminate the lease by operation of law. However, if the time for payment falls on a day in which the proper BLM office to receive payment is closed, payment shall be deemed timely if made on the next official working day.

(f) *Contracts for disposal of products* - To file with the Oil and Gas Supervisor of the Geological Survey not later than thirty (30) days after the effective date thereof any contract or evidence of other arrangement for the sale or disposal of oil, gas, natural gasoline, and other products of the leased land: *Provided*, That nothing in any such contract or other arrangement shall be construed as modifying any of the provisions of this lease, including, but not limited to, provisions relating to gas waste, taking royalty in kind, and the method of computing royalties due as based on a minimum valuation and in accordance with the Oil and Gas Operating Regulations.

(g) *Statements, plats, and reports* - At such times and in such form as lessor may prescribe, to furnish detailed statements showing the amounts and quality of all products removed and sold from the lease, the proceeds therefrom, and the amount used for production purposes or unavoidably lost; a plat showing development work and improvements on the leased lands; and a report with respect to stockholders, investments, depreciation, and costs.

(h) *Well records* - To keep a daily drilling record, a log, and complete information on all well surveys and tests in form acceptable to or prescribed by lessor of all wells drilled on the leased lands, and an acceptable record of all subsurface investigations affecting said lands, and to furnish them, or copies thereof, to lessor when required. All information obtained under this paragraph, upon request of lessee, shall not be open to inspection by the public until the expiration of the lease.

(i) *Inspection* - To keep open at all reasonable times for the inspection of any duly authorized officer of the Department, the leased premises and all wells, improvements, machinery, and fixtures thereon and all books, accounts, maps and records relative to operations and surveys or investigations on the leased lands or under the lease. All information obtained pursuant to any such inspection, upon request of lessee, shall not be open to inspection by the public until the expiration of the lease.

(j) *Diligence, prevention of waste, health and safety of workmen* - To exercise reasonable diligence in drilling and producing the wells herein provided for unless consent to suspend operations temporarily is granted by lessor; to carry on all operations in accordance with approved methods and practices as provided in the Oil and Gas Operating Regulations, having due regard for the prevention of waste of oil or gas or damage to deposits or formations containing oil, gas, or water or to coal measures or other mineral deposits, for conservation of gas energy, for the preservation and conservation of the property for future productive operations and for the health and safety of workmen and employees: to plug

properly and effectively all wells drilled in accordance with the provisions of this lease or of any prior lease or permit upon which the right to this lease was predicated before abandoning the same; to carry out at expense of lessee all reasonable orders of lessor relative to the matters in this paragraph, and that on failure of lessee so to do lessor shall have the right to enter on the property and to accomplish the purpose of such orders at lessee's cost: *Provided*, That lessee shall not be held responsible for delays or casualties occasioned by causes beyond lessee's control.

(k) *Taxes and wages, freedom of purchase* - To pay when due, all taxes lawfully assessed and levied under the laws of the State or the United States upon improvements, oil and gas produced from the lands hereunder, or other rights, property or assets of lessee; to accord all workmen and employees complete freedom of purchase, and to pay all wages due workmen and employees at least twice each month in the lawful money of the United States.

(l) *Equal Opportunity Clause* - The lessee agrees that, during the performance of this lease.

(1) The lessee will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The lessee will take affirmative action to ensure that applicants, are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The lessee agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the lessor setting forth the provisions of this Equal Opportunity Clause.

(2) The lessee will, in all solicitations or advertisements for employees placed by or on behalf of the lessee, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) The lessee will send to each labor union or representative of workers with which lessee has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the lessor, advising the labor union or workers' representative of the lessee's commitments under this Equal Opportunity Clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The lessee will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The lessee will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, as amended, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the lessee's noncompliance with the Equal Opportunity Clause of this lease or with any of said rules, regulations, or orders, this lease may be canceled, terminated or suspended in whole or in part and the lessee may be declared ineligible for further Federal Government contracts or leases in accordance with the procedures authorized in Executive Order No. 11246 of September 24, 1965, as amended, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, as amended, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The lessee will include the provisions of Paragraphs (1) through (7) of this subsection 2(l) in every contract, subcontract, or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, as amended, so that such provisions will be binding upon each contractor, subcontractor, or vendor. The lessee will take such action with respect to any contract, subcontract, or purchase order as the Secretary of the Interior may direct as a means of enforcing such provisions including sanctions for noncompliance; *Provided, however*, that in the event the lessee becomes involved in, or is threatened with, litigation with a contractor, subcontractor, or vendor as a result of such direction by the Secretary of the Interior, the lessee may request the United States to enter into such litigation to protect the interests of the United States.

(m) *Certification of nonsegregated facilities* - By entering into this lease, the lessee certifies that lessee does not and will not maintain or provide for lessee's employees any segregated facilities at any of lessee's establishments, and that lessee does not and will not permit lessee's employees to perform their services at any location, under lessee's con-

trol, where segregated facilities are maintained. The lessee agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this lease. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. Lessee further agrees that (except where lessee has obtained identical certifications from proposed contractors and subcontractors for specific time periods) lessee will obtain identical certifications from proposed contractors and subcontractors prior to the award of contracts or subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that lessee will retain such certifications in lessee's files; and that lessee will forward the following notice to such contractors and subcontractors (except where the proposed contractor or subcontractor has submitted identical certifications for specific time periods).

Notice to prospective contractors and subcontractors of requirement for certification of nonsegregated facilities - A Certification of Nonsegregated Facilities, as required by the May 9, 1967 order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a contract or subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each contract and subcontract or for all contracts and subcontracts during a period (i.e., quarterly, semiannually, or annually).

(n) *Assignment of oil and gas lease or interest therein* - As required by applicable law, to file for approval by lessor any instrument of transfer made of this lease or any interest therein, including assignments of record title, operating agreements and subleases, working or royalty interests, within ninety (90) days from date of final execution thereof.

(o) *Pipelines to purchase or convey at reasonable rates and without discrimination* - If owner, or operator, or owner of a controlling interest in any pipeline or of any company operating the same which may be operated accessible to the oil or gas derived from lands under this lease, to accept and convey and, if a purchaser of such products, to purchase at reasonable rates and without discrimination the oil or gas of the Government or of any citizen or company not the owner of any pipeline, operating a lease or purchasing or selling oil, gas, natural gasoline, or other products under the provisions of the Act of August 7, 1947 (61 Stat. 913; 30 U.S.C. 351).

(p) *Lands patented with oil and gas deposits reserved to the United States* - To comply with all statutory requirements and regulations thereunder, if the lands embraced herein have been or shall hereafter be disposed of under the laws reserving to the United States the deposits of oil and gas therein, subject to such conditions as are or may hereafter be provided by the laws reserving such oil or gas.

(q) *Reserved or segregated lands* - If any of the land included in this lease is embraced in a reservation or segregated for any particular purpose, to conduct operations thereunder in conformity with such requirements as may be made by the Director, Bureau of Land Management, for the protection and use of the land for the purpose for which it was reserved or segregated, so far as may be consistent with the use of the land for the purpose of this lease, which latter shall be regarded as the dominant use unless otherwise provided herein or separately stipulated.

(r) *Protection of the environment including the surface, other resources and improvements* - In accordance with the directives contained in the National Environmental Policy Act (83 Stat. 852; 42 U.S.C. 4321-4347), the requirements of other environmental legislation, the oil and gas leasing regulations (43 CFR 3100) and the Oil and Gas Operating Regulations (30 CFR 221).

(1) *General* - Lessee shall take such steps as required by the drilling permit, the attached stipulations, or the authorized officer to prevent activities or operations on the leased lands from: (i) causing or contributing to soil erosion or damage to crops or other vegetative cover on Federal or non-Federal lands in the vicinity; (ii) polluting soil, air, or water; (iii) creating hazards to wildlife or depriving them of the use of the natural elements of their habitat; (iv) disturbing the surface or damaging areas of scenic value or natural beauty; (v) damaging or removing improvements owned by the United States or other parties; or (vi) destroying, damaging, or removing fossils, historic or removing fossils, historic or prehistoric ruins or artifacts. Lessee shall, prior to the termination of bond liability or at any other time when required and in the manner directed by lessor, reclaim all land the surface of which has been disturbed, dispose of all debris or solid waste, repair the offsite

and onsite damage caused by lessee's activity or activities incidental thereto, restore access roads or trails to their former condition and remove structures. Lessor may prescribe, by stipulations to be subsequently included in this lease or through the authorized officer, the steps to be taken by lessee to protect or restore the environment both on and off the lands, and improvements thereon whether or not the improvements are owned by the United States.

(2) *Use of other resources* - Timber, mineral materials, and water from public water reserves or water developed by the Bureau of Land Management or its lessees, licensees, or permittees, except water rights established under State law acquired by such lessees, licensees, or permittees may be used only with advanced authorization from and on terms and conditions imposed by the authorized officer.

(3) *Antiquities and objects of historic value*

(i) Lessee shall immediately bring to the attention of the authorized officer any and all American antiquities or other objects of historic or scientific interest including, but not limited to, historic or prehistoric ruins, fossils, or artifacts discovered as a result of operations under this lease, and to leave such item(s) or condition(s) intact. Failure to comply with any of the terms and conditions imposed by the authorized officer with regard to the preservation of antiquities shall constitute a violation of the Antiquities Act (16 U.S.C. 431-433).

(ii) If the authorized officer determines that archaeological values exist or may exist on the lands within the lease and that they might be impaired by oil and gas operations, lessee will engage a recognized authority on archaeology, acceptable to the Bureau of Land Management, to survey and salvage, in advance of any operations, such values on the lands involved. The responsibility for and cost of this survey and salvage will be that of lessee.

(4) *Pollution Control* - Lessee agrees that this lease is subject to all relevant pollution control legislation at the Federal, State, or local level. Such legislation includes, but is not limited to the Clean Air Act, as amended (77 Stat. 392; 42 U.S.C. 1857, *et seq.*), the Refuse Act of 1899 (30 Stat. 1152; 33 U.S.C. 407-409), the Federal Water Pollution Control Act (62 Stat. 1155; 33 U.S.C. 1151-1161).

(5) *Stipulations* - To comply with stipulations attached hereto which are made a part of the lease or the approved *Application for Permit to Drill*.

(s) *Overriding royalties* - Not to create overriding royalties in excess of five percent except as otherwise authorized by the regulations.

(t) *Deliver premises in case of forfeiture* - To deliver up to lessor in good order and condition the land leased including all improvements which are necessary for the preservation of producing wells.

Sec. 3. The lessor reserves:

(a) *Easements and rights-of-way* - The right to permit for joint or several use easements or rights-of-way, including easements in tunnels upon, through, or in the lands leased, occupied, or used as may be necessary or appropriate to the working of the same or of other lands containing the deposits described in the Act, and the treatment and shipment of products thereof by or under authority of the Government, its lessees or permittees, and for other public purposes.

(b) *Disposition of surface* - The right to lease, sell, or otherwise dispose of the surface of the leased lands under existing law or laws hereafter enacted, insofar as said surface is unnecessary for the use of lessee in the extraction and removal of the oil and gas therein, or to dispose of any resource in such lands which will not unreasonably interfere with operations under this lease.

(c) *Monopoly and fair prices* - Full power and authority to promulgate and enforce all orders necessary to assure the sale of the production of the leased lands to the United States and to the public at reasonable prices, to protect the interests of the United States, to prevent monopoly, and to safeguard the public welfare.

(d) *Helium* - The ownership of helium and the right to extract or have extracted from all gas produced under this lease, subject to such rules and regulations as shall be prescribed by the Secretary of the Interior. If lessor elects to take the helium, lessee shall deliver all or any portion of gas containing the same to lessor, in the manner required by lessor, at any point on the leased premises or, if the area is served at the time of production by a gas-gathering system owned or operated by lessee, at any point in that system specified by lessor, for extraction of the helium by such means as lessor may provide. The residue shall be returned to lessee, with no substantial delay in the delivery of the gas produced from the well to owner or purchaser thereof. Save for the value of the helium extracted, lessee shall not suffer a diminution of the value of the gas produced from the well, or loss otherwise, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium for which he is not reasonably compensated. Lessor

reserves the right to erect, maintain and operate any and all reduction works necessary for extraction of helium on the leased premises. Lessee further agrees to include in any contract of sale of gas from the lands subject to this lease provisions setting forth that lessor owns, and reserves the right to extract or have extracted, any helium in the gas sold, and that lessor may take the gas from a pipeline carrier or any other gas-gathering system and extract the helium and return the gas to owner thereof, without delay other than that caused by the extraction process; save for the value of the helium, owner shall not suffer any diminution of the value of the gas from which helium has been extracted, or any other loss arising from the extraction of helium, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium, for which he is not reasonably compensated. It is further agreed that any rights reserved vested in lessor under this paragraph shall also run to any agent or assignee of lessor or any purchaser of the rights of lessor.

(e) *Taking of royalties* - All rights pursuant to Sec. 36 of the Act, to take royalties in amount or in value of production.

(f) *Casing* - All rights pursuant to Sec. 40 of the Act to purchase casing and lease or operate valuable water wells.

Sec. 4. *Drilling and producing restrictions* - It is agreed that the rate of prospecting and developing and the quantity and rate of production from the lands covered by this lease shall be subject to control in the public interest by the Secretary of the Interior, and in the exercise of his judgment the Secretary may take into consideration, among other things, Federal and State laws, and regulations issued thereunder, or lawful agreements among operators regulating either drilling or production, or both. After unitization, the Secretary of the Interior, or any person, committee, or State or Federal officer or agency so authorized in the unit plan, may alter or modify, from time to time, the rate of prospecting and development and the quantity and rate of production from the lands covered by this lease.

Sec. 5. *Surrender and termination of lease* - Lessee may surrender this lease or any legal subdivision thereof by filing in the proper BLM office, a written relinquishment, in triplicate, which shall be effective as of the date of filing subject to the continued obligation of lessee and his surety to make payment of all accrued rentals and royalties and to place all wells on the land to be relinquished in condition for suspension or abandonment in accordance with the applicable lease terms and regulations.

Sec. 6. *Purchase of materials, etc., on termination of lease* - Upon expiration of the lease, or the earlier termination thereof pursuant to Sec. 5 above, lessee shall have the privilege at

any time within a period of ninety (90) days thereafter of removing from the premises all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided, which are allowed to remain on the leased lands shall become the property of lessor on expiration of the 90-day period or such extension thereof as may be granted because of adverse climatic conditions throughout said period: *Provided, that* lessee shall remove any or all such property where so directed by lessor.

Sec. 7. *Proceedings in case of default* - If lessee shall not comply with any of the provisions of the Act or the regulations thereunder or of this lease, or shall make default in the performance or observance of any of the terms hereof this lease may be canceled or terminated in accordance with Sec. 31 of the Act. This provision shall not be construed to prevent the exercise by lessor of any legal or equitable remedy which lessor might otherwise have. Upon cancellation or termination of this lease, any casing, material, or equipment determined by the lessor to be necessary for use in plugging or preserving any well drilled on the leased land shall become the property of lessor. A waiver of any particular cause of cancellation or termination shall not prevent the cancellation or termination of this lease for any other cause of cancellation or termination, or for the same cause occurring at any other time.

Sec. 8. *Heirs and successors in interest* - It is further agreed that each obligation hereunder shall extend to and be binding upon, and every benefit hereof shall inure to, the heirs, executors, administrators, successors, or assigns of the respective parties hereto.


Sec. 9. *Unlawful interest* - It is also further agreed that no Member of, or Delegate to, Congress, or Resident Commissioner, after his election or appointment, or either before or after he has qualified and during his continuance in office, and that no officer, agent, or employee of the Department of the Interior, except as provided in 43 CFR 7.4(a)(1), shall be admitted to any share or part in this lease or derive any benefit that may arise therefrom; and the provisions of Sec. 3741 of the Revised Statutes of the United States, (41 U.S.C. Sec. 22) as amended, and Secs. 431, 432, and 433, Title 18 U.S.C., relating to contracts, enter into and form a part of this lease so far as the same may be applicable.

Sec. 10. *Stipulations* - Stipulations are attached hereto and made a part hereof. ~~The attached stipulations appear as consecutively numbered pages commencing with page 1 hereafter.~~ Stipulations are not attached.


Sec. 11: See attachment

ATTEST:

THE UNITED STATES OF AMERICA


Assistant Secretary
Yates Petroleum Corporation

By 
(Authorized Officer)

By: 
(Signature of Lessee) Vice President

Chief, Mineral Leasing Unit 1
(Title)

April 27, 1983
(Date)

Lease Terms Continued

Sec. 11

"Under the provisions of Public Law 97-78, this lease includes all deposits of nongaseous hydrocarbon substances other than coal, oil shale, or gilsonite (including all vein-type solid hydrocarbons). Development by methods not conventionally used for oil and gas extraction such as fire flooding and including surface mining will require the lessee to submit a plan of operations and will be subject to regulations governing development by such methods when those rules are issued by the Bureau of Land Management (BLM), the Minerals Management Service (MMS), and the rules of procedures of the surface managing agency, if other than BLM. Development may proceed only if the plan of operations is approved."

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SURFACE DISTURBANCE STIPULATIONS

NM 55125
3120 (943C-1 tf)

Area Oil and Gas Supervisor or
District Engineer (Address, include zip code)
Minerals Management Service
Roswell District Resource Evaluation
Office
P.O. Drawer 1857
Roswell, New Mexico 88201

Management Agency (name)

District Manager
Bureau of Land Management
P. O. Box 1397
Roswell, New Mexico 88201

Address (include zip code)

1. Notwithstanding any provision of this lease to the contrary, any drilling, construction, or other operation on the leased lands that will disturb the surface thereof or otherwise affect the environment, hereinafter called "surface disturbing operation," conducted by lessee shall be subject, as set forth in this stipulation, to prior approval of such operation by the Area Oil and Gas Supervisor in consultation with appropriate surface management agency and to such reasonable conditions, not inconsistent with the purposes for which this lease is issued, as the Supervisor may require to protect the surface of the leased lands and the environment.

2. Prior to entry upon the land or the disturbance of the surface thereof for drilling or other purposes, lessee shall submit for approval two (2) copies of a map and explanation of the nature of the anticipated activity and surface disturbance to the District Engineer or Area Oil and Gas Supervisor, as appropriate, and will also furnish the appropriate surface management agency named above, with a copy of such map and explanation.

An environmental analysis will be made by the Geological Survey in consultation with the appropriate surface management agency for the purpose of assuring proper protection of the surface, the natural resources, the environment, existing improvements, and for assuring timely reclamation of disturbed lands.

3. Upon completion of said environmental analysis, the District Engineer or Area Oil and Gas Supervisor, as appropriate, shall notify lessee of the conditions, if any, to which the proposed surface disturbing operations will be subject.

Said conditions may relate to any of the following:

- (a) Location of drilling or other exploratory or developmental operations or the manner in which they are to be conducted;
- (b) Types of vehicles that may be used and areas in which they may be used; and
- (c) Manner or location in which improvements such as roads, buildings, pipelines, or other improvements are to be constructed.

ENDANGERED SPECIES, CULTURAL AND PALEONTOLOGICAL RESOURCES STIPULATIONS
(OIL AND GAS)

I. Protection of Endangered or Threatened Species.

The Federal surface management agency is responsible for assuring that the area to be disturbed is examined, prior to undertaking any surface-disturbing activities on lands covered by this lease, to determine effects upon any plant or animal species listed or proposed for listing as endangered or threatened, or their habitats. If the findings of this examination determine that the operation may detrimentally affect an endangered or threatened species some restrictions to the operator's plans or even disallowances of use may result.

The lessee/operator may, at his discretion and cost, conduct the examination on the lands to be disturbed. This examination must be done by or under the supervision of a qualified resource specialist approved by the surface management agency. An acceptable report must be provided to the surface management agency identifying the anticipated effects of the proposed action on endangered or threatened species or their habitat.

II. Protection of Cultural and Paleontological Resources

A. The Federal surface management agency is responsible for determining the presence of cultural resources and specifying mitigation measures required to protect them. Prior to undertaking any surface-disturbing activity on the lands covered by this lease, the lessee/operator, unless notified to the contrary by the authorized officer of the surface management agency, shall:

1. Engage the services of a qualified cultural resource specialist acceptable to the surface management agency to conduct an intensive inventory for evidence of cultural resource values;

2. Submit a report acceptable to the authorized officer of the surface management agency and the District Oil and Gas Supervisor of the Minerals Management Service; and

3. Implement such mitigation measures as required by the authorized officer of the surface management agency to preserve or avoid destruction of inventoried cultural resource values. Mitigation may include relocation of proposed facilities, testing and salvage or other protective measures deemed necessary. All costs of the inventory and mitigation shall be borne by the lessee/operator and all data and materials salvaged shall remain under the jurisdiction of the U. S. Government.

B. The lessee/operator shall immediately bring to the attention of the District Oil and Gas Supervisor of the Minerals Management Service and the authorized officer of the surface management agency any cultural resources, paleontological, and other objects of scientific interest discovered as a result of surface operations under this lease and shall leave such discoveries intact until directed to proceed by the District Oil and Gas Supervisor.

SPECIAL STIPULATIONS CONCERNING STEEP SLOPES,
WATERSHED DAMAGE, PAINTING, AND LIVE WATER
(OIL AND GAS)

No surface disturbance will be allowed on slopes in excess of 30 percent without written permission from the District Oil and Gas Supervisor, Minerals Management Service, with the concurrence of the authorized officer of the Federal surface management agency.

In order to minimize watershed damage, during muddy and/or wet periods, the authorized officer of the Federal surface management agency, through the District Oil and Gas Supervisor, Minerals Management Service, may prohibit exploration, drilling or other development. This limitation does not apply to maintenance and operation of producing wells.

To maintain esthetic values, all semi-permanent and permanent facilities may require painting or camouflage to blend with the natural surroundings. The paint selection or method of camouflage will be subject to the approval of the District Oil and Gas Supervisor, with the concurrence of the authorized officer of the Federal surface management agency.

Drilling or storage facilities may be prohibited within 300 feet of any live water, reservoir, river or major drainage channel and any operation within floodplains will be strictly controlled to prevent contamination. The 300-foot distance may be modified by the Oil and Gas Supervisor of the Minerals Management Service with the concurrence of the authorized officer of the Federal surface management agency.

(COVERS ALL PARCELS)

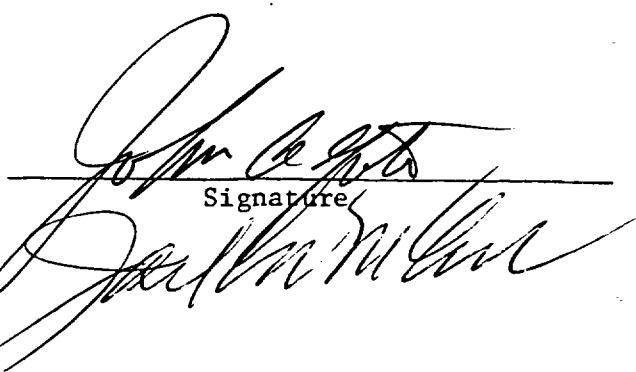
UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Stipulations to be executed and made part of any oil and gas lease involving lands described in Departmental Notice of November 5, 1975.

The lessee further agrees that:

- (1) No wells will be drilled for oil or gas except upon approval of the Area Oil and Gas Supervisor of the Geological Survey, it being understood that drilling will be permitted only in the event that it is satisfactorily established that such drilling will not interfere with the mining and recovery of potash deposits, or the interest of the United States would best be subserved thereby.
- (2) No wells will be drilled for oil or gas at a location which, in the opinion of the Area Oil and Gas Supervisor, would result in undue waste of potash deposits or constitute a hazard to or unduly interfere with mining operations being conducted for the extraction of potash deposits.
- (3) When it is determined by the Area Oil and Gas Supervisor that unitization is necessary for orderly oil and gas development and proper protection of potash deposits, no well shall be drilled for oil or gas except pursuant to a unit plan approved by the Area Oil and Gas Supervisor.
- (4) The drilling or the abandonment of any well on said lease shall be done in accordance with applicable oil and gas operating regulations including such requirements as the Area Oil and Gas Supervisor may prescribe as necessary to prevent the infiltration of oil, gas or water into formations containing potash deposits or into mines or workings being utilized in the extraction of such deposits.

Date



Signature

(Covers Parcels 13, 25, 29, 30, 43 and 44 - 12/14/82)

Special Stipulations

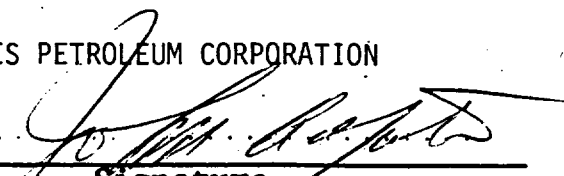
(Attached to and forming a part of oil and gas lease NM 55125)

The lessee hereby consents to the following:

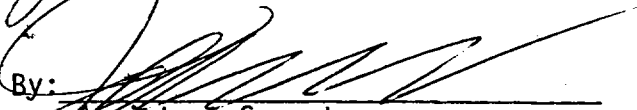
"No Surface Occupancy" will be conducted within the leasehold. However directional drilling is allowed.

April 15, 1983
Date

YATES PETROLEUM CORPORATION


Signature

ATTEST:


By: Assistant Secretary

(Covers Parcel 13 - 12/14/82)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RENTALS AND ROYALTIES FOR OIL AND GAS LEASES

SCHEDULE "A" - NONCOMPETITIVE

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issues a rental at the following rates:

- a. If the lands are wholly outside the known geologic structure of a producing oil or gas field: 50 cents per acre or fraction thereof for each lease year.
- b. On leases wholly or partly within the geologic structure of a producing oil or gas field:
 - 1. If not committed to a cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production beginning with the first lease year after 30 days' notice that all or part of the land is included in such a structure and for each year thereafter prior to a discovery of oil or gas on the lands herein, \$2 per acre or fraction thereof.

- 2. On the lands committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, for the lands not within the participating area an annual rental of 50 cents per acre or fraction thereof each lease year following discovery.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

ROYALTY ON PRODUCTION. To pay the lessor 12½ percent royalty on the production removed or sold from the leased lands.

SCHEDULE "B" - COMPETITIVE

ROYALTY ON PRODUCTION. To pay the lessor the following royalty on production removed or sold from the leased lands.

- 1. When the average production for the month in barrels per well per day is:

OVER	NOT OVER	PERCENT OF ROYALTY	OVER	NOT OVER	PERCENT OF ROYALTY
	50	12.5	130	150	19
50	60	13	150	200	20
60	70	14	200	250	21
70	80	15	250	300	22
80	90	16	300	350	23
90	110	17	350	400	24
110	130	18	400		25

- 2. On gas, including inflammable gas, helium, carbon dioxide and all other natural gases and mixtures thereof, and on natural or casinghead gasoline and

other liquid products obtained from gas; when the average production of gas per well per day for the month does not exceed 5,000,000 cubic feet, 12-1/2 percent; and when said production of gas exceeds 5,000,000 cubic feet, 16-2/3 percent of the amount or value of the gas and liquid products produced, said amount or value of such liquid products to be net after an allowance for the cost of manufacture.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issued and for each lease year thereafter prior to a discovery of oil or gas on the leased lands, an annual rental of \$2 per acre or fraction thereof.

NOTICE

The average production per well per day for oil and gas shall be determined pursuant to 30 CFR, Part 221, "Oil and Gas Operating Regulations."

In determining the amount or value of gas and liquid products produced, the amount or value shall be net after an allowance for the cost of manufacture. The allowance for cost of manufacture may exceed two-thirds of the amount or value of any product only on approval by the Secretary of the Interior.