

**TECUMSEH PROSPECT**  
**T30N-R11W, NMPM**  
**Section 18: S/2**  
**San Juan County, New Mexico**  
**Minerals Owners List**  
**February 6, 2003 Force Pooling Hearing**

Party	Mineral Interest Interest	Tract #
O. Leonard Mosley, & Leona M. P.O. Box 4401 Gillette, WY 82727	1.00470%	2, 3
George A. Mosley & Janet R. 42307 N. Newport Hwy. Elk, WA 99009	1.00470%	2, 3
Bob L. Mosley 701 E. Zia P.O. Box 1653 Aztec, NM 87410	1.00470%	2, 3
Mary Gwendolyn Mosley P.O. Box 18432 Salem, OR 97305	1.00470%	2, 3
Betty A. Mosley 258 6th Street Idaho Falls, ID 83401	1.00470%	2, 3
John D. Ford, et ux 22 Deer Trail Lane Bayfield, CO 81127	0.02450%	7
James R. Williams Estate c/o Eloy Trujillo 316 N. Lorena Ave. Farmington, NM 87401	0.49005%	8

**Total Mineral Interests to Force Pool      5.53805%**

**BEFORE THE**  
**OIL CONSERVATION DIVISION**  
Case No. 12992 Exhibit# **13**  
Submitted By:  
**San Juan Resources**  
Hearing Date: February 20, 2003

## Correspondence with Mineral interest owners regarding the proposed well, Tecumseh #1.

TECUMSEH PROSPECT  
T30N-R11W, NMPM  
Section 18: S/2  
San Juan County, New Mexico  
Minerals Owners List  
February 6, 2003 Force Pooling Hearing

1) Mosley's et al were sent a lease and an offer to lease from San Juan Basin Properties LLC (SJB) on July 24, 2002. Mosley's wanted a lease form that SJB could not live with. SJB subsequently sent a letter of August 6, 2002 and the Mosley's could not agree with SJB on said offer. On November 6, 2002, San Juan Resources, Inc. (SJR), operator of subject well, submitted an AFE via certified mail (RR) to the Mosley's to see if they were interested in joining in the drilling of said well. After that on December 9, 2002 SJB/SJR received a demand letter from Mosley's attorney, R.T.C. Tully. Mosley's terms, conditions, and lease forms were not acceptable to SJB. A certified letter (RR) with announcement of the hearing on February 6, 2003 was sent to the Mosley's on January 14, 2003

2) The Fords were sent a lease and an offer to lease from San Juan Basin Properties LLC (SJB) on August 20, 2002. SJB did not hear back from the Fords on our proposal and offer. On November 6, 2002, San Juan Resources, Inc. (SJR), operator of subject well, submitted an AFE via certified mail (RR) to the Fords to see if they were interested in joining in the drilling of said well. (SJB received green card back from Ford's, 11-21-02) A certified letter (RR) with announcement of the hearing on February 6, 2003 was sent to the Ford's on January 14, 2003. We haven't heard back from the Fords. We plan to telephone them and follow up on our proposed well and lease offer.

1)

O. Leonard Mosley, &  
Leona M.  
P.O. Box 4401  
Gillette, WY 82727

George A. Mosley & Janet  
R.  
42307 N. Newport Hwy.  
Elk, WA 99009

Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # **H**  
Submitted By:  
**San Juan Resources**  
Hearing Date: February 20, 2003

Mary Gwendolyn Mosley  
P.O. Box 18432  
Salem, OR 97305

Betty A. Mosley  
258 6<sup>th</sup> Street  
Idaho Falls, ID 83401

2)  
John D. Ford, et ux  
22 Deer Trail Lane  
Bayfield, CO 81127

3)  
James R. Williams Estate  
c/o  
Eloy Trujillo  
316 N. Lorena Ave.  
Farmington, NM 87401

3) James R. Williams et ux were sent a lease and an offer to lease from San Juan Basin Properties LLC (SJB) on June 25, 2002. SJB did not hear back from the Williams on our proposal and offer. Mr. Williams died on July 30, 2002, after Mrs. Williams died in January 2002. On November 6, 2002, San Juan Resources, Inc. (SJR), operator of subject well, submitted an AFE via certified mail (RR) to the Williams Estate to see if they were interested in joining in the drilling of said well. (SJB received green card back from Williams heir. 11-21-02). On December 4, 2002 SJB then sent a lease and an offer to the Williams Estate, c/o Eloy Trujillo, who was the reported PR of the Estates of the Williams. A certified letter (RR) with announcement of the hearing on February 6, 2003 was sent to the Williams Estate c/o Mr. Trujillo on January 14, 2003. Mr. Trujillo called back on January 16, 2003 and agreed to lease to SJB. We are awaiting a signed lease and proper papers giving Mr. Trujillo the authority to act on behalf of the Williams' Estates.

# SAN JUAN BASIN PROPERTIES LLC

JERRY McHUGH, Jr.

June 25, 2002

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the SE/4  
Containing 65.33 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

San Juan Basin Properties LLC is interested in leasing for oil and gas exploration and development all your interest in and to the minerals underlying the captioned lands below the base of the Pictured Cliffs Formation. A preliminary check of the San Juan County records indicates that you own 3.4 net acres in said lands. San Juan Basin Properties LLC will pay \$268.60 for this lease which is based on a \$75.00 per net acre price for a 5 year paid up term oil and gas lease that includes a 12.5% royalty interest. Included in the consideration is an "upfront" delay rental payment of \$13.60 which equates to the total net acres that you own times \$1.00 per net acre rental payment for the final 4 years of the term of the lease.

If our offer is acceptable, please execute both copies of the attached oil and gas lease, have your signature acknowledged before a notary public and return one copy of the lease for our further handling. The enclosed draft should then be presented to your bank as a COLLECTION ITEM.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number.

Sincerely,

Richard E. Frazey, CPL  
Consulting Landman

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 15  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

COPY

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmhugh@sanjuanbasin.com

# SAN JUAN BASIN PROPERTIES LLC

JERRY McHUGH, Jr.

June 25, 2002

Ms. Mary Gwendolyn Mosley

P.O. Box ~~9201~~ 9201

~~Salem~~, OR 97305

BROOKS

RE: Offer to Lease Minerals

Township 30 North, Range 11 West, N.M.P.M.

Section 18 Portions of the SE 4

Containing 65.33 acres more or less

San Juan County, New Mexico

Dear Ms. Mosley:

San Juan Basin Properties LLC is interested in leasing for oil and gas exploration and development all your interest in and to the minerals underlying the captioned lands below the base of the Pictured Cliffs Formation. A preliminary check of the San Juan County records indicates that you own 3.4 net acres in said lands. San Juan Basin Properties LLC will pay \$268.60 for this lease which is based on a \$75.00 per net acre price for a 5 year paid up term oil and gas lease that includes a 12.5% royalty interest. Included in the consideration is an "upfront" delay rental payment of \$13.60 which equates to the total net acres that you own times \$1.00 per net acre rental payment for the final 4 years of the term of the lease.

If our offer is acceptable, please execute both copies of the attached oil and gas lease, have your signature acknowledged before a notary public and return one copy of the lease for our further handling. The enclosed draft should then be presented to your bank as a COLLECTION ITEM.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number

Sincerely,



Richard E. Frazey, CPL  
Consulting Landman

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 16  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com

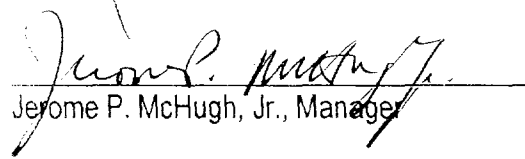
DATE July 1, 2002THIS IS A COLLECTION ITEM  
NOT A CASH ITEMCUSTOMER'S DRAFT  
With privilege of Re-DraftThirty (30) Days After Sight and Subject to Approval of Title

Pay to the

Order of

Mary Gwendolyn Mosley\$ 268.60Two hundred sixty eight and sixty hundredths-----Dollars

With Exchange

Consideration for oil and gas lease - T30N-R11W, Sec. 18, Part of the W/2SE/4, San Juan Co., NMTo: San Juan Basin Properties LLC  
1499 Blake Street, #7K  
Denver, CO 80202  
Jerome P. McHugh, Jr., Manager

DETACH BEFORE PRESENTING FOR PAYMENT

## Description:

TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18: W/2SE/4 North of the Right of Way of the Denver &amp; Rio Grande Western Railroad and all of the land lying and being situate in the SW/4SE/4 South of said Railroad Right of Way and East of the Cook Arroya.

Below the base of the Pictured Cliffs Formation only.

County

San Juan

State

New Mexico

Gross Acres

68.00

Net Acres

3.40

NO Sale

## OIL AND GAS LEASE

AGREEMENT, Made and entered into the 1st day of July, 2002, by and between Mary Gwendolyn Mosley  
whose post office address is P.O. Box 9201 Brooks, OR 97305 hereinafter called Lessor (whether one or more) and  
San Juan Basin Properties LLC whose post office address is 1499 Blake Street, Suite 7K, Denver, CO 80202 hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of one 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 hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all 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 products, all that certain tract of land situated in the County of San Juan, State of New Mexico, described as follows, to-wit:

### TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18: W/2SE/4 North of the Right of Way of the Denver & Rio Grande Western Railroad and all of the land lying and being situate in the SW/4SE/4 South of said Railroad Right of Way and East of the Cook Arroyo

Below the base of the Pictured Cliffs Formation only

and containing 68.00 acres, more or less

1. It is agreed that this lease shall remain in force for a term of five (5) years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on 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 to be 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 the 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 after 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 operations 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 or stratum 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 the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipeline to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the 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 of 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 or 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 the 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 paid 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, free 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 200 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 hereunder 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 title 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 all 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 any 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 any 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 the 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, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not 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 the 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 number of 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 same 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 approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any 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 the 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. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of 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 Lessee held 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 other 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 Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar 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.

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

Mary Gwendolyn Mosley

STATE OF \_\_\_\_\_ } ss. Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah  
COUNTY OF \_\_\_\_\_ } Nebraska, North Dakota, South Dakota  
ACKNOWLEDGMENT INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this \_\_\_\_\_ day of \_\_\_\_\_, 2002, personally appeared Mary Gwendolyn Mosley, to me known to be the identical person \_\_\_\_\_ described in and who executed the within and foregoing instrument of writing and acknowledged to me that her duly executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

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

My Commission Expires \_\_\_\_\_  
Notary Public \_\_\_\_\_

STATE OF \_\_\_\_\_ } ss. Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah  
COUNTY OF \_\_\_\_\_ } Nebraska, North Dakota, South Dakota  
ACKNOWLEDGMENT INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this \_\_\_\_\_ day of \_\_\_\_\_, 2001, personally appeared \_\_\_\_\_ and \_\_\_\_\_, to me known to be the identical person \_\_\_\_\_ described in and who executed the within and foregoing instrument of writing and acknowledged to me that \_\_\_\_\_ duly executed the same as \_\_\_\_\_ free and voluntary act and deed for the uses and purposes therein set forth.

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

My Commission Expires \_\_\_\_\_  
Notary Public \_\_\_\_\_

E OF \_\_\_\_\_ } ss. ACKNOWLEDGMENT (For use by Corporation)  
COUNTY OF \_\_\_\_\_ }

On this \_\_\_\_\_ day of \_\_\_\_\_, A. D. 20\_\_\_\_\_, personally appeared \_\_\_\_\_, to me personally know, who, being by me duly sworn, did say that (s)he is the \_\_\_\_\_ of \_\_\_\_\_ and \_\_\_\_\_ and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said acknowledged said \_\_\_\_\_ acknowledged said instrument to be the free act and deed of said corporation.

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

(SEAL)  
My Commission Expires \_\_\_\_\_  
Notary Public \_\_\_\_\_



# SAN JUAN BASIN PROPERTIES LLC

JERRY McHUGH, Jr.

July 24, 2002

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the SE/4  
Containing 65.33 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

In reference to your recent telephone conversation with Mr. Jerry McHugh, Jr., President of San Juan Basin Properties LLC, it was agreed that you would lease your minerals under the captioned lands pursuant to the following terms:

- 1) The lease would cover all the interest in and to the minerals underlying the captioned lands below the base of the Pictured Cliffs Formation being 3.4 net acres.
- 2) San Juan Basin Properties LLC will pay \$520.20 for this lease which is based on a \$150.00 per net acre offer. Included in the consideration is an "upfront" delay rental payment of \$10.20 which equates to the total net acres that you own times \$1.00 per net acre rental payment for the final 3 years of the term of the lease
- 3) 4 year paid up term oil and gas lease.
- 4) 20% (1/5<sup>th</sup>) royalty interest.

If this offer is acceptable, please execute both copies of the attached oil and gas lease, have your signature acknowledged before a notary public and return one copy of the lease for our further handling. The enclosed draft should then be presented to your bank as a COLLECTION ITEM.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number.

Sincerely,

Richard E. Frazey, CPL  
Consulting Landman

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 17  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

COPY

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com

DATE July 1, 2002

THIS IS A COLLECTION ITEM  
NOT A CASH ITEM

CUSTOMER'S DRAFT  
With privilege of Re-Draft

Thirty (30) Days After Sight and Subject to Approval of Title

Pay to the  
Order of Bob L. Mosley \$ 520.20

Five hundred twenty and twenty hundredths Dollars  
With Exchange

Consideration for oil and gas lease - T30N-R11W, Sec. 18: Part of the W/2SE/4, San Juan Co., NM

To: San Juan Basin Properties LLC  
1499 Blake Street, #7K  
Denver, CO 80202

Jerome P. McHugh, Jr., Manager

-----  
DETACH BEFORE PRESENTING FOR PAYMENT

**Description:**

TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18 W/2SE/4 North of the Right of Way of the Denver &  
Rio Grande Western Railroad and all of the land lying and being  
situate in the SW/4SE/4 South of said Railroad Right of Way and  
East of the Cook Arroya.

Below the base of the Pictured Cliffs Formation only.

County	San Juan
State	New Mexico
Gross Acres	68.00
Net Acres	3.40

## OIL AND GAS LEASE

This Oil and Gas Lease ("Lease") is made this 1st day of August, 2002, by and between  
Bob L. Mosley whose address is  
701 E. 21st, P.O. Box 1653, Aztec, NM 87410 ("Lessor", whether one or more) and  
San Juan Basin Properties LLC whose address is  
1499 Blake Street, Suite 7K, Denver, CO 80202 ("Lessee").

WITNESSETH, For and in consideration of TEN DOLLARS, the covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Lessor does hereby grant, demise, lease and let exclusively unto said Lessee, with the exclusive rights for the purposes of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind (including coalbed gas), and laying pipelines, telephone and telegraph lines, building tanks, plants, power stations, roadways and structures thereon to produce, save and take care of said products (including dewatering of coalbed gas wells), and the exclusive surface and subsurface 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 operation alone or conjointly with neighboring land for such purposes all that certain tract

or tracts of land situated in San Juan County New Mexico described as follows, to-wit:

### TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18 - W/2SE/4 North of the Right of Way of the Denver & Rio Grande Western Railroad and all of the land lying and being situated in the SW/4SE/4 South of said Railroad Right of Way and East of the Cook Arroyo

Below the base of the Pictured Cliffs Formation; only

and containing 68.00 acres, more or less, (the "Premises")

1. It is agreed that this Lease shall remain in force for a term of four (4) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever nature or kind is produced from the Premises or on acreage pooled or unitized therewith, or operations are continued as hereinafter provided. If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking or dewatering operations thereon, then this Lease shall continue in force so long as such operations are being continuously prosecuted. Operations shall be considered to be 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 the drilling of a subsequent well. If after discovery of oil or gas on the Premises or on acreage pooled or unitized therewith, the production thereof should cease from any cause after the primary term, this Lease shall not terminate if Lessee commences additional drilling, reworking or dewatering 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, this Lease shall continue in force so long as oil or gas is produced from the Premises or on acreage pooled or unitized therewith.

2. This is a PAID-UP LEASE. In consideration of the payment made herewith, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations 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 the Premises and as to any strata or stratum, by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligations thereafter accruing as to the acreage surrendered.

3. Lessee covenants and agrees to pay royalty to Lessor as follows:

(a) On oil, to deliver to the credit of Lessor, free of cost in the pipe line to which Lessee may connect wells on the Premises, the equal one-fifth (1/5th) part of all oil produced and saved from the Premises.

(b) On gas of whatsoever nature or kind, including coalbed gas and other gases, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the Premises ("Gas") Lessee shall pay, as royalty, one-fifth (1/5th) of the net proceeds realized by Lessee from the sale thereof; provided that Lessee shall have the continuing right to sell that Gas to itself or to an affiliate of Lessee, in which event the royalty shall be based upon the prevailing wellhead market price paid for Gas of similar quality in the same field (or if there is no such price prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements, including arrangements under which Lessee, or an affiliate, is purchaser, entered into on the same or nearest preceding date as the date on which Lessee, or an affiliate, commences its purchases hereunder; and further provided that the net proceeds or prevailing wellhead market price, as applicable, shall be after deduction for costs (third party charges and tariffs, and capital and operating costs incurred by Lessee) related to gathering, transporting, dehydrating, compressing, processing and treating the Gas.

4. Where Gas from a well capable of producing Gas (or from a well in which dewatering operations have commenced), is not sold or used after the expiration of the Primary Term, Lessee shall pay or tender as royalty to Lessor at the address set forth above Two Hundred Fifty Dollars per year, such payment or 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 or dewatering operations are commenced and thereafter on or before the anniversary date of this Lease during the period such well is shut in or dewatering operations are being conducted.

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

6. Lessee shall have the right to use, free of cost, Gas, oil and water produced on the Premises for Lessee's operations 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 200 feet to the house or barn now on the Premises without written consent of Lessor.

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

10. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.

11. The rights of the Lessor and Lessee hereunder 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 title 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 the Premises shall operate to enlarge the obligations or diminish the rights of Lessee, and all 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 any 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 Premises and as to any one or more of the formations thereunder, to pool or unitize the leasehold estate and the mineral estate covered by this Lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgement it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise units previously formed to include formations not 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, reworking or dewatering 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, reworking or dewatering 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 royalties on production from such unit only on the portion of such production allocated to this Lease. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the Premises as to one or more of the formations thereunder with other lands in the same 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 approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this Lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this Lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this Lease shall not terminate or expire during the life of such plan or agreement. In the event that the Premises or any part thereof, shall hereafter be operated under any 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 the 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 royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of 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 Lessee held 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. Any delay or interruption caused by storm, flood, act of God or other event of force majeure shall not be counted against Lessee. If, due to the above causes or any cause whatsoever beyond the control of Lessee, Lessee is prevented from conducting operations hereunder, such time shall not be counted against Lessee, and this Lease shall be extended for a period of time equal to the time Lessee was so prevented, anything in this Lease to the contrary notwithstanding.

14. Lessor hereby agrees that Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the Premises, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the Premises, insofar 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 named as Lessor herein 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 of 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.

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

Bob L. Mosley

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss

UNIFORM ACKNOWLEDGEMENT-INDIVIDUAL

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss

UNIFORM ACKNOWLEDGEMENT-CORPORATE

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by

as

of \_\_\_\_\_ a \_\_\_\_\_  
corporation, on behalf of the corporation

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss

UNIFORM ACKNOWLEDGEMENT-OTHER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by

as

on behalf of \_\_\_\_\_ a \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

# SAN JUAN BASIN PROPERTIES LLC

JERRY McHUGH, Jr.  
August 8, 2003

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18, Portions of the SE/4  
Containing 68 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley

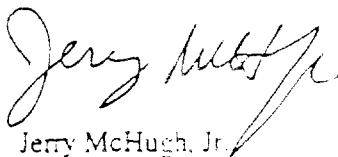
In reference to today's telephone conversation I return the notarized lease you sent us last week. In considering your "counteroffer" on San Juan paying the gathering and associated costs, we cannot live with this in that it puts a huge impediment upon us for moving this project forward. These gathering and treating costs are not imposed by us, but by the El Paso Field Services who gathers, treats, processes, and handles the gas from wellhead to tailgate, where we then sell the gas. Those charges are a part of all sales to markets, and are out of our control.

We would be willing to accept your conditions for bearing these charges, however, we would only do this if you and your siblings sign a gas balancing agreement. This way you can handle the marketing of the gas yourselves and get a third party to handle the various charges, which are needed to get the gas to market. At the wellhead, your royalty gas is not marketable.

I enclose the lease form we are willing to work with on this drilling unit. We are working diligently to assemble acres and pursue drilling in the S/2 of Section 18. Our terms and conditions are the same as our July 24, 2002 letter—1/5 RI, \$150/acre + delays, \$250/yr shut-in, and payment once per month if over \$25. If this offer is acceptable, please execute both copies of the attached oil and gas lease, have your signature acknowledged before a notary public and return one copy of the lease for our further handling. The previously enclosed draft should then be presented to your bank as a COLLECTION ITEM.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number. It was good to meet you when I was through the San Juan Basin on my visit last week.

Very truly yours

  
Jerry McHugh, Jr.

Enclosures as indicated

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 18  
Submitted By:  
*San Juan Resources*  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmhugh@sanjuanbasin.com

# SAN JUAN BASIN PROPERTIES LLC

JERRY McHUGH, Jr.

September 19, 2002

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the SE/4  
Containing 17 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

I enclose a copy of our lease form with the "Net" language included. If you would like to add your provisions (Exhibit "A") which you gave me during my visit, then we would change the royalty to one-eighth (1/8). Otherwise our offer of one-fifth (1/5) royalty, \$150/acre for consideration, \$250/year/ mineral owner shut-in royalty, 4 year term, and payments to you over \$25/month is the best we can do. We cannot carry the gathering and processing charges you and your family want us to pay.

When we agreed to give you and your family the one-fifth (1/5) royalty and the other considerations, it was not with the idea that we would pick up all the gathering/processing charges as well. As mentioned in my letter of August 6, these fixed charges are netted back at the wellhead.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number. Please feel free to use our 800 number, 1-888-731-0409.

Very truly yours,



Jerry McHugh, Jr.

Enclosures as indicated

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # **19**  
Submitted By:  
**San Juan Resources**  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: [jmchugh@sanjuanbasin.com](mailto:jmchugh@sanjuanbasin.com)

# SAN JUAN BASIN PROPERTIES LLC

---

JERRY McHUGH, Jr.

January 27, 2003

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals, Mosley Group  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the SE/4  
Containing 17 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

We are in receipt of the letter of December 9, 2002 from Richard Tully. We respectfully decline your "counteroffer" as outlined in Mr. Tully's letter.

We will, however, offer to lease your minerals in the above referenced lands under the following terms and conditions:

- 1) Royalty interest of 1/6, using the enclosed lease form, a paid up lease.
- 2) Bonus consideration of \$200 per net mineral acre leased, for a three year term.

Please feel free to contact me to discuss this matter further. Thank you very much.

Very truly yours,  
SAN JUAN BASIN PROPERTIES LLC



Jerry McHugh, Jr.  
MANAGER

cc: Richard Tully via fax 5-325-8232

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit# 20  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com

# SAN JUAN BASIN PROPERTIES LLC

---

JERRY McHUGH, Jr.

September 19, 2002

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the SE/4  
Containing 17 acres more or less.  
San Juan County, New Mexico

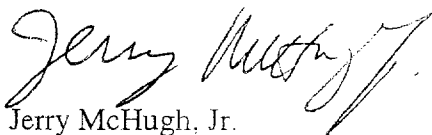
Dear Mr. Mosley:

I enclose a copy of our lease form with the "Net" language included. If you would like to add your provisions (Exhibit "A") which you gave me during my visit, then we would change the royalty to one-eighth (1/8). Otherwise our offer of one-fifth (1/5) royalty, \$150/acre for consideration, \$250/year/ mineral owner shut-in royalty, 4 year term, and payments to you over \$25/month is the best we can do. We cannot carry the gathering and processing charges you and your family want us to pay.

When we agreed to give you and your family the one-fifth (1/5) royalty and the other considerations, it was not with the idea that we would pick up all the gathering/processing charges as well. As mentioned in my letter of August 6, these fixed charges are netted back at the wellhead.

If you have any questions concerning this matter please do not hesitate in contacting me at the letterhead address or telephone number. Please feel free to use our 800 number, 1-888-731-0409.

Very truly yours,

  
Jerry McHugh, Jr.

Enclosures as indicated

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 21  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com



## OIL AND GAS LEASE

This Oil and Gas Lease ("Lease") is made this 1st day of October, 2002, by and between  
Bob L. Mosley whose address is  
793 E. Zia, P.O. Box 1653, Aztec, NM 87410, ("Lessor", whether one or more) and  
San Juan Basin Properties LLC whose address is  
1499 Blake Street, Suite 710, Denver, CO 80202, ("Lessee").

WITNESSETH, For and in consideration of TEN DOLLARS, the covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Lessor does hereby grant, demise, lease and let exclusively unto said Lessee, with the exclusive rights for the purposes of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind (including coalbed gas), and laying pipelines, telephone and telegraph lines, building tanks, plants, power stations, roadways and structures thereon to produce, save and take care of said products (including dewatering of coalbed gas wells), and the exclusive surface and subsurface 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 operation alone or conjointly with neighboring land for such purposes, all that certain tract

or tracts of land situated in San Juan County, New Mexico described as follows, to-wit:

TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18 W/2SE/4 North of the Right of Way of the Denver & Rio Grande Western Railroad and all of the land lying and being situated in the SW/4SE/4 South of said Railroad Right of Way and East of the Cook Arroyo

Below the base of the Pictured Cliffs Formation only

and containing 68.00 acres, more or less, (the "Premises")

1. It is agreed that this Lease shall remain in force for a term of four (4) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever nature or kind is produced from the Premises or on acreage pooled or unitized therewith, or operations are continued as hereinafter provided. If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking or dewatering operations thereon, then this Lease shall continue in force so long as such operations are being continuously prosecuted. Operations shall be considered to be 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 the drilling of a subsequent well. If after discovery of oil or gas on the Premises or on acreage pooled or unitized therewith, the production thereof should cease from any cause after the primary term, this Lease shall not terminate if Lessee commences additional drilling, reworking or dewatering 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, this Lease shall continue in force so long as oil or gas is produced from the Premises or on acreage pooled or unitized therewith.

2. This is a PAID-UP LEASE. In consideration of the payment made herewith, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations 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 the Premises and as to any strata or stratum, by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligations thereafter accruing as to the acreage surrendered.

3. Lessee covenants and agrees to pay royalty to Lessor as follows:

(a) On oil, to deliver to the credit of Lessor, free of cost in the pipe line to which Lessee may connect wells on the Premises, the equal one-fifth (1/5th) part of all oil produced and saved from the Premises.

(b) On gas of whatsoever nature or kind, including coalbed gas and other gases, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the Premises ("Gas") Lessee shall pay, as royalty, one-fifth (1/5th) of the net proceeds realized by Lessee from the sale thereof, provided that Lessee shall have the continuing right to sell that Gas to itself or to an affiliate of Lessee, in which event the royalty shall be based upon the prevailing wellhead market price paid for Gas of similar quality in the same field (or if there is no such price prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements, including arrangements under which Lessee, or an affiliate, is purchaser, entered into on the same or nearest preceding date as the date on which Lessee, or an affiliate, commences its purchases hereunder; and further provided that the net proceeds or prevailing wellhead market price, as applicable, shall be after deduction for costs (third party charges and tariffs, and capital and operating costs incurred by Lessee) related to gathering, transporting, dehydrating, compressing, processing and treating the Gas.

4. Where Gas from a well capable of producing Gas (or from a well in which dewatering operations have commenced), is not sold or used after the expiration of the Primary Term, Lessee shall pay or tender as royalty to Lessor at the address set forth above Two Hundred Fifty Dollars per year, such payment or 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 or dewatering operations are commenced and thereafter on or before the anniversary date of this Lease during the period such well is shut in or dewatering operations are being conducted.

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

6. Lessee shall have the right to use, free of cost, Gas, oil and water produced on the Premises for Lessee's operations 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 200 feet to the house or barn now on the Premises without written consent of Lessor.

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

10. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.

11. The rights of the Lessor and Lessee hereunder 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 title 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 the Premises shall operate to enlarge the obligations or diminish the rights of Lessee, and all 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 any 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 Premises and as to any one or more of the formations thereunder, to pool or unitize the leasehold estate and the mineral estate covered by this Lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgement it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise units previously formed to include formations not 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, reworking or dewatering 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, reworking or dewatering 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 royalties on production from such unit only on the portion of such production allocated to this Lease. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the Premises as to one or more of the formations thereunder with other lands in the same 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 approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this Lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this Lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this Lease shall not terminate or expire during the life of such plan or agreement. In the event that the Premises or any part thereof, shall hereafter be operated under any 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 the 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 royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of 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 Lessee held 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. Any delay or interruption caused by storm, flood, act of God or other event of force majeure shall not be counted against Lessee. If, due to the above causes or any cause whatsoever beyond the control of Lessee, Lessee is prevented from conducting operations hereunder, such time shall not be counted against Lessee, and this Lease shall be extended for a period of time equal to the time Lessee was so prevented, anything in this Lease to the contrary notwithstanding.

14. Lessor hereby agrees that Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the Premises, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the Premises, insofar 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 named as Lessor herein 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.

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

Bob L. Mosley

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss.

UNIFORM ACKNOWLEDGEMENT-INDIVIDUAL

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss.

UNIFORM ACKNOWLEDGEMENT-CORPORATE

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by \_\_\_\_\_

as \_\_\_\_\_

of \_\_\_\_\_ a \_\_\_\_\_

corporation, on behalf of the corporation.

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_ }  
ss.

UNIFORM ACKNOWLEDGEMENT-OTHER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by \_\_\_\_\_

as \_\_\_\_\_

on behalf of \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

Name of Notary Printed \_\_\_\_\_

# SAN JUAN RESOURCES, INC.

JERRY McHUGH, Jr.

November 6, 2002

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

Re: San Juan Resources, Inc. No. 1 Tecumseh Well  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Lots 3, 4, E/2SW/4, SE/4  
San Juan County, New Mexico

Dear Ladies and Gentlemen:

San Juan Resources, Inc., (hereinafter referred to as "SJR"), as a working interest owner under the captioned lands, hereby proposes the drilling a well to be drilled in Township 30 North, Range 11 West, N.M.P.M., Section 18: SE/4 to a depth sufficient to test the Dakota formation or to a depth of 6576 feet whichever is lesser. SJR plans to complete the Mesaverde formation and commingle production in the Dakota and Mesaverde. Enclosed herewith is a photocopy of a summary of the estimated costs that will be incurred in drilling, testing and completing said well, ("AFE").

Please advise us as soon as it is convenient as to whether or not you would be willing to participate in the drilling of this well or if you would rather farmout or lease your interest on mutually acceptable terms. A review of the San Juan County, New Mexico records indicates that you own the interest indicated on the AFE in and to the captioned lands that will comprise the drillsite spacing unit for this well.

Upon receipt of the elections of all interest owners, we will prepare the appropriate joint operating agreement or determine who will prepare any farmout agreement(s).

If you have any questions, please feel free to contact me.

Very truly yours,  
SAN JUAN RESOURCES, INC.



Jerry McHugh, Jr.

Enclosure as indicated

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit# 22  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com

# RICHARD T.C. TULLY, F.A.

ATTORNEY AT LAW

111 NORTH ORCHARD AVENUE  
POST OFFICE BOX 266  
FARMINGTON, NEW MEXICO 87499-0268

RICHARD T.C. TULLY, P.A.  
RECOGNIZED SPECIALIST IN  
NATURAL RESOURCES - OIL & GAS LAW

(505) 327-3388  
FACSIMILE: (505) 325-8232

December 9, 2002

Jerry McHugh, Jr.  
San Juan Basin Properties LLC  
1499 Blake Street, #7K  
Denver, CO 80202

Re: Bob L. Mosley, Leonard Mosley, George  
Mosley, Mary Mosley and Betty Nelms  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of W/2SE/4 and SW/4SE/4  
Containing 68 acres, more or less  
San Juan County, New Mexico

Dear Mr. McHugh:

We have been requested by Bob L. Mosley to review the correspondence, a proposed oil and gas lease, and an AFE that your company has submitted for the drilling of a well that includes the above-captioned lands.

After discussion, Mr. Mosley has requested that, on behalf of the above-captioned persons, we provide you with the terms and provisions of an acceptable oil and gas lease:

A. Royalty interest of 1/5 which will not bear any production nor post-production costs and expenses.

B. Bonus consideration of \$350 per net mineral acre.

C. Two years primary term.

D. Paid up oil and gas lease.

E. Limited to formations lying below the base of the Pictured Cliffs Formation during the primary term. At the end of the primary term, all formations not then producing will be released back to the oil, gas and mineral interest owners.

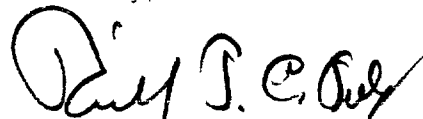
BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 23  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

Jerry McHugh Jr.  
Page Two  
December 9, 2002

If these terms and provisions for an oil and gas lease are acceptable, please prepare separate leases for these persons for prior review and approval by this writer.

Thank you for your assistance and cooperation in this matter. If you need further information, please advise.

Sincerely,

A handwritten signature in black ink, appearing to read "Rich T. C. Tully", with a stylized flourish at the end.

Richard T. C. Tully

cc:

Bob L. Mosley  
P. O. Box 1653  
Aztec, NM 87410

o

# RICHARD T.C. TULLY, P.A.

ATTORNEY AT LAW

111 NORTH ORCHARD AVENUE  
POST OFFICE BOX 268  
FARMINGTON, NEW MEXICO 87499-0268

RICHARD T.C. TULLY, P.A.  
RECOGNIZED SPECIALIST IN  
NATURAL RESOURCES - OIL & GAS LAW

(505) 327-3388  
FACSIMILE: (505) 325-8232

January 22, 2003

W. Thomas Kellahin, Esq.  
Kellahin & Kellahin  
P. O. Box 2265  
Santa Fe, NM 87504

Re: Bob L. Mosley, O. Leonard Mosley,  
Leona M. Mosley, George A. Mosley,  
Janet R. Mosley, Mary Gwendolyn Mosley  
and Betty A. Mosley

Dear Tom:

Pursuant our telephone conversation yesterday pertaining to the application for force pooling of the Tecumseh #1 Well by San Juan Resources, Inc., enclosed are copies of the following described documents:

A. Letter dated September 19, 2002 from San Juan Basin Properties, LLC to Bob L. Mosley.

B. Letter dated November 6, 2002 from San Juan Resources, Inc. to Bob L. Mosley.

C. Letter dated December 9, 2002 from this law firm to San Juan Basin Properties LLC.

D. Proposed Oil and Gas Lease dated October 1, 2002 between Bob L. Mosley, "Lessor", and San Juan Basin Properties LLC, "Lessee".

Bob L. Mosley will be appearing pro se and on behalf of his other family members at the hearing scheduled for February 6, 2003, and he will be filing a Pre-Hearing Statement in the next few days.

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 24  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

W. Thomas Kellahin, Esq

Page Two

January 22, 2003

It will be greatly appreciated if you will provide at least 24 hours prior notice to Mr. Mosley if the February 6 hearing is continued. Mr. Mosley's telephone number is 505-333-2394.

Thank you for your assistance and cooperation in this matter. If you need further information, please advise.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard T. C. Tully". The signature is stylized with a large, circular initial "R" and a long, sweeping horizontal stroke at the end.

Richard T. C. Tully

Enclosures

cc w/o encl

Bob L. Mosley  
P. O. Box 1653  
Aztec, NM 87410

PO Box 1653  
Aztec, NM 87410

January 22, 2003

Reference: Notice of Hearing

CERTIFIED MAIL

New Mexico Oil & Gas Conservation  
1220 S. St. Francis Dr.  
Santa Fe, NM 87505

Attention: David Brooks

Dear New Mexico Oil & Gas Conservation,

I will be representing: O. Leonard Mosley, & Leona M., George A. Mosley & Janet R., Mary Gwendolyn Mosley, Betty A. Nelms, and myself for the NM Oil Conservation Division Case scheduled on February 6, 2003.

I will be presenting all correspondence that we have had with San Juan Resources and with our attorney on the lease that was initially agreed upon. The agreement was that 20% gross was to be paid, when I received the lease, it was changed to 20% net.

I have tried in good faith to settle the lease of property to San Juan Resources. I feel that they have been unethical and have misrepresented themselves.

With the extra cost and time involved, we the leaseholders feel that the last offer that we made to San Juan Resources is what we are willing to lease the property for. San Juan Resources still has not responded to that offer to date.

Due to travel time, I am requesting a 24-hour notice of any changes, postponements, or rescheduling of the hearing dated for February 6, 2003.

Sincerely,

*Bobbie Lee Mosley Sr.*  
505-333-2394  
Bobbie Lee Mosley Sr.  
cc: Kellahin & Kellahin

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 25  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003



January 27, 2003

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals, Mosley Group  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18. Portions of the SE/4  
Containing 17 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

We are in receipt of the letter of December 9, 2002 from Richard Tully. We respectfully decline your "counteroffer" as outlined in Mr. Tully's letter

We will, however, offer to lease your minerals in the above referenced lands under the following terms and conditions:

- 1) Royalty interest of 1/6, using the enclosed lease form, a paid up lease.
- 2) Bonus consideration of \$150 per net mineral acre leased. for a three year term.

Please feel free to contact me to discuss this matter further. Thank you very much.

Very truly yours,  
SAN JUAN BASIN PROPERTIES LLC

Jerry McHugh, Jr.  
MANAGER

cc: Richard Tully via fax 5-325-8232

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 26  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

# **RICHARD T.C. TULLY, P.A.**

ATTORNEY AT LAW

111 NORTH ORCHARD AVENUE  
POST OFFICE BOX 268  
FARMINGTON, NEW MEXICO 87499-0268

RICHARD T.C. TULLY, P.A.  
RECOGNIZED SPECIALIST IN  
NATURAL RESOURCES OIL & GAS LAW

(505) 327-3388  
FACSIMILE: (505) 325-8232

January 30, 2003

W. Thomas Kellahin, Esq. (Facsimile 505-982-2047)  
Kellahin & Kellahin  
P. O. Box 2265  
Santa Fe, NM 87504

Re: Bob L. Mosley, O. Leonard Mosley,  
Leona M. Mosley, George A. Mosley,  
Janet R. Mosley, Mary Gwendolyn Mosley  
and Betty A. Mosley

Dear Tom:

Please refer to the letter dated January 27, 2003 from Jerry McHugh, Jr.,  
Manager, San Juan Basin Properties LLC, to Bob L. Mosley in response to the terms  
and provisions of an oil and gas lease that were proposed in our December 9, 2002  
letter to Mr. McHugh.

Our clients have requested that our law firm respond to Mr. McHugh's January  
27 letter through your law firm.

Our clients are willing to execute an oil and gas lease for their oil and gas  
interests in the SE/4 of Section 18, Township 30 North, Range 11 West, N.M.P.M., San  
Juan County, New Mexico under the following terms and provisions:

A. Royalty interest of 3/16 which will not bear any post production costs and  
expenses.

B. Bonus consideration of \$250 per net mineral acre.

C. Primary term of 2 years with a paid up lease; or a primary term of 3 years with  
\$5.00 per year per net mineral acre annual rental payments.

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit # 27  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

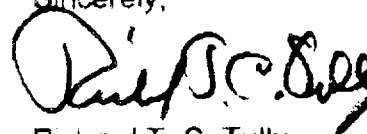
W. Thomas Kellahin, Esq.  
Page Two  
January 30, 2003

D. Limited to formations lying below the base of the Pictured Cliffs Formation during the primary term. At the end of the primary term, all formations lying below the then deepest producing formation will be released.

E. \$250 per owner annual shut-in royalty payments.

Thank you for your assistance and cooperation in this matter. If you need further information, please advise.

Sincerely,



Richard T. C. Tully

cc:

Bob L. Mosley  
P. O. Box 1653  
Aztec, NM 87410

# SAN JUAN BASIN PROPERTIES LLC

---

JERRY McHUGH, Jr.

February 6, 2003

Mr. Bob L. Mosley  
701 E. Zia  
P.O. Box 1653  
Aztec, NM 87410

RE: Offer to Lease Minerals, Mosley Group  
Township 30 North, Range 11 West, N.M.P.M.  
Section 18: Portions of the S/2  
Containing 17 acres more or less.  
San Juan County, New Mexico

Dear Mr. Mosley:

We are in receipt of the letter of January 30, 2003 from Richard Tully. We respectfully decline your "counteroffer" as outlined in Mr. Tully's letter.

We will, however, offer to lease your minerals in the above referenced lands under the following terms and conditions:

- 1) Royalty interest of 1/6, using the enclosed lease form, a paid up lease.
- 2) Bonus consideration of \$200 per net mineral acre leased, for a three year term.
- 3) Shut in provision of \$50/lease/year.

Please feel free to contact me to discuss this matter further. Thank you very much.

Very truly yours,  
SAN JUAN BASIN PROPERTIES LLC



Jerry McHugh, Jr.  
MANAGER

cc: Richard Tully via fax 5-325-8232

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12992 Exhibit# 28  
Submitted By:  
San Juan Resources  
Hearing Date: February 20, 2003

1499 Blake Street, #7K  
Denver, CO 80202 U.S.A.

Tel: 303.573.6333  
Fax: 303.573.6444  
email: jmchugh@sanjuanbasin.com