



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Pecos District
Roswell Field Office
2909 West Second Street
Roswell, New Mexico 88201-2019
www.nm.blm.gov



In Reply
Refer To:
NMNM122209X
3180 NM (513)

MAR 06 2009

Branex Resources, Inc.
P.O. Box 2990
Ruidoso, New Mexico 88355-2990

Gentlemen:

Your application of February 12, 2009, filed with the BLM requests the designation of the Thunderhead Unit area, embracing 2558.40 acres, more or less, Chaves County New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended

Pursuant to unit plan regulations 43 CFR 3180, the land requested as outlined on your plat marked Exhibit "A", Branex Resources, Inc., Thunderhead Unit, Chaves County New Mexico is hereby designated as a logical unit area and has been assigned No. NMNM-122209X. This designation is valid for a period of one year from the date of this letter.

The unit agreement submitted for the area designated should provide for a well to test the Strawn Sandstones or to a depth of 6,500 feet whichever is the lesser. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications requested in your application and the corrections applied as requested by the Bureau of Land Management and shown in red on the enclosed Form of Agreement.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

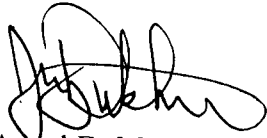
In the absence of any type of land requiring special provisions or any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

Oil Conservation Division
Case No. 414284
Exhibit No.

When the executed agreement is transmitted to the BLM for approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the reprint of the aforementioned form.

Inasmuch as this unit agreement involves State land, we are sending a copy of the letter to the Commissioner of Public Lands. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the state.

Sincerely,


For
Angel D. Mayes
Assistant Field Manager,
Lands and Minerals

Enclosures

FOR THE DEVELOPMENT AND OPERATION
OF THE

THUNDERHEAD UNIT AREA

COUNTY OF CHAVES

STATE OF NEW MEXICO

NO. NMNM 122209X

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The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The 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 as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO and the Land Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its 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 wells, equipment, materials, and appurtenances used in conducting the unit operations to the newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator as negotiated by the working interest owners, the owners of the working interests according to their respective acreage interest in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit 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 AO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and the Land Commissioner, at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working 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 "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating 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 inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

8. 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 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.

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, if on Federal land, or by the Land Commissioner, if on State land, and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the upper 100 feet of the Mississippian-Lime formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land, or the Land Commissioner if on State land, or the Division if located on Fee land, that further drilling of said well would 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 6600.9500 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO and Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed, prior to the establishment of a participating area, including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after fifteen (15) days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement

base of
strawn
sandstones

during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section. Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO and Land Commissioner, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO and Land Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO and Land Commissioner. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO and Land Commissioner.

→ see following sheet

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner and Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO, the Land Commissioner and Division may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

- (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- (b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and the Land Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner and Division, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner, and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participation area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating areas is based are abandoned.

It is the intent of this section that a participating area shall represent the area productive of unitized substances known or reasonably proved to be productive in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO, the Land Commissioner and Division, as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States and the State of New Mexico, be impounded in a manner mutually acceptable to the owners of committed working interests and the AO and the Land Commissioner. Royalties due to the United States and the State of New Mexico shall be determined by the AO for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the AO and the Land Commissioner until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

This needs to be the last paragraph of section 811

Determination as to whether a well completed within the West Fork Unit Area prior to the effective date of this Agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

EXHIBIT "B"
SCHEDULE OF OWNERSHIP OF OIL AND GAS INTERESTS
THUNDERHEAD UNIT AREA
CHAVES COUNTY, NEW MEXICO

TR #	DESCRIPTION OF LAND	# OF ACRES	SERIAL NO/EXP.	BASIC ROYALTY PERCENTAGE OF MINERAL	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST & PERCENTAGE
FEDERAL LANDS:							
1	T4S-R27E-NMPM Sec. 3: Lots 1, 2, 4, S½NE¼, SE¼NW¼, N½SW¼, SE¼SW¼, SE¼ Sec. 4: Lot 2, NE¼SW¼, SW¼SW¼, NW¼SE¼, SE¼SE¼	718.94	NMNM-102905 Effective 6/1/08 Expires 5/31/09	USA 12.50% Royalty 100.000%	Yates Petroleum Corporation Yates Drilling Company ABO Petroleum Corporation Myco Industries, Inc.	None 40.000% 20.000% 20.000% 20.000%	Yates Petroleum Corporation 40.000% Yates Drilling Company 20.000% ABO Petroleum Corporation 20.000% Myco Industries, Inc. 20.000%
2	T4S-R27E-NMPM Sec. 9: SW¼NE¼, N½NW¼, SW¼NW¼, SW¼, N½SE¼ Sec. 10: N½, SW¼, N½SE¼, SW¼SE¼	1,000.00	NMNM-102906 Effective 6/1/99 Expires 5/31/09	USA 12.50% Royalty 100.000%	Yates Petroleum Corporation Yates Drilling Company ABO Petroleum Corporation Myco Industries, Inc.	None 40.000% 20.000% 20.000% 20.000%	Yates Petroleum Corporation 40.000% Yates Drilling Company 20.000% ABO Petroleum Corporation 20.000% Myco Industries, Inc. 20.000%
2	FEDERAL TRACT(S) TOTALING			1,718.94 ACRES OR	67.19%	OF UNIT AREA	
STATE LANDS:							
3	T4S-R27E-6th PM Sec. 3: Lot 3, SW¼NW¼, SW¼SW¼	119.69	V0-8365 Effective 11/1/08 Expires 10/31/13	State of New Mexico 16.6667% Royalty 100.000%	Branex Resources, Inc.	Leo J. Lammers 100.000% 2.0000%	Branex Resources, Inc. 100.000%
4	T4S-R27E-6th PM Sec. 4: Lot 1, 3, 4, S½N½, NW¼SW¼, SE¼SW¼, NE¼SE¼, SW¼SE¼	439.77	V0-8366 Effective 11/1/08 Expires 10/31/13	State of New Mexico 16.6667% Royalty 100.000%	Branex Resources, Inc.	Leo J. Lammers 100.000% 2.0000%	Branex Resources, Inc. 100.000%