

## OIL AND GAS LEASE

THIS AGREEMENT made this 1st day of February, 1990, between  
JOSEPH KENNETH MORGAN, a married man dealing in his sole and separate property, Lessor,  
and YATES PETROLEUM CORPORATION - 70%, YATES DRILLING COMPANY - 10%, ABO PETROLEUM  
CORPORATION - 10%, and MYCO INDUSTRIES, INC. - 10%

Lessees, WITNESSETH:

1. Lessor in consideration of Ten Dollars and No/100----- Dollars  
 (\$ 10.00) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets ex-  
 clusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building  
 roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous  
 thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in-----  
Chaves County, New Mexico, to-wit:

All rights below 2000 feet subsurface in and under the following:

TOWNSHIP 10 SOUTH, RANGE 25 EAST, N.M.P.M.Section 17: E/2 SE/4

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, de-  
 velopment or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding any-  
 thing else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil  
 or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to paid by Lessee are: (a) on oil, 3/16 of that produced and saved from said land, the same to be delivered at the wells or to the  
 credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the  
 market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, pro-  
 duced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 3/16

of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; while there is a gas  
 well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after  
 the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall  
 not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may  
 be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free  
 use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be com-  
 puted after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil  
 and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment  
 it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of  
 the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil  
 and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area,  
 and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmen-  
 tal authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size  
 with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion  
 thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata  
 need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need  
 not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or  
 portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument  
 describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or  
 completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well  
 capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have  
 theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the  
 land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution  
 of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by  
 this lease whether or not the well or wells so located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas,  
 or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same  
 were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall  
 be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in  
 said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units.  
 Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit  
 that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and  
 included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of  
 such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such  
 production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing  
 and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from  
 which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time  
 to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and  
 operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental  
 authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under  
 the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New  
 Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said  
 agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in  
 the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto,  
 and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged  
 in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall  
 remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 con-  
 secutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If,  
 after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof  
 should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of  
 such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and  
 if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit  
 designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county  
 in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or  
 wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled  
 therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may  
 at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and  
 thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land,  
 including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be  
 drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns  
 but no change or division of ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of  
 Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered  
 U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment  
 hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who  
 commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a  
 recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision  
 of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time  
 being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if  
 in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.  
 After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator  
 but in developing this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable  
 of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder  
 and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien  
 upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties  
 accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor  
 owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced  
 proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties  
 executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations  
 thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force  
 majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such  
 covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long  
 as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and  
 the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

\* See Reverse side for Paragraph 11  
 IN WITNESS WHEREOF, this instrument is executed on the date first above written.

JOSEPH KENNETH MORGAN

SS-#V

385-36-1610

Lessor

Lessor

No. \_\_\_\_\_

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_

No. Acres \_\_\_\_\_

County, N. M.

Team, \_\_\_\_\_

This instrument was filed for record on the

1st day of Feb, 19 90,

at 8:09 o'clock A. M., and duly

recorded in Book 75, Page 1032

of the Clerk's records of this office.

Rhoda Goodloe

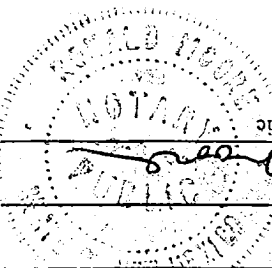
County Clerk

By Joseph Kenneth Morgan, Deputy

t#73070 When recorded return to \$7.00

ates Petroleum Corporation-Attn: MRB

105 South Fourth Artesia, NM 88210



My commission expires 10/24/91

property.

1990 by JOSEPH KENNETH MORGAN, a married man dealing in his sole and separate

The foregoing instrument was acknowledged before me this 1st day of Feb

STATE OF New Mexico  
County of Santa Fe ss.

INDIVIDUAL ACKNOWLEDGMENT

by \_\_\_\_\_ President  
of \_\_\_\_\_ corporation  
on behalf of said corporation.  
My Commission Expires: \_\_\_\_\_  
Notary Public

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_

STATE OF NEW MEXICO  
County of Santa Fe ss.

CORPORATION ACKNOWLEDGMENT

11. This lease is subject to any prior Oil and Gas Lease of Record, to the extent, and only to the extent, that said prior Oil and Gas Lease may still be in force and effect.

Attached to and made a part of Oil and Gas Lease dated February 1, 1990 by and between Joseph Kenneth Morgan, a married man dealing in his sole and separate property, lessor, and Yates Petroleum Corporation, et al, Lessees