

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
NEW GRASS STATE UNIT  
LEA COUNTY, NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 12th day of February, 2002, 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 Sec. 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 Department 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

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12831 Exhibit No. 1  
Submitted by:  
Yates Petroleum Corporation  
Hearing Date: March 7, 2002

WHEREAS, the parties hereto hold sufficient interests in the NEW GRASS 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 15 South, Range 34 East, N.M.P.M.

Section 9: S/2

Section 15: All

Section 16: All

Section 21: N/2

Section 22: N/2

Section 23: All

Section 24: N/2

containing 3200.00 acres, more or less

Lea 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. Exhibit "A" and "B" shall be revised by the unit operator whenever changes 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 operation 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

Mississippian 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 13,900 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the cost 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.

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 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 share 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 practices; 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 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 provision 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 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 Division, and in conformity with applicable laws and lawful regulations.

19. APPEARANCES: 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 rights 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. 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.

22. 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 of revenue.

23. 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 OWNERS

YATES PETROLEUM CORPORATION  
YATES DRILLING COMPANY  
ABO PETROLEUM CORPORATION  
MYCO INDUSTRIES, INC.

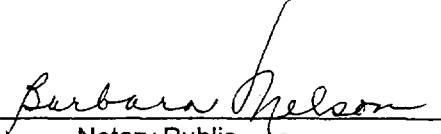
Date 3-1-02

 RB  
\_\_\_\_\_  
Attorney-in-Fact

STATE OF NEW MEXICO     §  
  §  
COUNTY OF EDDY         §

The foregoing instrument was acknowledged before me this 1st day of March, 2002 by Randy G. Patterson, Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION and MYCO INDUSTRIES, INC., all New Mexico corporations, on behalf of said corporations.

My commission expires:  
1-8-04

  
\_\_\_\_\_  
Notary Public

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

WORKING INTEREST OWNER

David Petroleum Corporation

Date \_\_\_\_\_

McMillan Production Company

Date \_\_\_\_\_

McMillan Ventures, LLC

Date \_\_\_\_\_

Permian Exploration Corporation

Date \_\_\_\_\_

Keith E. McKamey

Date \_\_\_\_\_

William B. Owen

Date \_\_\_\_\_

Edward N. David

Date \_\_\_\_\_

Michael A. McMillan

Date \_\_\_\_\_

STATE OF TEXAS           §  
                                  §  
COUNTY OF               §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_, as \_\_\_\_\_ for David Petroleum Corporation, a Texas corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO   §  
                                  §  
COUNTY OF CHAVES     §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_, as \_\_\_\_\_ for McMillan Production Company, a New Mexico corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO   §  
                                  §  
COUNTY OF CHAVES     §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_, as \_\_\_\_\_ for McMillan Ventures, LLC, a New Mexico corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO   §  
                                  §  
COUNTY OF CHAVES     §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by \_\_\_\_\_, as \_\_\_\_\_ for Permian Exploration Corporation, a New Mexico corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by  
Keith E. McKamey.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by  
William B. Owen.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by  
Edward N. David.

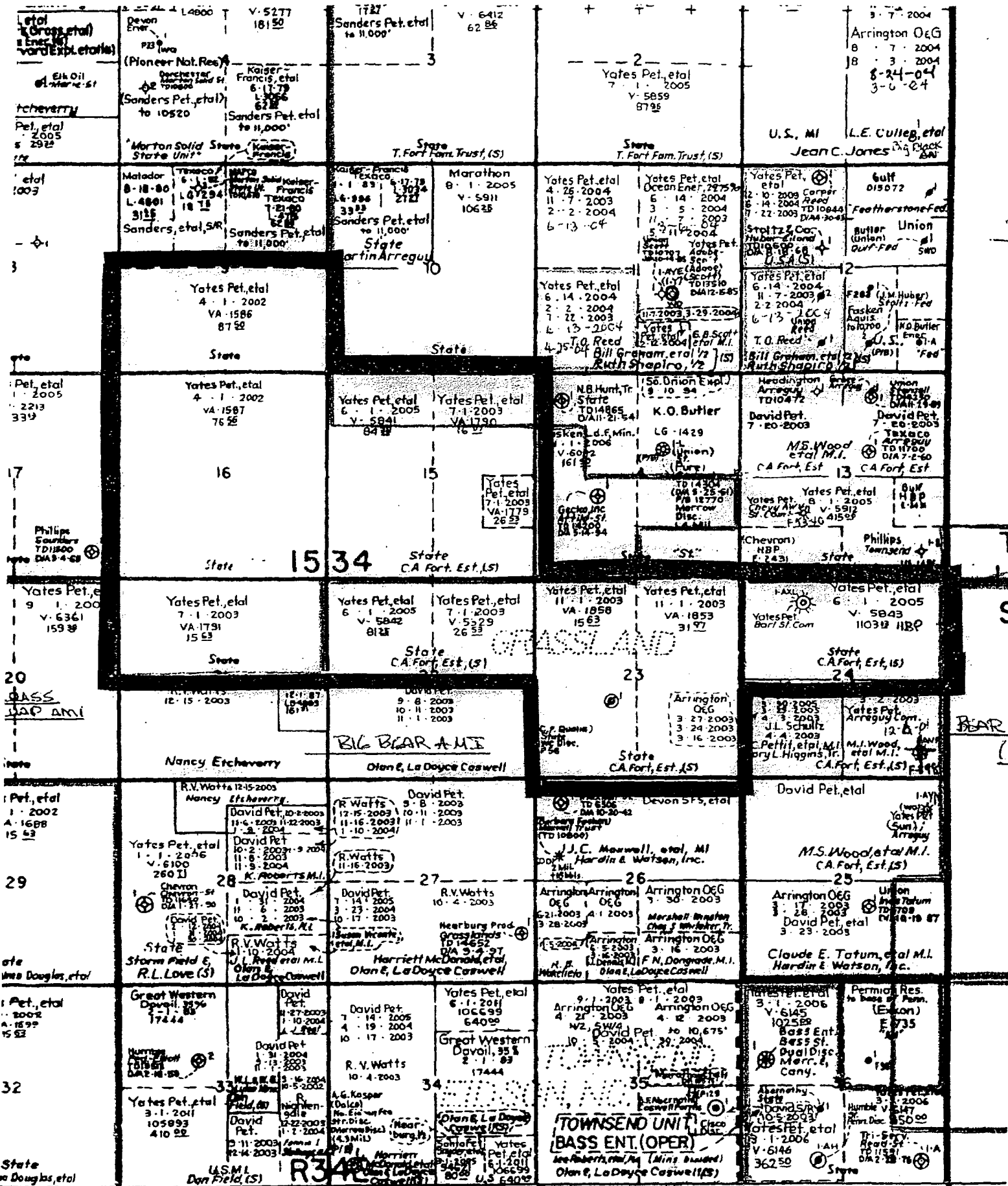
My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2002 by  
Michael A. McMillan.

My commission expires: \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

EXHIBIT "A"



18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100



EXHIBIT "B"  
 New Grass State Unit  
 Lea County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE		LESSOR	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST
1	T15S-R34E Section 16: All	640.00	VA-1587	4/1/02	State of New Mexico	Yates Petroleum Corporation	None		Yates Petroleum Corporation
									Yates Drilling Company
									Abo Petroleum Corporation
									Mycos Industries, Inc.
									David Petroleum Corporation
									McMillan Production Company
									McMillan Ventures, LLC
									Permian Exploration Corporation
									Keith E. McKamey
									William B. Owen
		Edward N. David							
		Michael A. McMillan							
2	T15S-R34E Section 9: S2	320.00	VA-1586	4/1/02	State of New Mexico	Yates Petroleum Corporation	None		Yates Petroleum Corporation
									Yates Drilling Company
									Abo Petroleum Corporation
									Mycos Industries, Inc.
									David Petroleum Corporation
									McMillan Production Company
									McMillan Ventures, LLC
									Permian Exploration Corporation
									Keith E. McKamey
									William B. Owen
		Edward N. David							
		Michael A. McMillan							
3	T15S-R34E Section 15: NE4, W2SE4, SE4SE4	280.00	VA-1790	7/1/03	State of New Mexico	Yates Petroleum Corporation	None		Yates Petroleum Corporation
									Yates Drilling Company
									Abo Petroleum Corporation
									Mycos Industries, Inc.
									David Petroleum Corporation
									McMillan Production Company
									McMillan Ventures, LLC
									Permian Exploration Corporation
									Keith E. McKamey
									William B. Owen
		Edward N. David							
		Michael A. McMillan							

EXHIBIT "B"  
 New Grass State Unit  
 Lea County, New Mexico

Section	Acres	Survey	State	Operator	Interest	Shareholders
4	320.00	VA-1791 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillian Production Company 6.040790% McMillian Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillian 0.712956%
5	160.00	VA-5329 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillian Production Company 6.040790% McMillian Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillian 0.712956%
6	40.00	VA-1779 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillian Production Company 6.040790% McMillian Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillian 0.712956%

EXHIBIT "B"

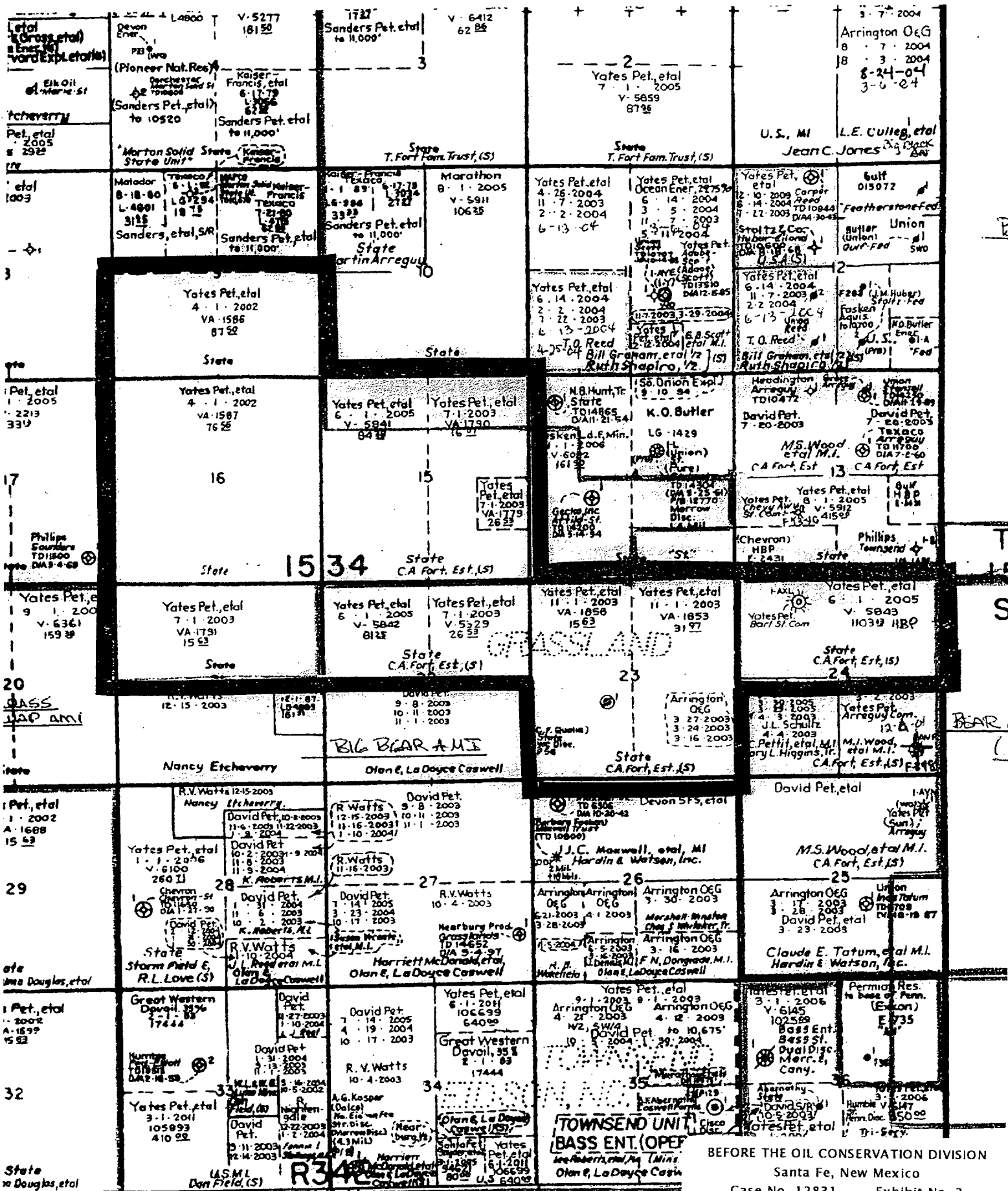
New Grass State Unit  
Lea County, New Mexico

Section	Area	Acres	State	Owner	Interest		
7	T15S-R34E Section 23: E/2	320.00	VA-1653 11/1/03	State of New Mexico	Yates Petroleum Corporation	None	
						Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Myco Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						
8	T15S-R34E Section 23: W/2	320.00	VA-1658 11/1/03	State of New Mexico	Yates Petroleum Corporation	None	
						Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Myco Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						
9	T15S-R34E Section 15: W/2	320.00	VO-5841 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	
						Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Myco Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						

EXHIBIT "B"  
New Grass State Unit  
Lea County, New Mexico

10	T15S-R34E Section 22: NW4	160.00	VO-5842 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. David Petroleum Corporation McMillan Production Company McMillan Ventures, LLC Permian Exploration Corporation Keith E. Mckamey William B. Owen Edward N. David Michael A. McMillan	43.400000% 6.200000% 6.200000% 6.200000% 16.112586% 6.040790% 7.600008% 6.820742% 0.178220% 0.178220% 0.356478% 0.712956%
11	T15S-R34E Section 24: N2	320.00	VO-5843 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. David Petroleum Corporation McMillan Production Company McMillan Ventures, LLC Permian Exploration Corporation Keith E. Mckamey William B. Owen Edward N. David Michael A. McMillan	43.400000% 6.200000% 6.200000% 6.200000% 16.112586% 6.040790% 7.600008% 6.820742% 0.178220% 0.178220% 0.356478% 0.712956%
Total Unit Acres		3200						
State Lands		100%						

EXHIBIT "A"



BEFORE THE OIL CONSERVATION DIVISION  
 Santa Fe, New Mexico  
 Case No. 12831 Exhibit No. 2  
 Submitted by:  
 Yates Petroleum Corporation  
 Hearing Date: March 7, 2002

EXHIBIT "B"

New Grass State Unit  
Lea County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	LESSOR	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST
1	T15S-R34E Section 16: All	640.00	VA-1587 4/1/02	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillan Production Company 6.040790% McMillan Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillan 0.712956%
2	T15S-R34E Section 9: S2	320.00	VA-1586 4/1/02	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillan Production Company 6.040790% McMillan Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillan 0.712956%
3	T15S-R34E Section 15: NE4, W2SE4, SE4SE4	280.00	VA-1790 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation 43.4000000% Yates Drilling Company 6.2000000% Abo Petroleum Corporation 6.2000000% Myco Industries, Inc. 6.2000000% David Petroleum Corporation 16.112586% McMillan Production Company 6.040790% McMillan Ventures, LLC 7.600008% Permian Exploration Corporation 6.820742% Keith E. McKamey 0.178220% William B. Owen 0.178220% Edward N. David 0.356478% Michael A. McMillan 0.712956%

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Case No. 12831 Exhibit No. 3

Submitted by:

Yates Petroleum Corporation

Hearing Date: March 7, 2002

EXHIBIT "B"

New Grass State Unit  
Lea County, New Mexico

Section	Acres	State	Operator	Interest	Shareholders		
4 <u>T15S-R34E</u> Section 21: N2	320.00	VA-1791 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Mycos Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						
5 <u>T15S-R34E</u> Section 22: NE4	160.00	VA-5329 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Mycos Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						
6 <u>T15S-R34E</u> Section 15: NE4SE4	40.00	VA-1779 7/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation	43.400000%
						Yates Drilling Company	6.200000%
						Abo Petroleum Corporation	6.200000%
						Mycos Industries, Inc.	6.200000%
						David Petroleum Corporation	16.112586%
						McMillan Production Company	6.040790%
						McMillan Ventures, LLC	7.600008%
						Permian Exploration Corporation	6.820742%
						Keith E. McKamey	0.178220%
						William B. Owen	0.178220%
Edward N. David	0.356478%						
Michael A. McMillan	0.712956%						

EXHIBIT "B"

New Grass State Unit  
Lea County, New Mexico

Section	Area	Acres	State	Operator	Interest	Shareholders	
7	T15S-R34E Section 23: E/2	320.00	VA-1853 11/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation
							Yates Drilling Company
							Abo Petroleum Corporation
							Mycos Industries, Inc.
							David Petroleum Corporation
							McMillan Production Company
							McMillan Ventures, LLC
							Permian Exploration Corporation
							Keith E. McKamey
							William B. Owen
							Edward N. David
							Michael A. McMillan
8	T15S-R34E Section 23: W2	320.00	VA-1858 11/1/03	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation
							Yates Drilling Company
							Abo Petroleum Corporation
							Mycos Industries, Inc.
							David Petroleum Corporation
							McMillan Production Company
							McMillan Ventures, LLC
							Permian Exploration Corporation
							Keith E. McKamey
							William B. Owen
							Edward N. David
							Michael A. McMillan
9	T15S-R34E Section 15: W2	320.00	V/O-5841 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation
							Yates Drilling Company
							Abo Petroleum Corporation
							Mycos Industries, Inc.
							David Petroleum Corporation
							McMillan Production Company
							McMillan Ventures, LLC
							Permian Exploration Corporation
							Keith E. McKamey
							William B. Owen
							Edward N. David
							Michael A. McMillan



EXHIBIT "B"

New Grass State Unit  
Lea County, New Mexico

10	T15S-R34E Section 22: NW4	160.00	VO-5842 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. David Petroleum Corporation McMillian Production Company McMillian Ventures, LLC Permian Exploration Corporation Keith E. McKamey William B. Owen Edward N. David Michael A. McMillian	43.400000% 6.200000% 6.200000% 6.200000% 16.112586% 6.040790% 7.600008% 6.820742% 0.178220% 0.178220% 0.356478% 0.712956%
11	T15S-R34E Section 24: N2	320.00	VO-5843 6/1/05	State of New Mexico	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. David Petroleum Corporation McMillian Production Company McMillian Ventures, LLC Permian Exploration Corporation Keith E. McKamey William B. Owen Edward N. David Michael A. McMillian	43.400000% 6.200000% 6.200000% 6.200000% 16.112586% 6.040790% 7.600008% 6.820742% 0.178220% 0.178220% 0.356478% 0.712956%

Total Unit Acres 3200

State Lands 100%



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

**AUTHORITY FOR EXPENDITURE**  
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. 02-041-0  
AFE DATE 2/18/02

AFEND (rev 6/98)

A/E Type:	Well Objective:	Well Type:
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Exploratory
<input type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

Original

Revised

Final

Supplemental

LEASE NAME	New Grass State Unit #1		PROJ'D DEPTH	13,900'
COUNTY	Lea		STATE	New Mexico
FIELD			HORIZON	Morrow/Mississippian
LOCATION	Section 22 T15S-R34E, 660' N & E			
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division	
DISTRICT CODE		DISTRICT NAME		
BRANCH CODE		BRANCH NAME		

PROGNOSIS: \_\_\_\_\_

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	3,000	3,000
920-110	Location, Right-of-Way	45,000	45,000
920-120	Drilling, Footage	0	0
920-130	Drilling, Daywork 59 days @ \$8,000/day + \$25K for mob	527,000	527,000
920-140	Drilling Water, Fasline Rental	25,000	25,000
920-150	Drilling Mud & Additives	47,000	47,000
920-160	Mud Logging Unit, Sample Bags	20,000	20,000
920-170	Cementing - Surface Casing	60,000	60,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	42,000	42,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	51,000	51,000
920-205	Control of Well-Insurance	4,500	4,500
920-210	Supervision & Overhead	35,000	35,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	35,000	35,000
920-350	Cementing - Production Casing		45,000
920-410	Completion Unit - Swabbing		20,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		0
920-450	Elec. Logs, Testing, Etc. - Completion		20,000
920-460	Tools & Equip. Rental, Etc. - Completion		35,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		6,000
920-490	Additional LOC Charges - Completion		3,000
920-510	Bits, Tools & Supplies - Completion		1,800
920-500	Contingency for Completion		
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>894,500</b>	<b>1,131,300</b>

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	5,000	25,000
930-020	Casing 13 3/8" @ 400'	6,500	6,500
	9 5/8" @ 6,200'	89,750	89,750
	5 1/2" @ 13,900'		121,000
930-030	Tubing 2 7/8" @ 13,600'		54,000
930-040	Packer & Special Equipment		
940-010	Pumping Equipment		
940-020	Storage Facilities		15,000
940-030	Separation Equip., Flowlines, Misc.		30,000
940-040	Trucking & Construction Costs		15,000
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>101,250</b>	<b>356,250</b>

**TOTAL COSTS 995,750 1,487,550**

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	Cory Frederick	Operations Approval	
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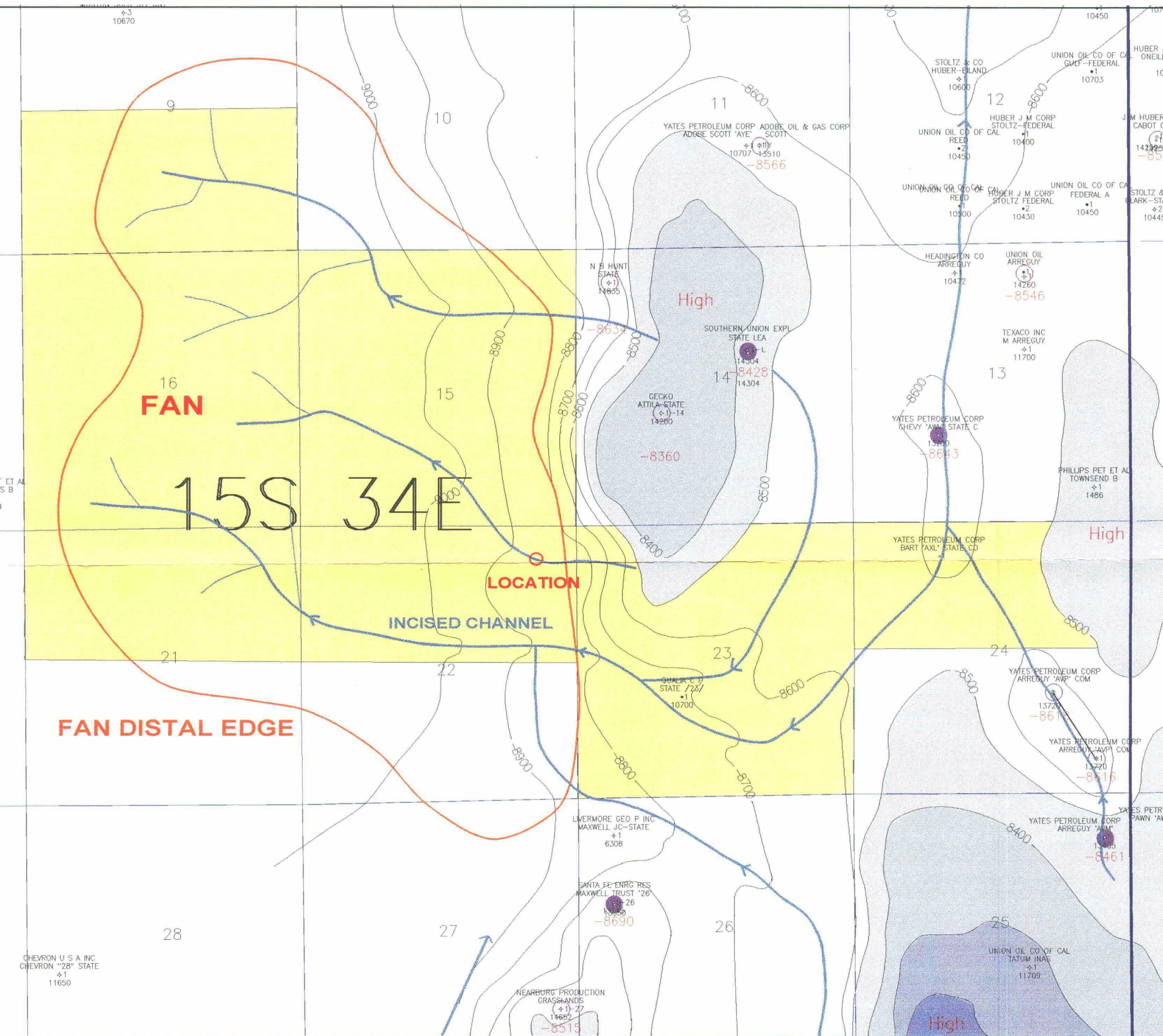
BY	DATE	
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BY	DATE	
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BY	DATE	
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BY	DATE	
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BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12831 Exhibit No. 5  
Submitted by:  
Yates Petroleum Corporation  
Hearing Date: March 7, 2002



Yates Petroleum Corporation

NEW GRASS UNIT OUTLINE  
TOP OF MORROW STRUCTURE MAP  
LEA COUNTY, NEW MEXICO

GEO: JOHN AMIET	CI-100'	2/28/02
LARISSA PLYMALE	Scale 1:24000.	LPJA1534.GPF

- **Productive Morrow**
- **Morrow Penetration**

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12831 Exhibit No. 6  
Submitted by:  
**Yates Petroleum Corporation**  
Hearing Date: March 7, 2002



## **New Grass Exploratory Unit Geologic Justification**

Yates Petroleum Corporation requests the formation of the New Grass Exploratory Unit to support the drilling of a wildcat well in the N/2 of section 22 T15S R34E. The footage location will be 660' FNL and 660' FEL of section 22. The proposed unit outline is shown on the geologic structure map, the isopach map, and the land map. The primary target of the initial well will be the Atoka-Morrow, but the well will TD in the Lower Mississippian limestone at a depth of 13,900'.

The Atoka-Morrow sands are gas productive channel sands of limited aerial extent which develop on the flanks of the structural highs and extend out between the highs. Extending out to the west (downdip), the channels develop into a more extensive fan system (see structure map). Fan development may also occur to a limited extent between the high blocks. The isopach map also shows a general east-west trend of the sand system. Deposition and uplift were occurring simultaneously during Atoka-Morrow time. The source of the sand was erosion from uplifted fault blocks immediately to the south and east during late Mississippian and early Pennsylvanian time.

The top Morrow structure map shows the structural highs in blue. The sand channels coming off these highs are indicated with a blue line. These sand channels are narrow, elongate features, but they can be very prolific when discovered. The best Morrow well on the map is the Arreguy AVM #1 located in the NE/4 of section 25. This well has a cumulative production of 43 MBO and 1.1 MMCFG in one year. Morrow producers are shown as a solid circle and penetrations are shown with an open circle around the well location. There are no Atoka-Morrow penetrations in the unit outline.

The proposed Yates well is located on the down dropped block of a north-south fault system. There is approximately 500' of relief from the upthrown block to the down dropped block. A successful first well in the Unit outline also will lead to the other channel systems and the fan system shown on the map being tested.

The proposed Unit outline encompasses a faulted area of upthrown and downthrown blocks. Yates Petroleum Corporation believes there are channel sands which develop into a fan system down dip. This is a high risk well which will cost \$1.5MM to drill and complete. The formation of this exploratory unit would aid in the reasonable development of these potential reservoirs.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12831 Exhibit No. 8  
Submitted by:  
Yates Petroleum Corporation  
Hearing Date: March 7, 2002