

That the LESSOR, for and in consideration of \$10.00 cash in hand paid, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on the part of the LESSEE to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let exclusively unto said LESSEE, with the exclusive right of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind, and laying pipe lines, telephone and telegraph lines, housing and boarding employees, building tanks, power stations, gasoline plants, ponds, roadways, and structures thereon to produce, save, market and take care of said products and the exclusive sub-surface rights and privileges related in any manner to any and all such operations and any and all other rights and privileges necessary, incident to, or convenient for the economical operation alone or conjointly with neighboring land for such purposes, all that certain tract or tracts of land situated in the County of Eureka, State of Nevada, described as follows, to-wit: Township 27 North, Range 51 East, Section 13: a portion of the SW/4NE/4 and the E/2NE/4, per that attached plat referred to as Exhibit "A" and containing 15.014 acres, more or less.

It is agreed that this lease shall remain in force for a term of five (5) years from date (called the primary term), and as long as oil, or gas of whatsoever nature or kind, or either of them is produced from said land or drilling or reworking operations are continued as hereinafter provided. If at the end of the primary term and the lease is not held by oil or gas production from said land or drilling or reworking operations as provided herein, LESSEE shall have the option to renew for three (3) additional terms of five (5) years each this lease. If, at the expiration of the primary term of this lease, oil or gas is not being produced on or from said land, but LESSEE is then engaged in drilling or reworking operations thereon, then this lease shall continue in force so long thereafter as drilling or reworking operations are being continuously prosecuted on said land or on a drilling or development or operating unit which includes all or a part of said lands. If oil or gas shall be discovered and/or produced from any such well or wells drilled, being drilled or reworked at or after the expiration of the primary term or at or after the end of the production period of this lease, this lease shall continue in force so long thereafter as oil or gas is produced or drilling or reworking operations are continued as herein above provided on the leased premises or from any such unit which includes all or a part of said lands. Drilling or reworking operations shall be considered to be continuously prosecuted if not more than sixty days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling or reworking of another well.

THIS AGREEMENT, made and entered into this 4th day of December, 1995, by and between STATE OF NEVADA, DEPARTMENT OF TRANSPORTATION, 1263 South Stewart Street, Carson City, Nevada 89712, hereinafter called LESSOR and YATES PETROLEUM CORPORATION, 105 South Fourth Street, Artesia, New Mexico 88210, hereinafter called LESSEE,
WITNESSETH:

OIL & GAS LEASE

1. To pay LESSOR as rent for the leased premises the sum of FIVE HUNDRED TEN AND 48/100 DOLLARS (\$510.48) per term commencing on the *10th day of December*, 1995, and payable upon renewal of each term thereafter;
2. To deliver to the credit of LESSOR, free of cost in the pipeline to which LESSOR may connect his wells, the equal one-eighth part of all oil produced and saved from the leased premises, or at the LESSEE'S option, may pay to the LESSOR for such one-eighth royalty, the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipeline or into storage tanks.
3. To pay LESSOR for gas of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth, at the market price at the well for the gas sold, used off the premises, or in the manufacture of products therefrom, said payments to be made monthly.

In consideration of the premises the said LESSEE covenants and agrees:

It is further understood and agreed by and between the parties hereto that the above described tracts of land is now used for highway purposes; that the LESSOR herein desires that no well be drilled nor obstructions placed thereon; that the LESSOR therefore releases the LESSEE herein from any and all obligations express or implied of drilling, offsetting, or development work of any nature in regard to the above described tracts of land for so long a period as said lease remains in effect; and it is further agreed that LESSEE or his assigns may at any time, with further written consent of LESSORS, consolidate, jointly operate and develop this lease and land covered hereby with any other lease or leases covering lands within the following described area:

Township 27 North, Range 51 East, Section 13; SW/4NE/4 and the E/2NE/4, upon procuring the written consent to such consolidation from the owner or owners of LESSOR'S interest in and under said lease or leases in the area above described. In the event of any such consolidation, the premises so consolidated shall be jointly operated and developed as an entirety, the same as if the LESSOR herein and the owner or owners of LESSOR'S interest in and under said lease or leases so consolidated herewith had joined in the execution of one lease in the first instance covering the entire property so consolidated. In the event of such consolidation or communitization, the owner or owners of LESSOR'S interest in and under the respective leases so consolidated, shall be entitled to participate in the royalties accruing from any well or wells drilled on said consolidated leased premises in the proportion that the acreage embraced in each respective lease bears to the entire consolidated leased premises. It is further agreed that the drilling or completion of a well on any part of the consolidated leased premises shall be considered and construed as the drilling and completion of a well under the terms and conditions of each of the leases so consolidated.

In the event the consolidation above referred to is not secured and in the further event oil and gas is produced in commercial quantities from the last above described tract, it is understood and agreed by and between the parties hereto that the undersigned LESSOR shall receive offset royalty payment consisting of that proportion of the one-eighth (1/8) royalty on the production of oil, gas and casinghead gas from the last above described tract of land which the acreage contained in the leased premises bears to the total acreage embraced in the last above described tract, and in such event this lease shall remain in effect for the primary term hereof and for as long thereafter as oil or gas is produced from said tract last above described by LESSEE herein or its assigns.

LESSOR may at any time release this lease as to part or all of the lands above described, after which all payments and liabilities thereafter to accrue, as to the lands above mentioned shall be reduced proportionately.

No part of the surface of the leased premises shall, without the written consent of the LESSOR, be let, granted, or licensed by the LESSOR to any other party for the erection, construction, location or maintenance of structures, tanks, pits, reservoirs, equipment or machinery to be used for the purpose of exploring, developing, or operating adjacent lands for oil or gas.

LESSOR shall have the right to use, free of cost, gas, oil and water produced on said land for its operation thereon, except water from ditches, ponds, reservoirs, or wells of LESSOR.

LESSOR shall not perform or permit any disorderly conduct or commit any nuisance on the premises or to use the premises in any way which will interfere with or endanger the traveling public. Lighting, if any, placed by LESSOR shall not produce any objectionable glare to the traveling public. No signs of any type, on-premise or otherwise, will be permitted to be erected on the premises, except signs that are required for identification of the location, required for safety purposes or required by Federal, State, County, or municipal laws, rules, regulations.

If the estate of the LESSOR hereto is assigned, upon written permission and approval of LESSOR, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the LESSOR until after the LESSOR has been furnished with certified copies of muniments of title from LESSOR; and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part or parts of said lands as to which the said LESSOR or any assignee thereof shall make due payment of said rental.

If said LESSOR owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rental herein provided shall be paid the LESSOR only in proportion which its interest bears to the whole and undivided fee. Any interest in the production from the lands herein described to which the interest of LESSOR may be subject shall be deducted from the royalty herein reserved.

All of LESSOR'S obligations and covenants hereunder, whether express or implied, shall be suspended at the time or from time to time as compliance with any thereof is prevented or hindered by or is in conflict with Federal, State, County, or municipal laws, rules, regulations or Executive Orders asserted as official by or under public authority claiming jurisdiction, or Act of God, adverse field, weather, or market conditions, inability to obtain materials in the open market or transportation thereof, war, strikes, lockouts, riots, or other conditions or circumstances not wholly controlled by LESSOR, and this lease shall not be terminated in whole or in part, nor LESSOR held liable in damages for failure to comply with any such obligations or covenants if compliance therewith is prevented or hindered by or is in conflict with any of the foregoing eventualities.

The time during which LESSOR shall be prevented from conducting drilling or reworking operations during the primary term of this lease, under the contingencies above stated, shall be added to the primary term of the lease; provided, however, that delay rentals as herein provided shall not be suspended by reason of the suspension of operations and if this lease is extended beyond the primary term above stated by reason of such suspension,

LESSOR shall pay a delay rental on the dates hereof in the manner and in the amount above provided. LESSOR agrees that LESSEE or its assigns may include said land or any part thereof in any unit plan of development or operations which is approved by the Secretary of the Interior or to which LESSEE may voluntarily subscribe, and LESSOR agrees to execute any such unit plan in order to make it effective as to the interests covered by this lease. In such event royalty will be paid to LESSOR at the rate set forth above, as to the land covered hereby and included in such unit, based upon the production allocated pursuant to the unit plan to said land; and the drilling or completion or continued operation of a well on any portion of the area included within such a plan shall be construed and considered as the drilling or completion or continued operation of a well under the terms of this lease as to all of the land covered by the lease.

That LESSOR specifically reserves the right of entry by any authorized officer, engineer, employee, agent or contractor of the LESSOR for the purpose of inspecting said premises, or the doing of any and all acts necessary or proper on said premises in connection with the protection, maintenance, repair, reconstruction and operation of said premises. This lease is made upon the express conditions that the State of Nevada, its officers, agents, and employees are to be free from all liability and claim for damage by reason of any person or persons, including LESSEE, or damage to property of any kind whatsoever and to whomsoever belonging, including LESSEE, from any cause whatsoever, while in, upon or in any way connected with the said leased premises or any occupancy hereunder during the term of this lease or any extension hereof.

This lease shall constitute the entire contract between the parties hereto, and no modification hereof shall be binding unless endorsed hereon in writing.

All covenants and agreements herein contained shall extend to and be obligatory upon the heirs, executors, administrators, successors and assigns, as the case may be of the respective parties.

As used herein the terms LESSOR and LESSEE shall include the plural as well as the singular, and the feminine as well as the masculine, and the neuter.

That the provisions of this lease may be altered, changed or amended by mutual consent of the parties hereto, in accordance with the provisions and procedures herein contained.

That time is of the essence of each and all of the terms and provisions of this lease.

This lease shall be recorded at LESSEE'S expense. The provisions herein shall be null and void unless recorded by the LESSEE and a conformed copy delivered to the LESSOR. This lease shall be construed and interpreted in accordance with the laws of the State of Nevada.

IN WITNESS WHEREOF the parties hereto have executed this agreement the day and year first above written.

REVIEWED AND RECOMMENDED BY:

YATES PETROLEUM CORPORATION

District Engineer

Chief Right-of-Way Agent

APPROVED FOR LEGALITY AND FORM:

By: PEYTON YATES, Attorney in Fact

Deputy Attorney General

STATE OF NEVADA acting by and through its Department of Transportation:

Director

On this 3rd day of November, 19 95, personally appeared before me, the undersigned, a Notary Public in and for the County of Esmeralda, State of New Mexico, Peyton Yates, Attorney in Fact, whose name is subscribed to the above instrument and who acknowledged to me that he executed the same freely and voluntarily and for the uses and purposes thereby mentioned.



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IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



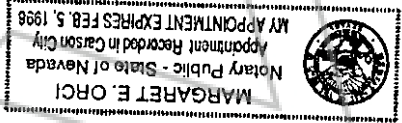
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My Commission Expires 11/25/99

Jim M. Jones

STATE OF NEVADA
CARSON CITY

On this 6th day of December, 19 95, personally appeared before me, the undersigned, a Notary Public in and for Carson City, State of Nevada, Jim Dodson, personally known (or proved) to me to be the Assistant Director of the Department of Transportation of the State of Nevada who subscribed to the above instrument for the Nevada Department of Transportation under authorization of Nevada Revised Statutes, Chapter 408.205; that he affirms that the seal affixed to said instrument is the seal of said Department; and that said instrument was executed for the Nevada Department of Transportation freely and voluntarily and for the uses and purposes therein mentioned.



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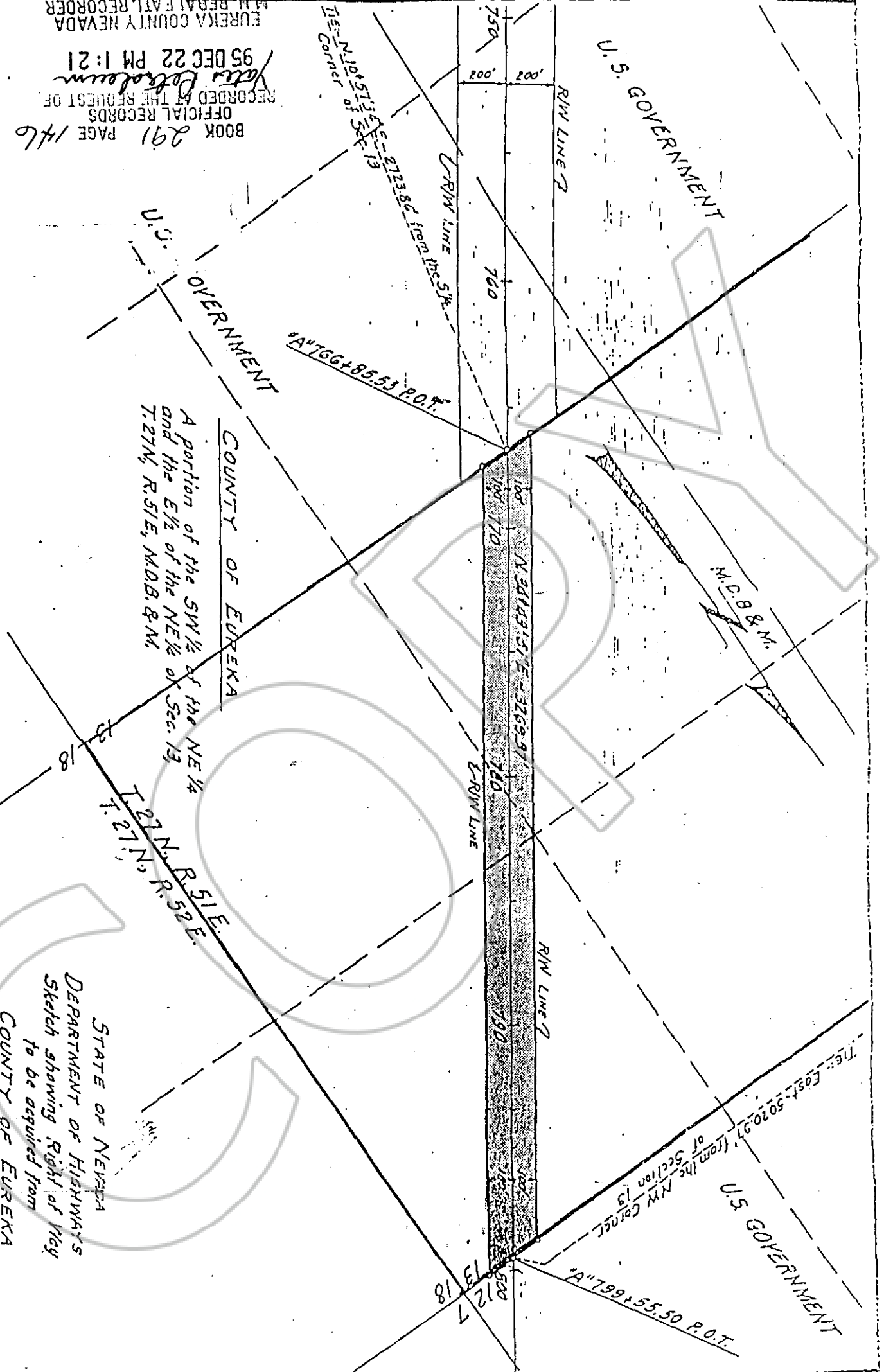
Margaret E. Oraci

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

FILE NO. 160327
EUREKA COUNTY NEVADA
M.M. BEGAL FATH, RECORDER
FEE \$ 2.00

BOOK 291 PAGE 146
OFFICIAL RECORDS
RECORDED AT THE REQUEST OF
Yates Petroleum
95 DEC 22 PM 1:21

Parcel to be acquired shown in Red.



COUNTY OF EUREKA
A portion of the SW 1/4 of the NE 1/4
and the E 1/2 of the NE 1/4 of Sec. 13
T. 27N, R. 51E, M.D.B. & M.

STATE OF NEVADA
DEPARTMENT OF HIGHWAYS
Sketch showing Right of Way
to be acquired from

EUREKA COUNTY - F.A.S. 602 - EU-07

APPROVED [Signature]
Right of Way Engineer
Carson City, Nevada August 1950

Attached hereto and made a part hereof that certain Oil and Gas Lease dated December 6, 1995, by and between the State of Nevada, Department of Transportation, as Lessor and Yates Petroleum Corporation, as Lessee.