

Chapter 1

1.1.1

ON DELIVERY

A. Recipient's Name
B. Date of Delivery
2-7-01

Agent
Addressee
Request from item 1? Yes No
Address below: Yes No

Express Mail
Return Receipt for Merchandise
C.O.D.
Extra Fee Yes No

Postmark

4212 8778

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

Postage	\$
Certified Fee	

Postmark

ROBERT L. BAYLESS

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

January 25, 2001

CERTIFIED MAIL 7099 3400 0018 4212 8778

Vernon Ray Chapman
709 San Ysidro
Aztec, NM 87410

RE: Application for Compulsory Pooling
Robert L. Bayless, Operator
Hazel Bolack # 2 Well
SE/4SE/4 Sec. 10-T30N-R11W
San Juan County, NM

Dear Mr. Chapman:

We have previously submitted an offer to you to lease your undivided mineral interest in the W/2SW/4 of Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico. Such lease form, in addition to other provisions, provides that the lease is being granted for "pooling purposes only" and that the right to enter upon the premises for any purpose is "prohibited". The planned well to be associated with the pooled proration unit involving the lease submitted to you, will be located in the SE/4SE/4 of said Section 10 or approximately 3/4 of a mile to the East of your property.

The purpose of this letter is to provide written notice pursuant to the Rules and Regulations of the New Mexico Oil Conservation Division ("NMOCD") that Robert L. Bayless ("Bayless") has filed an application with the NMOCD requesting the issuance of an Order force pooling all mineral interests from the surface of the earth to the base of the Mesa Verde formation underlying the S/2 of Section 10, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a 320-acre gas spacing and proration unit for the Blanco Mesa Verde pool to be dedicated to the Hazel Bolack # 2 Well and completed in the Blanco Mesa Verde pool. Bayless also requests that the order designate Bayless as operator of the Well, and that it provide for the recovery by the joining working interest owners of the costs of drilling, completing, equipping and operating the Well, together with a reasonable charge for risk involved in drilling and completing the Well. In addition, Bayless requests that the Order establish a reasonable charge for supervision of the Well during the drilling and production stages.

Bayless has requested the application be placed on the February 22nd, 2001, docket of the NMOCD for hearing. You may appear at the hearing to record any protest or objection you may have with respect to the subject matter of the application. For your information, the Rules and Regulations of the NMOCD require that each participant in an NMOCD hearing file a Pre-Hearing Statement on or before the Friday next preceding the date of the hearing.

Should you have questions, please contact Paul Hall at (505) 564-7806.

Yours truly,

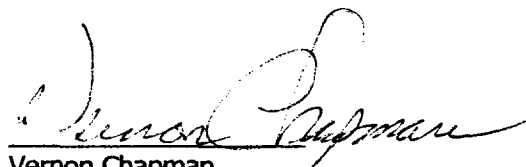
Robert L. Bayless

**Vernon Ray Chapman
709 San Ysidro
Aztec, N Mexico 87410**

Robert L. Bayless, Producer LLC
P.O. Box 168
Farmington, N Mexico 87499
Attn: Price Bayless

Mr. Bayless:

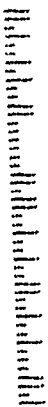
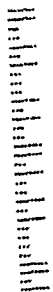
Thank you for your interest in purchasing my divided royalty under Sec. 10 T30N R11W San Juan County, New Mexico. At this time I am not inclined to accept your offer.


Vernon Chapman
December 7, 2000

Vernon R Chapman
709 San Ysidro
Aztec, NM 87401

Robert L. Bayless
P.O. Box 168
Farmington, NM
87499

874990168



33 USA

ROBERT L. BAYLESS, PRODUCER LLC

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

November 27, 2000

CERTIFIED MAIL 7000 0600 0025 2409 3004

Vernon Ray Chapman
709 San Ysidro
Aztec, NM 87410

RE: Oil, Gas and Mineral Lease
Portion of Sec. 10-T30N-R11W
San Juan County, New Mexico

Dear Mr. Chapman:

Our records indicate that you are the owner of a divided interest in the oil, gas and other minerals under Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico. Bayless desires to lease your net 0.64 acres.

We have enclosed a paid up Oil, Gas and Mineral Lease for your approval and execution as well as a copy for your records. As bonus consideration for execution of the Lease, Bayless will pay you the sum of \$127.40.

Please sign the Lease in the presence of a notary public and return the acknowledged Lease to my office as soon as possible. Upon receiving the signed and acknowledged lease, we shall immediately submit our check to you for the consideration addressed herein.

Should you have any questions, please contact Paul Hall at (505) 564-7806.

Yours truly,

Price M. Bayless, II
Operational Manager

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Vernon Ray Chapman
 709 San Ysidro
 Aztec, NM 87410

2. Article Number (Copy from service label)

7000 0600 0025 2409 3004
 PS Form 3811, July 1999

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) Mary Helene Sullivan B. Date of Delivery Dec. 1, 00
 C. Signature [Signature] Agent Addressee
 X Addressed to Addressee
 D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.
 4. Restricted Delivery? (Extra Fee) Yes

7000 0600 0025 2409 3004
 Hazel Bolack Lease

**U.S. Postal Service
 CERTIFIED MAIL RECEIPT**
 (Domestic Mail Only; No Insurance Coverage Provided)

7000 0600 0025 2409 3004

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage	

Postmark Here

Recipient **Vernon Ray Chapman**
 Street, Ap **709 San Ysidro**
 City, State **Aztec, NM 87410**

PS Form 3811, July 1999

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 1st day of November, 2000, between Vernon Chapman, a single man, Lessor (whether one or more) whose address is: 709 San Ysidro, Aztec, NM 87410 and Robert L. Bayless, Producer LLC, Lessee whose address is: P. O. Box 168, Farmington, NM 87499, WITNESSETH:

1. Lessor in consideration of Twenty-Five Dollars (\$25.00) and other valuable consideration received from Lessee, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals, conducting exploration, geologic and geophysical surveys by seismograph, core test, gravity and magnetic methods, injecting gas, water and other fluids, and air into subsurface strata, laying pipelines, building roads, tanks, power, telephone, and other communication 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, the following described land in Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico, to wit:

SEE EXHIBIT "A"

This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the land particularly described above. It is expressly agreed and understood that the herein described lands are granted in this lease for the purpose of pooling only. The right to enter upon said lands for any purpose is prohibited.

2. This is a paid up lease and subject to the other provisions herein contained, this lease shall be for a term of three (3) years, from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land or land with which said land is pooled thereunder.

3. As royalty, Lessee covenants and agrees: (a) To deliver to the credit of Lessor in the pipeline to which the Lessee may connect its wells, the equal one-eighth (1/8th) part of all oil produced and saved by Lessee from said land, or from time to time, at the option of Lessee, to pay Lessor the average posted market price of such one-eighth (1/8th) part of such oil at the wells as of the day it is run to the pipeline or storage tanks, Lessor's interest, in either case, to bear one-eighth (1/8th) of the cost of treating oil to render it marketable pipeline oil; (b) to pay Lessor for gas and casing head gas produced from said land (1) when sold by Lessee, one-eighth (1/8th) of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee of said land or in the manufacture of gasoline or other products, one-eighth (1/8th) of the amount realized from the sale of gasoline or other products extracted there from and one-eighth (1/8th) of the amount realized from the sale of residue gas after deducting the amount used for plant fuel and or compression; (c) to pay Lessor on all other minerals mined and marketed or utilized by Lessee from said land, one-tenth either in kind or value at the well or mine at Lessee's election, except that on sulphur mined and marketed the royalty shall be One Dollar (\$1.00) per long ton. If, at the expiration of the primary term or at any time or times thereafter there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells but in the exercise of such diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to Lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, Lessee shall pay or tender, by check or draft of Lessee, as royalty, a sum equal to One Dollar (\$1.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing and may be deposited in the _____ Bank at _____ or its successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same, Lessee may, in lieu of any other method of payment herein provided, pay or tender such shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownership thereof, as Lessee may elect. Any payment hereunder may be made by check or draft of Lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last day for payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owners of the lease, severally as to acreage owned by each.

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 any other land covered by this lease and/or with any 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 to properly explore, or to develop and operate said leased premises in compliance with the well spacing rules of the State of New Mexico, 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 forty (40) acres each in area, and units pooled for gas hereunder shall not substantially exceed in area six-hundred forty (640) acres each plus a tolerance of ten (10) percent thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed or permitted 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 portion thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated and instrument describing and designating the pooled acreage as a pooled unit; and upon such recordation the unit shall be effective as to all parties hereto, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or 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. In the event of operations for drilling on or production of oil or gas from any part of a 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, such operations 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 be located on the premises covered by this lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of paragraph 5., of 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 payments 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 (or to each separate tract within the unit if this lease covers separate tracts within the 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 unit. 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 (or to each separate tract within the unit if this lease covers separate tracts within the 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 (or in each such separate tract) 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 as 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. The formation of any unit hereunder shall not have the effect of changing the ownership of any shut-in production royalty which may become payable under this lease. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease, but Lessee shall nevertheless have the right to pool as provided above with consequent allocation as above provided. As used in this paragraph 4., the words

"separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If at the expiration of the primary term, oil, gas, or other mineral 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 sixty (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 sixty (60) consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas, or other mineral 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 sixty (60) days after the cessation of such production, but shall remain in force and affect so long as such operations are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral 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 three-hundred thirty (330) feet of and draining the leased 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 pipelines below all ordinary plow depth, and no well shall be drilled within two-hundred (200) 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 the heirs, successors, and assigns; but no change or division in 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 principle 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 reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. No obligation reasonably to develop the leased premises shall arise during the primary term. Should oil, gas, or other mineral in paying quantities be discovered on said premises, then after the expiration of the primary term, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator, but in discharging 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 six-hundred forty (640) acres plus and acreage tolerance not to exceed ten (10) percent of six-hundred forty (640) acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities. If after the expiration of the primary term, 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 (60) days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.

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 right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above 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, and 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 lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

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

LESSOR:

 Vernon Chapman
 SS # _____
 Phone # _____

STATE OF _____ §
 COUNTY OF _____ § ss.

This instrument was acknowledged before me this ____ day of _____, 2000, by Vernon Chapman, for the purposes stated herein above.

 Notary Public

EXHIBIT "A"

Attached to and made a part of that certain Oil, Gas and Mineral Lease Agreement dated 15th day of November, 2000 between Vernon Chapman, Lessor and Robert L. Bayless, Producer LLC, Lessee.

A parcel of land situated in the Northwest Quarter of the Southwest Quarter (NW 4SW 4) of Section Ten (10), Township Thirty (30) North, Range Eleven (11) West, N. M. P. M. described as follows:

BEGINNING at a point which is West 180 feet, thence South 24° 30' West a distance of 577 feet, thence North 70° 05' West a distance of 133.7 feet from the Northeast Corner of the Northwest Quarter of the Southwest Quarter (NW 4SW 4) of said Section Ten (10) FROM THE POINT OF BEGINNING OF THE TRACT OF LAND HEREIN DESCRIBED,

THENCE North 70° 05' West 89.6 feet;
THENCE South 33° 34' West 153 feet;
THENCE South 62° 00' East 107 feet;
THENCE North 26° 48' East 164.92 feet to the point of beginning,
containing 0.35 acres, more or less.

A tract of land situated in Section 10, Township 30 North, Range 11 West, N.M.P.M.,
BEGINNING West 180 feet and South 24° 30' West 557 feet, North 70° 48' West 310 feet from NE corner of the NW 4SW 4,
THENCE South 70° 45' East 96.70 feet,
THENCE South 33° 34' West 146.86 feet,
THENCE North 62° West 85.18 feet,
THENCE North 29° 40' East 131.50 feet to point of beginning,
Containing 0.287 acres, more or less,
San Juan County, New Mexico.

EXHIBIT "A"

Attached to and made a part of that certain Oil, Gas and Mineral Lease Agreement dated 1st day of November 2000 between Vernon Chapman, Lessor and Robert L. Bayless, Producer LLC, Lessee.

A parcel of land situated in the Northwest Quarter of the Southwest Quarter (NW/4SW/4) of Section Ten (10), Township Thirty (30) North, Range Eleven (11) West, N. M. P. M. described as follows:

BEGINNING at a point which is West 180 feet, thence South 24° 30' West a distance of 577 feet, thence North 70° 05' West a distance of 123.7 feet from the Northeast Corner of the Northwest Quarter of the Southwest Quarter (NW/4SW/4) of said Section Ten (10) FROM THE POINT OF BEGINNING OF THE TRACT OF LAND HEREIN DESCRIBED;

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THENCE South 62° 00' East 107 feet;
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A tract of land situated in Section 10, Township 30 North, Range 11 West, N.M.P.M.,
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Containing 0.287 acres, more or less,
San Juan County, New Mexico.