

OIL AND GAS LEASE

176690

AGREEMENT, Made and entered into the 21st of May, 2001, by and between Eureka County, Nevada, by and through its County Commissioners, whose post office address is P.O. Box 677; Eureka, NV 89316, hereinafter called Lessor (whether one or more) and Yates Petroleum Corporation whose post office address is 105 South 4th Street, Artesia, NM 88210, hereinafter called Lessee:

WITNESSETH, That the Lessor, and in consideration of TEN AND MORE DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereunder described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said tracts, all that certain tract of land situated in the County of Eureka, State of Nevada, described as follows, to-wit:

Township North, Range 51 East, Mt. Diablo Meridian

Section 13 An 8.00-acre tract located in the S/2SWNE of Section 13, Lying West of Nevada State Highway #278; Also described as that portion of the NE of Section 13 lying more that 2,114.5' South of the Northern border of Section 13, and lying West of Route #278.

and containing 8.00 acres, or less.

1. It is agreed that this lease shall run in force for a term of ONE (1) year from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operation during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata ratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises and Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

8. No well shall be drilled nearer than ten feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee under may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations producing oil or gas may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total net surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like application, to modify, change or terminate any such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated.

13. All express or implied covenants in this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessor liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessee, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease shall mean any one or more, or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

ADDITIONAL PROVISIONS

16. Lessee has the option, but the obligation to renew this lease for Two (2) successive one-year terms by notifying Lessor, in writing, of Lessee's intention to renew, on or before 15 days prior to expiration of each one-year term. Along with such written notice to renew, Lessee shall tender to Lessor an amount equal to the amount paid for this initial lease, and this lease shall continue in full force and effect for each such renewal period. No further action shall be required to keep this lease in full force and effect each of the successive one-year renewal terms.

17. Within four (4) months of termination of this lease or the cessation of production, whichever is earlier, Lessee agrees to clean up the leasehold so as to leave the land in substantially same condition as it was when this lease was signed. Further, Lessee agrees to pay for all costs of cleaning up the leasehold and all legal and other fees incurred enforcing this provision should Lessee fail to satisfactorily clean up the land after the lease has expired or production has ceased, whichever is earlier.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

Eureka County, by and thirgh its County Commissioners

By: _____
Title: _____

PETE GOICOECHA

By: _____
Title: CHAIRMAN

By: Pete Goicoechea
Title: Chairman

DONNA BAILEY

By: Donna R. Bailey
Title: County Commissioner

WAYNE D. ROBINN

By: Wayne D. Robinson
Title: County Commissioner

STATE OF Nevada }
 } ss. ACKNOWLEDGMENT
COUNTY OF Eureka }

On this 20th day of June, A. D. 2001, personally appeared Pete Goicoechea, Donna Bailey, and Wayne Robinson - Board of Eureka County Commissioners, to me personally known, who, being by me duly sv. did say that they are the **County Commissioners of Eureka County Nevada** and that said instrument was signed and sealed in behalf of said Eureka County, Nevada by and through its Commissioners, and said **Eureka County Commissioners** acknowledged said instrument to be the free act and deed of Eureka County.

IN WITNESS WHEREOF, I have unto set my hand and affixed my notarial seal the day and year last above written.

(SEAL)

My Commission expires May 13, 2003

Vera Baumann
Notary Public.



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OFFICIAL RECORDS
RECORDED AT THE REQUEST OF
Dep. Mineral Services
01 JUN 29 PM 1:12

EUREKA COUNTY NEVADA
M.N. REBALEATI, RECORDER
FILE NO. _____ FEES 8.00

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