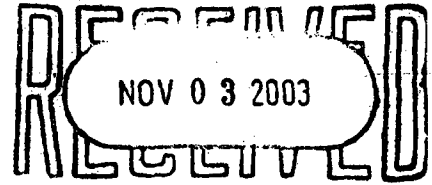




PATRICK H. LYONS  
COMMISSIONER

*State of New Mexico*  
*Commissioner of Public Lands*

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148



COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

October 27, 2003

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210-2118

Attention: Ms. Janet Richardson

Re: Preliminary Approval  
Proposed Samuel Smith Federal State Exploratory Unit  
Eddy County, New Mexico

Dear Ms. Richardson:

This office has received the unexecuted copy of the unit agreement which you have submitted for the proposed Samuel Smith Federal State Exploratory Unit area, Eddy County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Our preliminary approval is given with the condition that an offset well be drilled in the E/2 of Section 32, Township 23 South, Range 24 East should the initial well, being drilled in the W/2 of Section 33, Township 23 South, Range 24 East, be completed as a commercial producer.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 19.2.100.51, applications for approval shall contain a statement of facts showing:
  - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
  - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
  - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
  - d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.

BEFORE THE COMMISSION

Santa Fe, New Mexico

Case No. 13188 Exhibit No. 2

Submitted by:

YATES PETROLEUM CORPORATION

Hearing Date: December 4, 2003

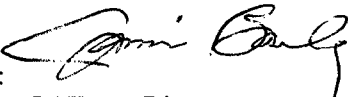
Yates Petroleum Corporation  
October 27, 2003  
Page 2

4. Order of the New Mexico Oil Conservation Division and Designation from the Bureau of Land Management. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division and the Bureau of Land Management.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. Copies of all the well records for the initial unit well.
8. A filing fee in the amount of \$360.00.
- ✓9. On Exhibit "A", please correct the Townships from 24 S to 23 S and 25 S to 24 S.
- ✓10. On Exhibit "B", Tract Nos. 16 and 17, the correct lessee of record is Yates Petroleum Corporation.
- ✓11. On Exhibit "B", Tract No. 18, the correct acreage is 320.99, the correct lease number is VA-807, and the correct lessee of record is M. J. Harvey, Jr.
- ✓12. On Exhibit "B", the recapitulation should reflect the correct State acreage (320.99), totals and updated percentages.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS  
COMMISSIONER OF PUBLIC LANDS

BY:   
JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744

PL/JB/pm

cc: OCD-Santa Fe, Attention: Mr. Roy Johnson  
BLM-Roswell, Attention: Mr. Armando Lopez