

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Las Cruces District Office
1800 Marquess Street
Las Cruces, New Mexico 88005
www.blm.gov/nm



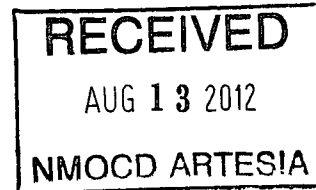
In Reply Refer To:

NMNM 38313
3100 (L0310)

APT # 30-035-20025

AUG 1 2012

CERTIFIED--RETURN RECEIPT REQUESTED
7005 1820 0003 3590 9792



Harvey E. Yates, Jr.
Jalapeño Corporation
c/o Jun Barrack
P.O. Box 1608
Albuquerque, NM 87103-1608

(26308)

Accepted for record
NMOC D

JES
8/13/2012

Dear Mr. Yates

Our records indicate your Application for Permit to Drill (APD) was submitted on September 16, 2011, to the Bureau of Land Management (BLM), Las Cruces District Office (LCDO) on BLM Form 3160-3, for the Ysletano Canyon Federal #4 gas well. This proposed well is located on split estate land located at:

T. 14 S., R. 11 E., Otero County, New Mexico, NMPM
sec. 7, SE¼.

An initial on-site inspection was conducted on July 21, 2011, prior to submittal of the APD. In attendance were LCDO staff Michael Smith, Geologist; Mohammad Nash, Soil Scientist; Joseph Navarro, Environmental Protection Specialist and yourself. At this on-site inspection you were informed that Jalapeño Corporation must provide Certification of Surface Access Agreement with the Surface Owner in the APD. In your rights-of-way discussion on page 4, section (H) of this APD, you indicated that documents for these easements were being drawn up.

Our review of this APD also determined that additional information was required before the BLM could issue approval. Initially this package did not include the \$6,500.00 mandatory processing fee as required by the Fiscal Year 2008 Consolidated Appropriations Act effective on December 26, 2007. Your office was sent a certified letter on September 22, 2011, requesting this fee. Your office had initially submitted this processing fee to the BLM, Pecos District, Roswell Field Office, who then forwarded it to our office on October 18, 2011.

Certification of Surface Access Agreement and Right-of-Way Application: You were contacted in December 2011 by our office to provide a written Surface Access Agreement with

the surface owner and to follow-up with our Realty Staff regarding application for a right-of-way to access this well. A message was also left with your office on January 25, 2012, by Realty Specialist, Kendrah Penn, requiring you to apply for a right-of-way to access this APD. Your office has yet to respond to this message. If you are unable to develop a Surface Access Agreement after making a good-faith effort, then Jalapeño Corporation will be required to post a Surface Owner Damages Bond (Federal Register, Vol. 72 No. 44, March 7, 2007, p. 10366).

Construction Materials: Page 5 of the APD states that construction materials will be removed from a gravel pit in section 7, T. 14 S., R. 11 E., NMPM. Review of land records indicate that most of the mineral estate in this section is retained by the United States. Provide the specific location (quarter-quarter section of a map or plat, or a written description) of the proposed source of construction materials (Federal Register, Vol. 72, No. 44, March 7, 2007, p. 10332, section 3.f). If materials are to be removed from public domain mineral estate, Jalapeño Corporation must complete a contract for the negotiated sale of mineral materials with the BLM prior to removing any construction materials. Please be aware that unauthorized removal of mineral materials from the Federal mineral estate will constitute willful trespass against the United States.

Well Site Layout: Please add the following information to the well site layout diagram:

- Access road entry point
- Topsoil/spoil material stockpiles (if none are planned, specify this on Exhibit 2)

Operator certification: Please identify the field representative as required. The certification is missing the following text required in Federal Onshore Order Number 1:

"I have full knowledge of state and Federal laws applicable to this operation;"

"I also certify that I, or the company I represent, am responsible for the operations conducted under this application."

Please prepare an operator certification which meets the requirements of Federal Onshore Order Number 1 (Federal Register, Vol. 72, No. 44, March 7, 2007, p. 10333, section D.6) and submit the signed original to the LCDO.

Please submit the required information in a written supplement (6 copies total) to your APD within 45 days of receipt of this letter. Otherwise, the LCDO will return the unapproved APD to the Jalapeño Corporation office (Federal Register, Vol. 72, No. 44, March 7, 2007, p. 10334, section 2.a). The BLM cannot issue final approval to any APD until the requirements of certain other laws and regulations including the National Environmental Policy Act (NEPA), the National Historic Preservation Act, and the Endangered Species Act have been met (Federal Register, Vol. 72, No. 44, March 7, 2007, p. 10334, section F.2).

To clarify certain comments on pages 2 and 3 of the APD; the alternate access route discussed with BLM staff ("route A" in your APD) on July 21, 2011, was a suggestion to help Jalapeño

Corporation minimize the Surface Owner Damages Bond, because BLM staff were not informed whether a Surface Access Agreement was in place. The BLM is well aware that the subject property is split estate, and the alternative route (route "B") may be chosen by the surface owner and proponent if such an agreement is executed.

If you have any questions, please contact Joseph Navarro, Environmental Protection Specialist, at (575) 525-4363; or Michael Smith, Geologist, at (575) 525-4421.

Sincerely,



David L. Wallace
Assistant District Manager
Division of Multi-Resources

1 Enclosure:

1 – Federal Register

Vol. 72, No. 44, March 7, 2007

cc:

✓ Randy Dade
Carl Chavez

APDA
30-035-20025

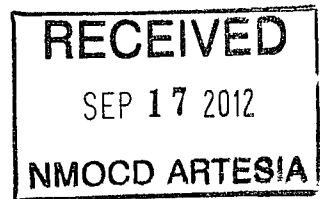
■ JALAPENO CORPORATION

P.O.BOX 1608

ALBUQUERQUE, NM 87103

PHONE: 505-242-2050

FAX: 505-242-8501



S E P T E M B E R 13, 2012

RE: NMNM 38313 3100(L03310)

David L. Wallace, Assistant District Manager
Division of Multi-Resources
Bureau of Land Management
1800 Marquess Street
Las Cruces, New Mexico 88005

Dear Mr. Wallace,

I am responding to your letter which we received on August 3, 2012 pertaining to our September 16, 2011 application to drill the Ysletano Canyon Federal #4 located on the SE ¼. Sec. 7, T.14S., R.11E., in Otero County, New Mexico, NMPM.

I greatly appreciate receiving your letter. Except for an inquiry as to the \$6,500 application fee (see below), it was the first written communication we have received from the BLM about the Ysletano Canyon Federal # 4 since we filed the application to drill the well approximately a year ago. To put the time delay in context please note that about fifty days after filing the application to drill the Otero County well we filed two other applications to drill wells on federal leases — but in Chaves County. Then, two months later we filed yet another application to drill a well — but on a state lease in Chaves County. All three of those Chaves County wells have now been drilled. Below you will see the dates of the applications and the dates of application approval.

the enclosed surface use agreement is only with Mrs. Beaty and her children. If your statement

2,3

Jalapeno Corporation

P.O. Box 1608

Albuquerque, NM 87103-1608

Phone: (505) 242-2050 Fax: (505) 242-8501

September 22, 2011

Certified Mail Receipt

#7010 0780 0000 6199 5166

Michael Smith
 Bureau of Land Management
 Las Cruces District Office
 1800 Marquess Street
 Las Cruces, NM 88005-3370

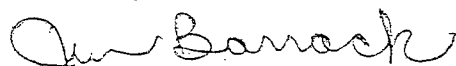
RE: Ysletano Canyon Federal #4

Mr. Smith:

I have enclosed a \$6,500 check which is to cover the BLM's processing fee to review (Form 3160-3) Application for Permit to Drill or Reenter for the Ysletano Canyon Federal #4 well. As per our conversation of today (9/22/11), I understand that our application will be sent back to us unapproved if we have not send in this processing fee into your office within 10 business days from today.

Thank you for calling me and bring this matter to my attention.

Sincerely,



Jun Barrack

Oil and Gas Operations Associate

U.S. Postal Service	
CERTIFIED MAIL RECEIPT	
<small>(Domestic Mail Only, No Insurance Coverage Provided)</small>	
<small>For delivery information visit our website at www.usps.com</small>	
OFFICIAL USE	

Postage	\$ \$0.44
Certified Fee	\$2.85
Return Receipt Fee (Endorsement Required)	\$2.30
Restricted Delivery Fee (Endorsement Required)	\$0.00
Total Postage & Fees	\$ \$5.59



Sent To	Michael Smith
Street, Apt. No., or P.O. Box No.	Bureau of Land Management Las Cruces District Office 1800 Marquess Street Las Cruces, NM 88005-3370
City, State, ZIP+4	

7010 0780 0000 6199 5166

<u>WELL NAME</u>	<u>DATE APPLICATION FILED</u>	<u>DATE APPROVED</u>
Jan Federal # 1	November 8, 2011	January 19, 2012
Crooked Bill Federal #1	November 10, 2011	January 27, 2012
Emmons State # 2	January 11, 2012	January 20, 2012

You will note that the Chaves County Federal wells were approved by the Roswell office of the BLM less than 80 days after the drilling applications were filed, and that the state's Oil Conservation Division approved the state application 9 days after it was filed.

This, of course, does not tell the whole story. The Chaves County office of the BLM responded in writing to our drilling application on the first well (the Jan Federal) with a Draft Deficiency Letter by December 1st, 2011, 23 days after receiving our application. (The office sent no deficiency letter as to the second well.) The Jan Federal draft deficiency letter informed us of the supplemental information the BLM felt necessary to properly complete the application. On the other hand, with your letter the Dona Ana County office of the BLM finally responded in writing to our application approximately 350 days after its filing.

I doubt that the Dona Ana County office's performance as to our application comports either with the intention or requirements of the applicable laws and rules. However, I do believe that the performance of the Dona Ana office comports with its desire to see no drilling, no oil and gas production, and no federal oil and gas lease in existence in Otero County. (If you wish, I would be pleased to detail the evidence on which my statement rests.)

In your letter you reference verbal communication between Dona Ana BLM employees and me, or my employees, and you misrepresent (I do not suggest that this has been intentional) some of the facts related to that communication. Below, I'll deal with those communications, but I note that as to the Chaves County applications there also were verbal communications – more numerous communications than have occurred with the Dona Anna office. But, the fact that there were verbal communications did not keep the Chaves County office from following the proper written procedures regarding the applications we filed.

As I wrote above, I appreciate your August letter. We now can respond specifically to any deficiencies the BLM believes exist related to the application to drill the Ysletano Canyon Federal # 4.

Issue#1: The \$6,500 check. I am not sure what the problem is in regard to the check. We received notification on September 22, 2011 from Edward Seum that we had failed to include a

\$6,500 check with the Ysletano # 4 application. We responded by sending, via certified mail, a \$6,500 check the next day. Enclosed please find a copy of the check, a copy of the cover letter addressed to Michael Smith of the Las Cruces office and a copy of the Certified Mail Receipt which also specifies that the certified mail was sent to Michael Smith of the Las Cruces office.

Issue # 2: The Surface Access Agreement. Enclosed please find a copy of our SURFACE ACCESS AND USE AND COMPENSATION AGREEMENT. We initially had a verbal agreement with the surface owner, Mrs. Mary Beaty. That agreement was reduced to a written agreement dated April 1, 2012. However, further title work revealed that Beaty had assigned an undivided interest in her land to a couple of her children. Thus, we needed the ratification of those children to the document signed by Mrs. Beaty. Copies of their ratifications are also enclosed.

Issue #3: Right-of-Way Access. There is some confusion regarding this matter. The right-of-way to the well through Mrs. Beaty's property, along the route specified by Mr. Smith of your office, is contained in the surface use agreement with Mrs. Beaty. That covers a right-of-way through private surface. However, Mr. Navarro, in a February 2012 phone conversation with me, raised a different right-of-way issue – one relating to access from the Beaty property to the highway. I told Mr. Navarro that the road leading out of the Beaty property to the highway is a County Road, and I asked why we need a right-of-way to use a County Road. (Please see the surveyor's Location Verification Maps, Exhibits 5A and 5B, which clearly indicate that the road is County Road BO 16.)

In response Mr. Navarro asked that we communicate with Ms. Kendrah Penn regarding that matter. I asked my son, Emmons Yates, to communicate with Ms. Penn and he attempted to do so twice, and he left messages for her. He received no return call from Ms. Penn. Please see the attached copy of the email from Emmons to me dated February 6, 2012.

Additionally, you state in your letter that we were advised in December 2011 to contact your Realty Staff regarding application for a right-of-way to access this well. You also state that, *"A message was also left with your [Jalapeno's] office on January 25, 2012 by Realty Specialist, Kendrah Penn, requiring you to apply for a right-of-way on January 25, 2012."* Not knowing of any call from Kendrah Penn or of a December communication from your office related to a right-of-way, I asked my assistant to search the company's phone records to determine whether a call came in from Ms. Penn. I attach the response I received. We have no record of having received a call from Ms. Penn or anyone else related to the right-of-way until I talked to Mr. Navarro in February.

It is our understanding that the proposed access to the Ysletano Canyon Federal # 4 traverses private surface until that private surface connects with County Road BO 16. If that is true, is the BLM suggesting that we need a right-of-way from the BLM to use a County Road?

Issue#4: Construction Materials: We do not intend to utilize any road construction material from public domain mineral estate. The road material we obtain will come from Lot 12 of Section Seven. In this regard I enclose a deed dated April 14, 1938 transferring this acreage without reservation of minerals. Our research indicates that this acreage now is owned by the Virden Family Trust of which Marlin Virden is the Trustee. Before we started this project we visited with Marlin Virden regarding the use of material from his land. I attach a map showing the proximity of Lot 12 to the Ysletano Canyon # 4.

Issue # 5: Well Site Layout. In this section you have asked for us to add the access road entry point and the topsoil location. (Soil to be reclaimed.) I attached a plat, Exhibit #9, showing both the access point and the top soil location. (We are keeping the topsoil on the eastern half of the location because of the prevailing wind directions.)

Issue # 6 : Operator Certification. I have attached a revised operator certification with the changes that you have requested.

Issue #7: Alternate Access Routes to Well Site: In your letter you state: *"To clarify certain comments on pages 2 and 3 of the APD; the alternate access route discussed with BLM staff ("route A" in your APD) on July 21, 2011, was a suggestion to help Jalapeno Corporation minimize the Surface Owner Damages Bond, because BLM staff were not informed whether a Surface Access Agreement was in place."* With all due respect, this is an attempt to substitute a different meaning for actual statements made by Mr. Smith on July 21st. Mr. Smith's statements appeared to be requirements, not suggestions. Mr. Smith said that Jalapeno should use the existing road running in front of the houses (Road A) until we found production – then, if we found production, we could build the other road (Road B). As a consequence of Mr. Smith's requirements, Jalapeno paid several thousand dollars to the surveyors from Hobbs, who had already staked the well and who had already laid out our preferred access (Road B), to again travel from Hobbs to Otero County to lay out Road A in front of Mrs. Beaty's house and the houses of her sons. During the July 21st meeting I explained to Mr. Smith my concern about having safety issues related to a having a field road run within 50 feet of a house. Nonetheless, he appeared to be unwavering. So, after the surveyors produced the second set of surveys showing Road A, we filed the application thinking that we were complying with a requirement of the BLM's Las Cruces office. (It should also be noted that the surface owners had participated in laying out Road B before the surveyors did their work and that the surface owners were available and often present during the meeting between the BLM and Jalapeno on the 21st.)

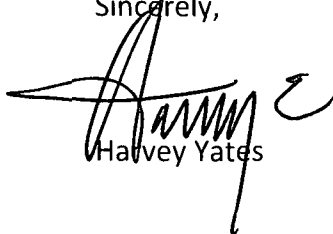
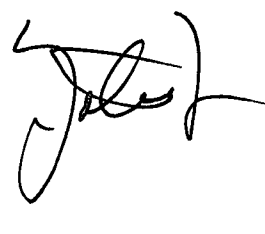
You will note that Road A, the use of which we thought was a BLM requirement during the drilling phase of the Ysletano # 4 well, does not touch Marlin Virden's property. Consequently, the enclosed surface use agreement is only with Mrs. Beaty and her children. If your statement

can be taken as eliminating the Road A requirement, we will revise the application to eliminate references to Road A and then will plan to use Road B during the well's drilling phase. Please advise us about this.

You will also note that Road B, which we thought could not be used unless we obtained production, transverses only surface owned by Mrs. Beaty and her children and Marlin Virden. The enclosed surface use agreement with Mrs. Beaty covers almost all of her surface transversed by Road B. As to Marlin Virden this company has an oil and gas lease covering Lot 12. (I enclose a copy of that lease.) As you will see the lease allows us to build roads on the acreage and Exhibit A of the lease specifies damages to be paid for such road construction and use. If your decision is that Road B can be used during the drilling phase, we will supplement the land use agreement so it also covers any part of Road B which is not presently covered and which is not covered by the enclosed oil and gas lease with Mr. Virden.

If you need any more information, we would appreciate hearing from you at your earliest convenience.

Sincerely,

 
Harvey Yates

cc. Randy Dade
Carl Chavez
Tony Herrell
Mary Lynn Bogel

4,5

SURFACE ACCESS AND USE AND COMPENSATION AGREEMENT

For and in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the sufficiency of which are hereby acknowledged, Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno") agree as follows:

- A. Surface Owner has waived the notice under Section 70-12-5 NMSA 1978. This Agreement is a mutually acceptable agreement that sets forth the rights and obligations of Surface Owner and Jalapeno with respect to the surface activities conducted by Jalapeno in its oil and gas operations.
- B. So long as Jalapeno and its successors and assigns have a lease covering the mineral estate, or part of the mineral estate underlying the property described below, Surface Owner, for the purposes stated below, grants them a perpetual, non-exclusive use, access and ingress and egress in, under, upon, about, over and through the property (surface estate) described as follows:

TOWNSHIP 14 SOUTH, RANGE 11 EAST, NMPM

SECTION 7: Lots 1,2,3,4,5,6; SE/4

SECTION 8: NW/4

SECTION 17: NW/4 NW/4; S/2 NW/4; SE/4

SECTION 18: SE/4

CONTAINING 973.42 ACRES, MORE OR LESS

OTERO COUNTY, NM

("Property")

for investigating, exploring, prospecting, drilling and operating for and producing oil and gas, and injecting gas, waters, other fluids and air into subsurface strata, laying pipelines, storing oil and building tanks, roadways, telephone lines, (electric lines) and other structures and things thereon to produce, save, take care of, treat process, store and transport said minerals. Jalapeno has leased the minerals (mineral estate) of the Property from the Bureau of Land Management.

- C. Unless otherwise agreed in writing any well pad will be one acre or less in size. For any well pad located within an orchard on the Property Jalapeno shall pay Surface Owner the total amount of \$8,000 in one lump sum payment. For any well pad located outside of an orchard on the Property Jalapeno shall pay Surface Owner the total amount of \$5,000 in one lump sum payment. (See EXHIBITS A & B for location of initial well named Yslatano Canyon Federal #4.)
- D. For all oil or gas pipelines in this Agreement but off the well pad or a road right-of-way for which Jalapeno has paid, Jalapeno will pay Surface Owner the sum of Sixteen Dollars (\$16.00) per rod, or fraction thereof; in calculating the sum owed Surface Owner, multiple lines buried in a single ditch shall count as a single pipeline. When appropriate, any pipeline may be located adjacent and parallel to any road. All oil and

gas pipelines constructed off well pads shall be buried when practicable to a depth exceeding two feet. Water pipelines at Jalapeno's election may be constructed above or below ground.

- E. For all new private roads built on the Property (see attached EXHIBIT A for proposed road), Jalapeno will pay Surface Owner the sum of Sixteen Dollars (\$16.00) per rod, or fraction thereof; if a road passes through an existing gate, Jalapeno shall have the option of installing a cattle guard at the location of the existing gate. If a new private road is built to enter or exit the property at a fenced location presently without a gate, Jalapeno shall secure Surface Owner's permission before installing a new gate or cattle guard at the fenced location. At Surface Owner's written request, Jalapeno shall replace with a cattle guard any gate used repeatedly by Jalapeno. When such a road is being used by Jalapeno for its operations, Jalapeno shall undertake to limit dust by periodically watering the road; however, Jalapeno shall not be responsible for dust arising from the road as a consequence of use of the road by Surface Owner, Surface Owner's invitees or third parties who are using the road unrelated to Jalapeno's operations.
- F. Where existing private roads (see attached EXHIBIT B) are used by Jalapeno, Jalapeno will pay Surface Owner the sum of Four Dollars (\$4.00) per rod, or fraction thereof; Jalapeno will modify these existing private roads for its use and will repair any damage attributed to the use by Jalapeno.
- G. Jalapeno to the best of its ability shall cause off road traffic to run in a direction to minimize erosion. If Jalapeno causes tracks which are likely to cause erosion problems which otherwise would not have been encountered, Jalapeno shall have the option to either shoveling in tracks, or, of dumping dirt across the tracks at approximate fifty foot intervals to assist in removing water from the tracks.
- H. Jalapeno shall comply with the applicable OCC rules and regulations for pits. Jalapeno may use either a cable tool rig or rotary tool rig to drill the well.
- I. At the conclusion of Jalapeno's plan of well development or, at the Jalapeno's option, at the conclusion of each drilling and production, Jalapeno shall return (reclaim) those portions of the acreage damaged by its oil and gas operations to a condition reasonably similar to their present condition. Jalapeno shall seed continued grass on bare spots caused by its operations. Jalapeno shall give Surface Owner notice prior to seeding grass so a representative of Surface Owner may have the opportunity to observe the seeding operation. Jalapeno shall not be liable if seeded grass fails to grow.
- J. If in drilling a well Jalapeno encounters water which Surface Owner wishes to appropriate to Surface Owner's use, Jalapeno, before abandoning the well, shall offer it to Surface Owner. If Surface Owner accepts the hole, Surface Owner shall thereupon relieve Jalapeno of plugging and all other liability associated with the well, and shall comply with governmental regulations related to assumption of the hole for water well purposes. This paragraph shall not be construed to inhibit Jalapeno from retrieving all casing and other equipment, except surface casing, from the hole before giving that hole to Surface Owner.
- K. When producing a well on the property, which well is located within a quarter mile of a dwelling, Jalapeno shall use an electric motor for pumping the well if it is an oil well and, if the well is a gas well, shall so muffle the gas well as to keep noise levels emanating from the well sufficiently low so they measure no more than 45 decibels at the dwelling. The requirement that Jalapeno use an electric motor on such oil wells is

L. If in the course of its production operations of a pipeline or a well, oil leaks on the ground in a volume which exceeds one barrel, Jalapeno shall undertake, within a reasonable time, to cleanup the oil spill and replace the oil contaminated soil with clean soil or gravel as is appropriate in the particular case.

Mary L. Beaty
Mary L. Beaty (Seal)

Jalapeno Corporation
by Harvey E. Yates, Jr.
Harvey E. Yates, Jr., President (Seal)

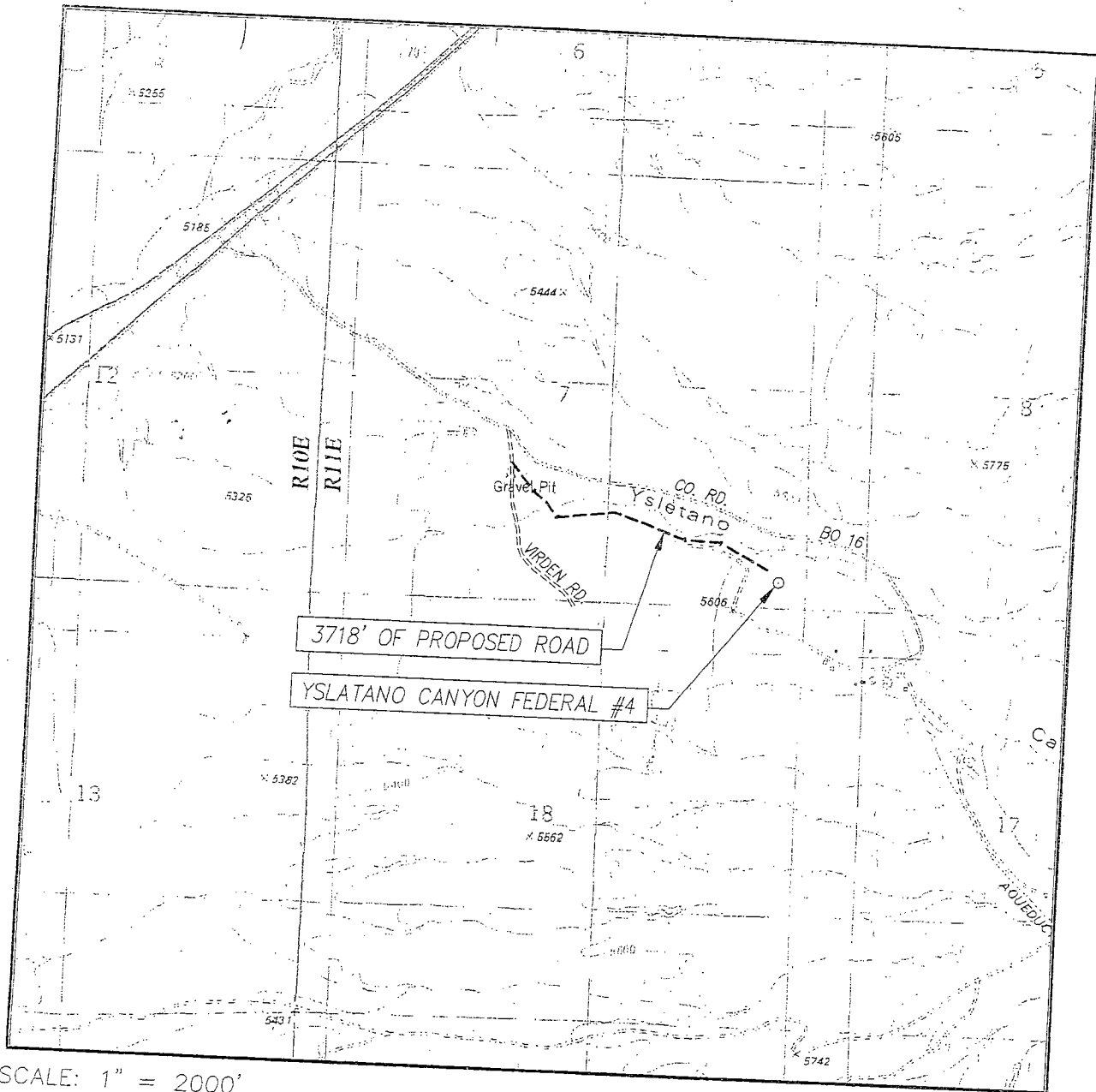
Lillian Duran
Notary Public

Lillian Duran
Notary Public

3

EXHIBIT A

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO


DESCRIPTION 330' FSL & 330' FEL

ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

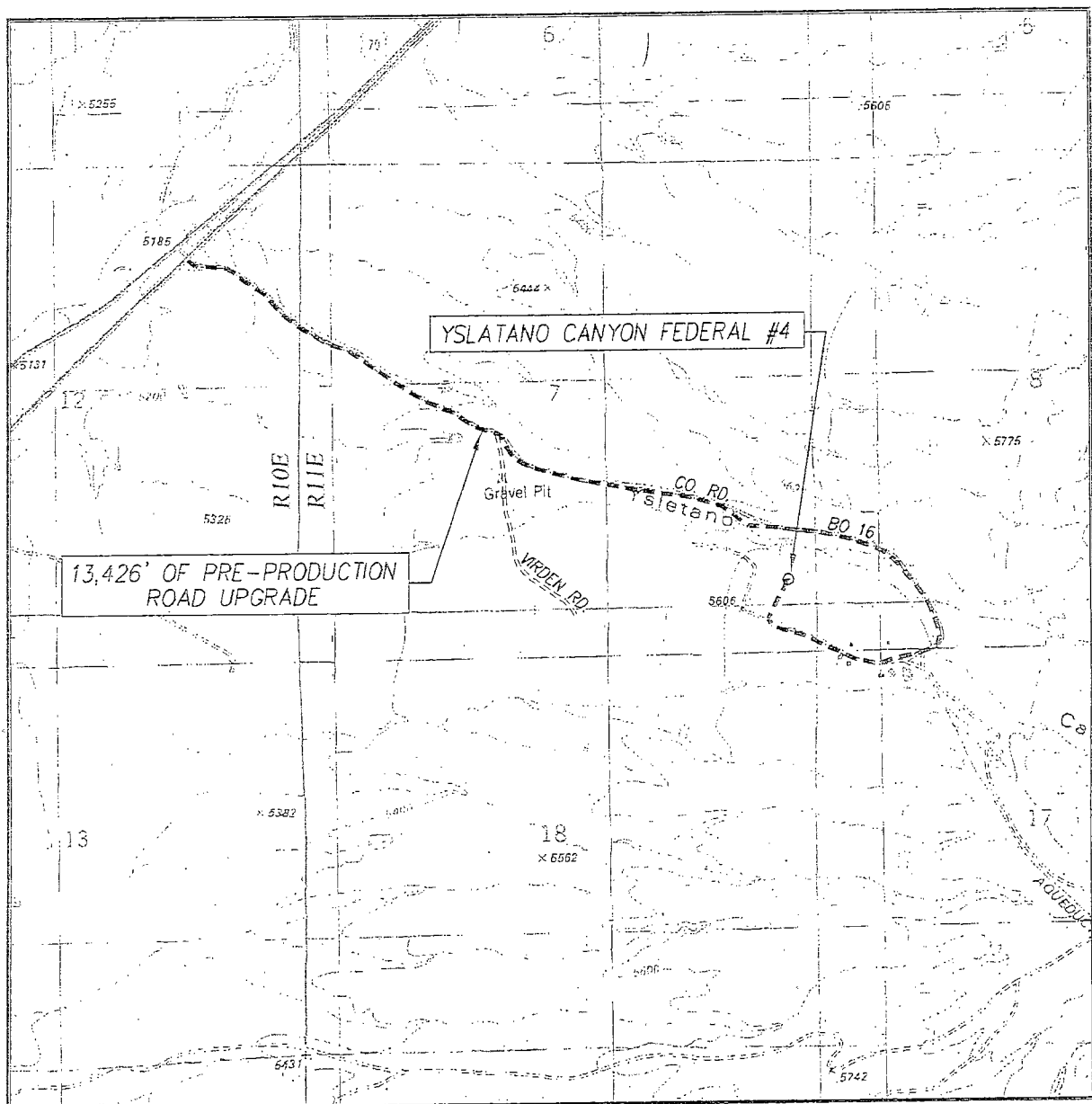
U.S.G.S. TOPOGRAPHIC MAP
SABINATA FLAT, N.M.



PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(575) 393-3117

EXHIBIT B

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

DESCRIPTION 330' FSL & 330' FEL

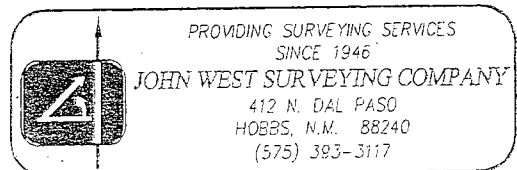
ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

SABINATA FLAT, N.M.



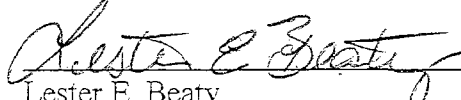
AGREEMENT

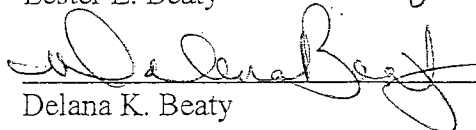
Whereas, Lester E. Beaty, a married man dealing in his sole and separate property, and Lorna J. Shaw, a married woman dealing in her sole and separate property, each have an interest, along with Mary L. Beaty, their mother, in the surface estate of the real estate described in the Quitclaim Deed recorded in Book 1183, Page 747 of the Records of Deeds of Otero County, New Mexico, and

Whereas, Jalapeno Corporation intended to contract with all surface owners of this surface estate, which in part over lies the mineral estate leased by Jalapeno Corporation from BLM, under the Surface Access and Use and Compensation Agreement dated April 1, 2012 between Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno") and Mary L. Beaty concurs with this.

Lester E. Beaty, a married man dealing in his sole and separate property, joined by Delana K. Beaty, his wife, and Lorna J. Shaw, a married woman dealing in her sole and separate property, joined by Brian D. Shaw, her husband, join in, agree to, confirm, ratify, adopt and legally bind themselves to the Surface Access and Use and Compensation Agreement dated April 1, 2012 between Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno"), a copy of which is attached as Exhibit 1 and incorporated by reference, as Surface Owner, which means all these surface owners jointly. Payments under this Surface Access and Use and Compensation Agreement will be made to Mary L. Beaty on behalf of Surface Owner.

Witness our hands and seals this 16 day of June, 2012.


Lester E. Beaty (Seal)


Delana K. Beaty (Seal)

Witness our hands and seals this ____ day of _____, 2012.

Lorna J. Shaw (Seal)

Brian D. Shaw (Seal)

State of New Mexico)

) ss

County of Otero)

This instrument was acknowledged before me on June 16, 2012 by Lester E. Beaty, a married man dealing in his sole and separate property, and Delana K. Beaty, his wife.

Christina Salazar
Notary Public

(Seal)

My commission expires: Oct 16, 14

State of New Mexico)

) ss

County of Eddy)

This instrument was acknowledged before me on _____, 2012 by Lorna J. Shaw, a married woman dealing in her sole and separate property, and Brian D. Shaw, her husband.

Notary Public

(Seal)

My commission expires: _____

AGREEMENT

Whereas, Lester E. Beaty, a married man dealing in his sole and separate property, and Lorna J. Shaw, a married woman dealing in her sole and separate property, each have an interest, along with Mary L. Beaty, their mother, in the surface estate of the real estate described in the Quitclaim Deed recorded in Book 1183, Page 747 of the Records of Deeds of Otero County, New Mexico, and

Whereas, Jalapeno Corporation intended to contract with all surface owners of this surface estate, which in part over lies the mineral estate leased by Jalapeno Corporation from BLM, under the Surface Access and Use and Compensation Agreement dated April 1, 2012 between Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno") and Mary L. Beaty concurs with this.

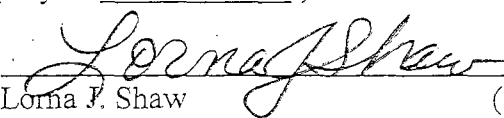
Lester E. Beaty, a married man dealing in his sole and separate property, joined by Delana K. Beaty, his wife, and Lorna J. Shaw, a married woman dealing in her sole and separate property, joined by Brian D. Shaw, her husband, join in, agree to, confirm, ratify, adopt and legally bind themselves to the Surface Access and Use and Compensation Agreement dated April 1, 2012 between Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno"), a copy of which is attached as Exhibit 1 and incorporated by reference, as Surface Owner, which means all these surface owners jointly. Payments under this Surface Access and Use and Compensation Agreement will be made to Mary L. Beaty on behalf of Surface Owner.

Witness our hands and seals this ____ day of _____, 2012.

Lester E. Beaty (Seal)

Delana K. Beaty (Seal)

Witness our hands and seals this ____ day of _____, 2012.


Lorna J. Shaw (Seal)

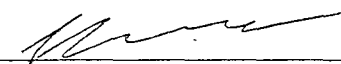

Brian D. Shaw (Seal)

EXHIBIT 1

SURFACE ACCESS AND USE AND COMPENSATION AGREEMENT

For and in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the sufficiency of which are hereby acknowledged, Mary L. Beaty ("Surface Owner"), a single woman, and Jalapeno Corporation ("Jalapeno") agree as follows:

- A. Surface Owner has waived the notice under Section 70-12-5 NMSA 1978. This Agreement is a mutually acceptable agreement that sets forth the rights and obligations of Surface Owner and Jalapeno with respect to the surface activities conducted by Jalapeno in its oil and gas operations.
- B. So long as Jalapeno and its successors and assigns have a lease covering the mineral estate, or part of the mineral estate underlying the property described below, Surface Owner, for the purposes stated below, grants them a perpetual, non-exclusive use, access and ingress and egress in, under, upon, about, over and through the property (surface estate) described as follows:

TOWNSHIP 14 SOUTH, RANGE 11 EAST, NMPM

SECTION 7: Lots 1,2,3,4,5,6; SE/4

SECTION 8: NW/4

SECTION 17: NW/4 NW/4; S/2 NW/4; SE/4

SECTION 18: SE/4

CONTAINING 973.42 ACRES, MORE OR LESS

OTERO COUNTY, NM

("Property")

for investigating, exploring, prospecting, drilling and operating for and producing oil and gas, and injecting gas, waters, other fluids and air into subsurface strata, laying pipelines, storing oil and building tanks, roadways, telephone lines, (electric lines) and other structures and things thereon to produce, save, take care of, treat process, store and transport said minerals. Jalapeno has leased the minerals (mineral estate) of the Property from the Bureau of Land Management.

- C. Unless otherwise agreed in writing any well pad will be one acre or less in size. For any well pad located within an orchard on the Property Jalapeno shall pay Surface Owner the total amount of \$8,000 in one lump sum payment. For any well pad located outside of an orchard on the Property Jalapeno shall pay Surface Owner the total amount of \$5,000 in one lump sum payment. (See EXHIBITS A & B for location of initial well named Yslatano Canyon Federal #4.)
- D. For all oil or gas pipelines in this Agreement but off the well pad or a road right-of-way for which Jalapeno has paid, Jalapeno will pay Surface Owner the sum of Sixteen Dollars (\$16.00) per rod, or fraction thereof; in calculating the sum owed Surface Owner, multiple lines buried in a single ditch shall count as a single pipeline. When appropriate, any pipeline may be located adjacent and parallel to any road. All oil and

gas pipelines constructed off well pads shall be buried when practicable to a depth exceeding two feet. Water pipelines at Jalapeno's election may be constructed above or below ground.

- E. For all new private roads built on the Property (see attached EXHIBIT A for proposed road), Jalapeno will pay Surface Owner the sum of Sixteen Dollars (\$16.00) per rod, or fraction thereof; if a road passes through an existing gate, Jalapeno shall have the option of installing a cattle guard at the location of the existing gate. If a new private road is built to enter or exit the property at a fenced location presently without a gate, Jalapeno shall secure Surface Owner's permission before installing a new gate or cattle guard at the fenced location. At Surface Owner's written request, Jalapeno shall replace with a cattle guard any gate used repeatedly by Jalapeno. When such a road is being used by Jalapeno for its operations, Jalapeno shall undertake to limit dust by periodically watering the road; however, Jalapeno shall not be responsible for dust arising from the road as a consequence of use of the road by Surface Owner, Surface Owner's invitees or third parties who are using the road unrelated to Jalapeno's operations.
- F. Where existing private roads (see attached EXHIBIT B) are used by Jalapeno, Jalapeno will pay Surface Owner the sum of Four Dollars (\$4.00) per rod, or fraction thereof; Jalapeno will modify these existing private roads for its use and will repair any damage attributed to the use by Jalapeno.
- G. Jalapeno to the best of its ability shall cause off road traffic to run in a direction to minimize erosion. If Jalapeno causes tracks which are likely to cause erosion problems which otherwise would not have been encountered, Jalapeno shall have the option to either shoveling in tracks, or, of dumping dirt across the tracks at approximate fifty foot intervals to assist in removing water from the tracks.
- H. Jalapeno shall comply with the applicable OCC rules and regulations for pits. Jalapeno may use either a cable tool rig or rotary tool rig to drill the well.
- I. At the conclusion of Jalapeno's plan of well development or, at the Jalapeno's option, at the conclusion of each drilling and production, Jalapeno shall return (reclaim) those portions of the acreage damaged by its oil and gas operations to a condition reasonably similar to their present condition. Jalapeno shall seed continued grass on bare spots caused by its operations. Jalapeno shall give Surface Owner notice prior to seeding grass so a representative of Surface Owner may have the opportunity to observe the seeding operation. Jalapeno shall not be liable if seeded grass fails to grow.
- J. If in drilling a well Jalapeno encounters water which Surface Owner wishes to appropriate to Surface Owner's use, Jalapeno, before abandoning the well, shall offer it to Surface Owner. If Surface Owner accepts the hole, Surface Owner shall thereupon relieve Jalapeno of plugging and all other liability associated with the well, and shall comply with governmental regulations related to assumption of the hole for water well purposes. This paragraph shall not be construed to inhibit Jalapeno from retrieving all casing and other equipment, except surface casing, from the hole before giving that hole to Surface Owner.
- K. When producing a well on the property, which well is located within a quarter mile of a dwelling, Jalapeno shall use an electric motor for pumping the well if it is an oil well and, if the well is a gas well, shall so muffle the gas well as to keep noise levels emanating from the well sufficiently low so they measure no more than 45 decibels at the dwelling. The requirement that Jalapeno use an electric motor on such oil wells is.

L. If in the course of its production operations of a pipeline or a well, oil leaks on the ground in a volume which exceeds one barrel, Jalapeno shall undertake, within a reasonable time, to cleanup the oil spill and replace the oil contaminated soil with clean soil or gravel as is appropriate in the particular case.

Mary L. Beaty
Mary L. Beaty (Seal)

Jalapisco Corporation
by Harvey E. Yates, Jr.
Harvey E. Yates, Jr., President (Seal)

Lillian Durac
Notary Public

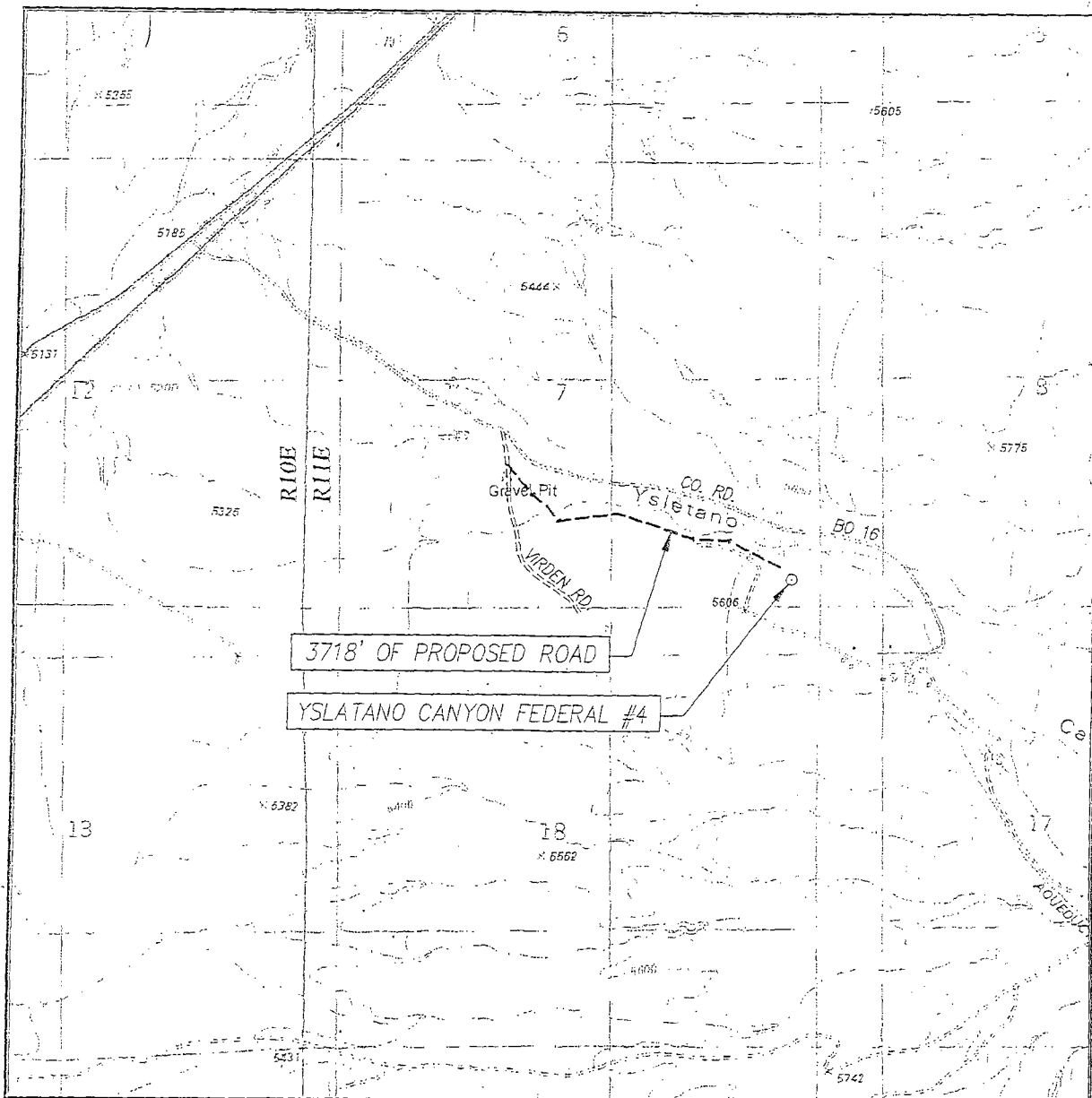
[My commission expires. 4.22.14];

Lillian Duman
Notary Public

My commission expires: 4-22-14

EXHIBIT A

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

DESCRIPTION 330' FSL & 330' FEL

ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
SABINATA FLAT, N.M.

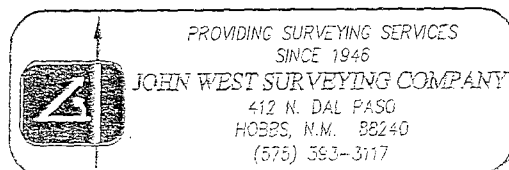
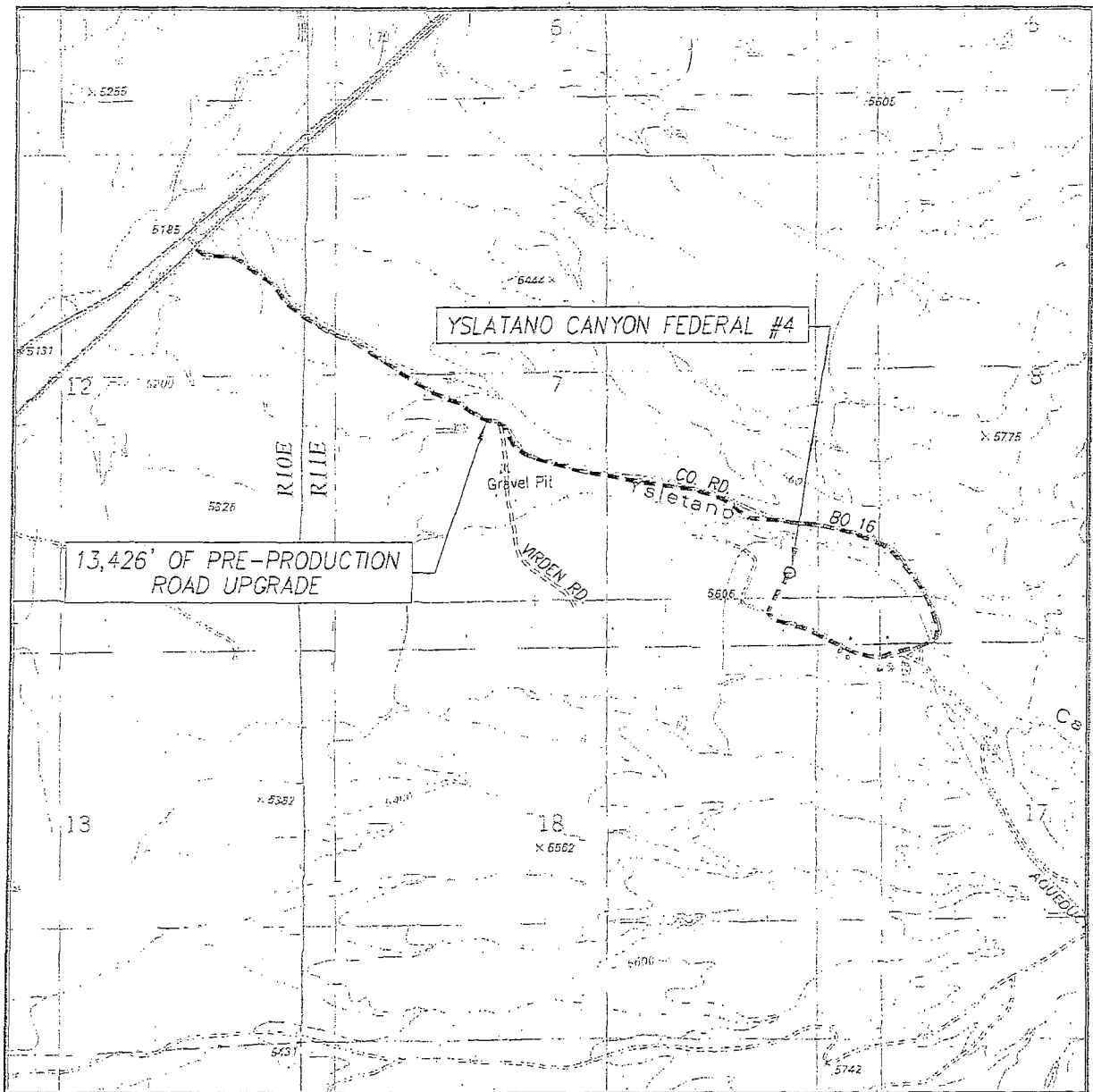


EXHIBIT B

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

DESCRIPTION 330' FSL & 330' FEL


ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

SABINATA FLAT, N.M.

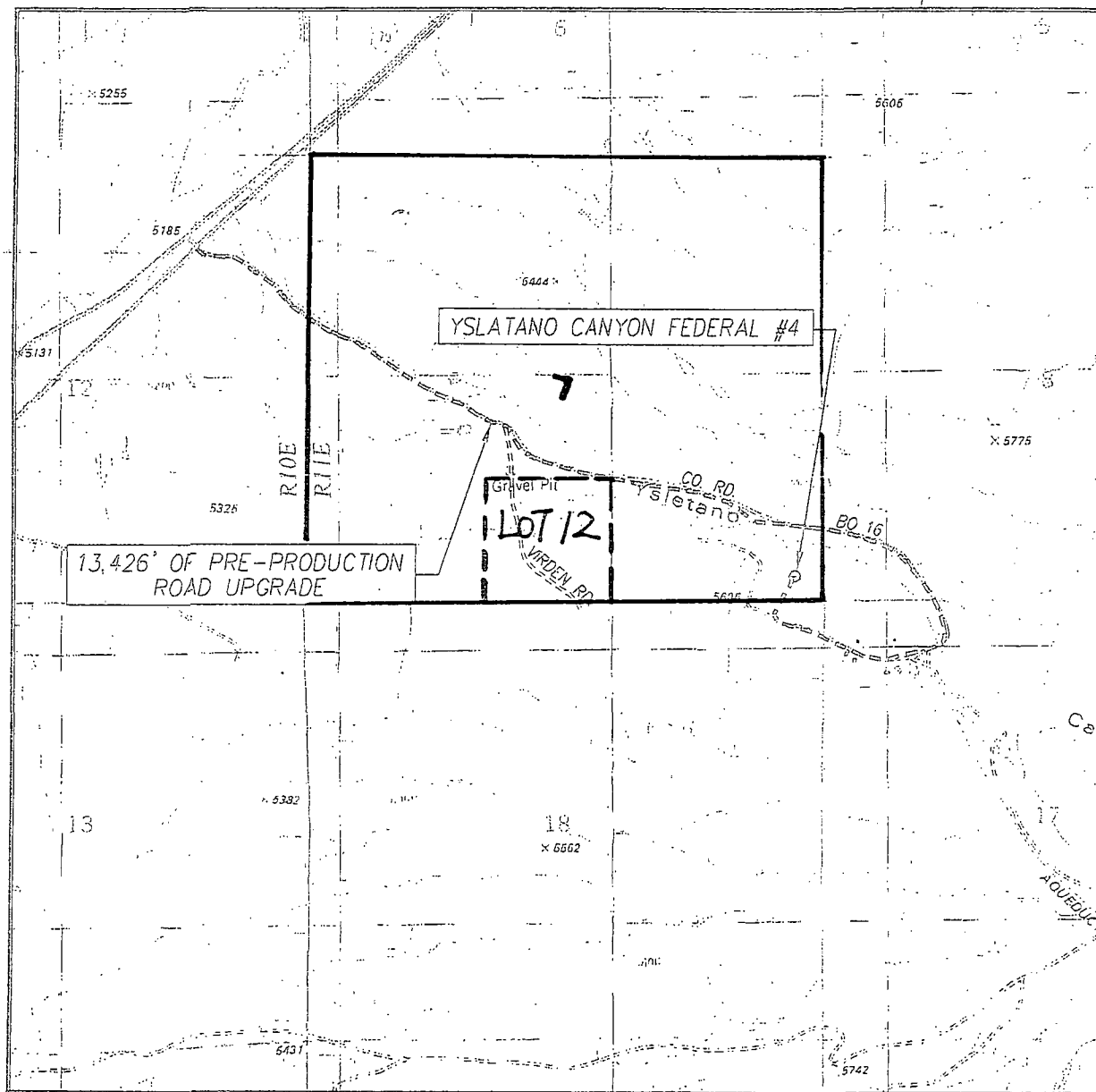


PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBS, N.M. 88240
(575) 393-3117

6.

EXHIBIT #5A

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

DESCRIPTION 330' FSL & 330' FEL

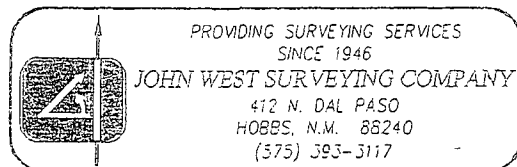
ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

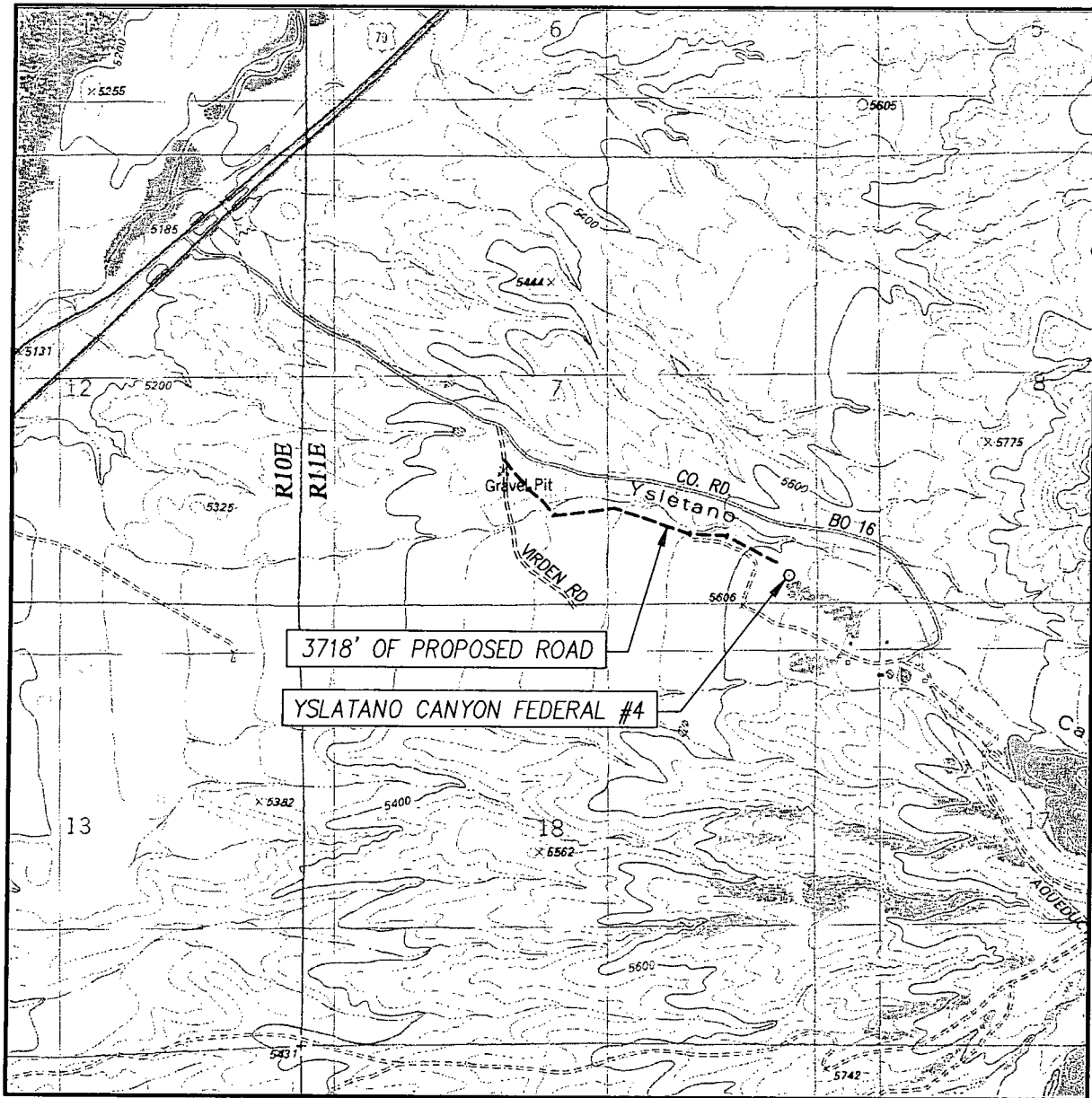
LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

SABINATA FLAT, N.M.



LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

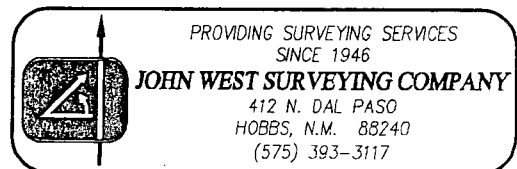
DESCRIPTION 330' FSL & 330' FEL

ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP
SABINATA FLAT, N.M.



Emmons Yates

From: Emmons Yates [eyates@jalapenocorp.com]
Sent: Monday, February 06, 2012 12:59 PM
To: 'petroyates@msn.com'
Subject: call to kendrah penn

Dad,

I just wanted to let you know that I called Kendrah Penn. The lady at the BLM that Joseph Navarro called and wanted us to get a hold of regarding the ROW for the county road. I left another message but still haven't gotten a call back. Not sure what the holdup is regarding the Ysletano#4.

Emmons Yates
Geological Analyst
eyates@jalapenocorp.com

Jalapeño Corporation
Physical: 1429 Central Avenue NW, Suite 3 Albuquerque, NM 87104
Mailing: P.O. 1608
Albuquerque, NM 87103
505.242.2050 phone
505.242.8501 fax
617.620.4818 cell

This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this email in error please notify the system manager. This message contains confidential information and is intended only for the individual named. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Please notify the sender immediately by e-mail if you have received this e-mail by mistake and delete this e-mail from your system. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.

No employee or agent is authorized to conclude any binding agreement on behalf of named company or affiliated company with another party by email without express written confirmation by a supervisor or director.

9.



JALAPEÑO CORPORATION

MEMO

To: Mr. Yates
From: Renee Candelaria
Subject: Phone messages
Date: 9/12/2012
Time: 1:58 PM
cc:

Mr. Yates,

As requested I went through all of the office phone message books containing carbon copies of all messages received looking for a message from Kendrah Penn with the BLM. I also looked for any messages from any person calling on behalf of the BLM Las Cruces office. I searched through all of December 2011 and January and February of 2012. No phone messages were found in any of the books in the office.

Thanks,

Renee Candelaria

10.
Las Cruces 02503.

4-1003-R.

The United States of America,

To all to whom these presents shall come, Greeting:

WHEREAS, a Certificate of the Register of the Land Office at Las Cruces, New Mexico, has been deposited in the General Land Office, whereby it appears that, pursuant to the Act of Congress of May 20, 1862, "To Secure Homesteads to Actual Settlers on the Public Domain," and the acts supplemental thereto, the claim of Mauricio Montoya, has been established and duly consummated, in conformity to law, for the Lot twelve of Section seven and the Lots one, two, and six of Section eighteen in Township fourteen south of Range eleven east of the New Mexico Meridian, New Mexico, containing one hundred sixty acres,

according to the Official Plat of the Survey of the said Land, returned to the GENERAL LAND OFFICE by the Surveyor-General:

NOW KNOW YE, That there is, therefore, granted by the UNITED STATES unto the said claimant the tract of Land above described; TO HAVE AND TO HOLD the said tract of Land, with the appurtenances thereof, unto the said claimant and to the heirs and assigns of the said claimant forever; subject to any vested and accrued water rights for mining, agricultural, manufacturing, or other purposes, and rights to ditches and reservoirs used in connection with such water rights, as may be recognized and acknowledged by the local customs, laws, and decisions of courts; and there is reserved from the lands hereby granted, a right of way thereon for ditches or canals constructed by the authority of the United States.

IN TESTIMONY WHEREOF, I, Woodrow Wilson

President of the United States of America, have caused these letters to be made Patent, and the seal of the General Land Office to be hereunto affixed.

GIVEN under my hand, at the City of Washington, the FOURTEENTH

(SEAL)

day of APRIL In the year of our Lord one thousand nine hundred and FOURTEEN and of the Independence of the United States the one hundred and THIRTY-EIGHTH.

By the President:

By

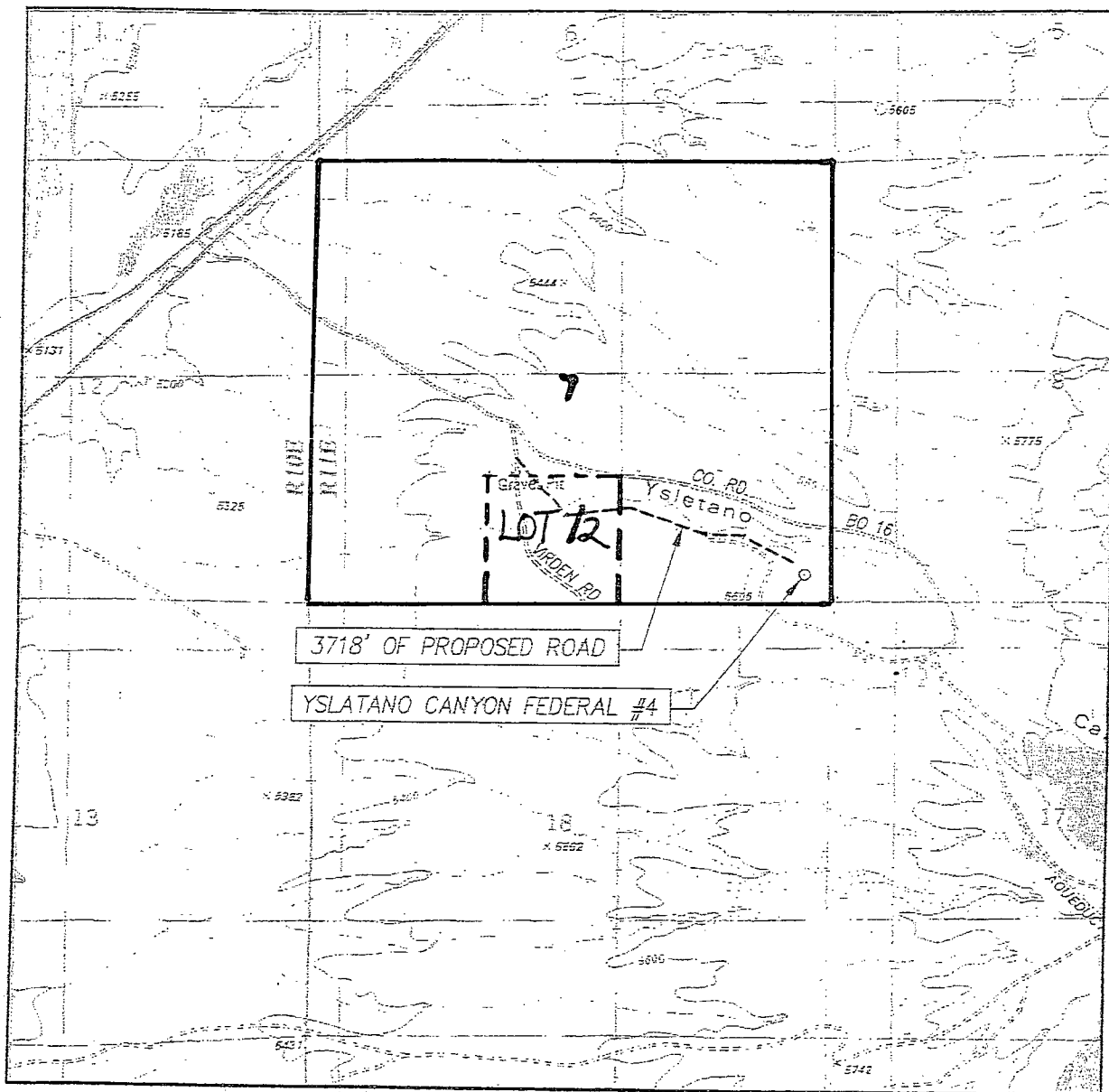
Woodrow Wilson
M. O. Le Roy Secretary
G. Q. C. Lamar
Recorder of the General Land Office.

RECORD OF PATENTS: Patent Number 398071

4-2177

EXHIBIT 5B

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SABINATA FLAT, N.M. - 40'

SEC. 7 TWP. 14-S RGE. 11-E

SURVEY N.M.P.M.

COUNTY OTERO STATE NEW MEXICO

DESCRIPTION 330' FSL & 330' FEL

ELEVATION 5627'

OPERATOR JALAPENO CORPORATION

LEASE YSLATANO CANYON FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

SABINATA FLAT, N.M.

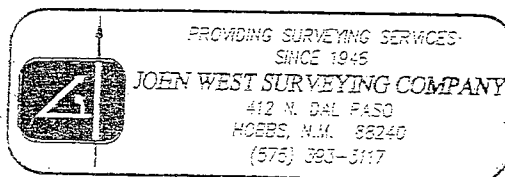
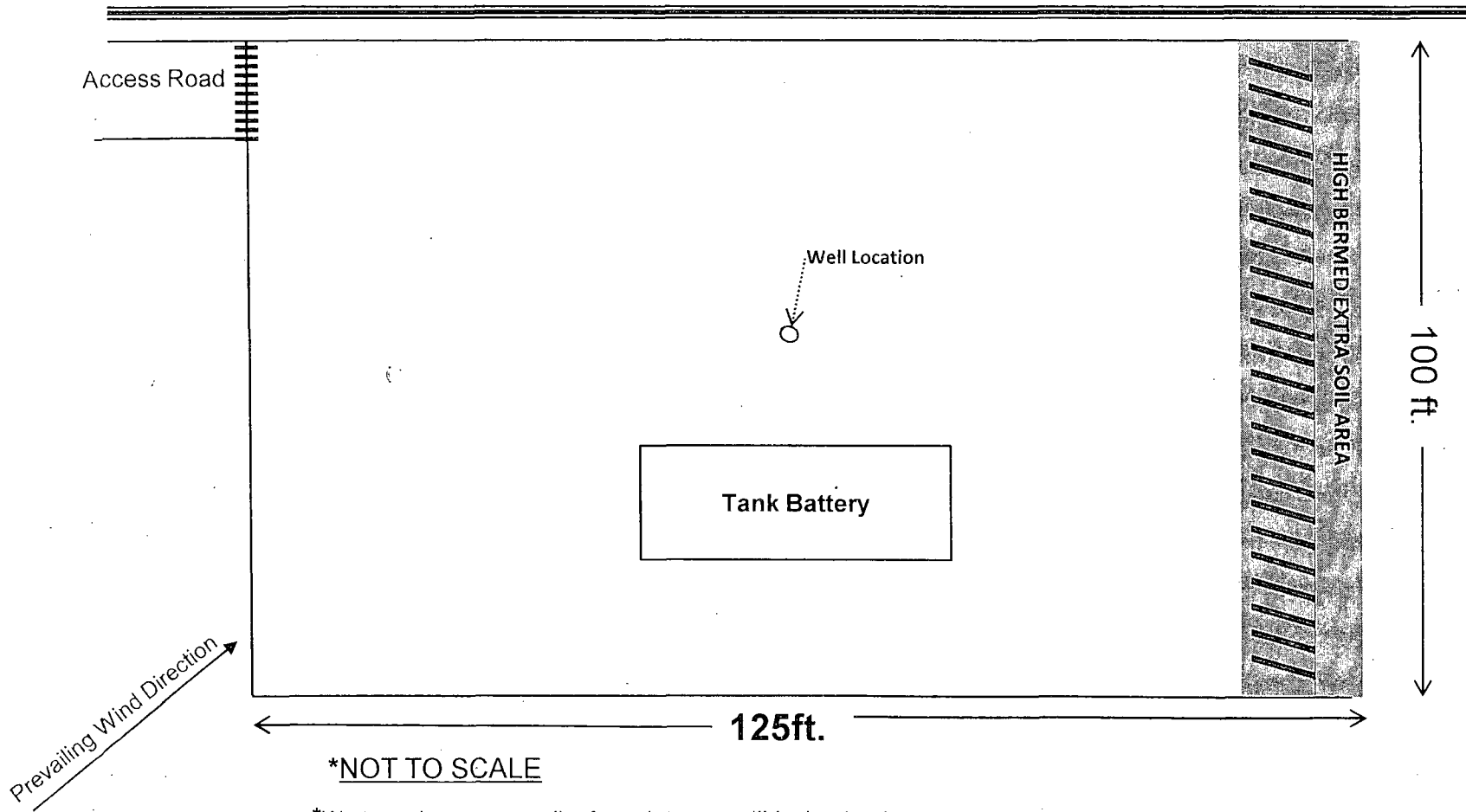
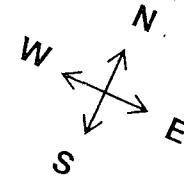


Exhibit #9

JALAPENO CORPORATION Ysletano Canyon Federal #4

LEGEND

- Proposed Berm
- Fence
- Cattle guard



*We try to leave as small a footprint as possible that is why our well pads are small to begin with.
We will reclaim as much of the area as possible that is not needed for active support of production.

Jalapeno Corporation

YSLETANO CANYON FEDERAL #4

330 FSL & 330 FEL

SECTION 7, T. 14-S, R. 11-E

OTERO COUNTY, NEW MEXICO

13. OPERATOR'S REPRESENTATIVE

Representative responsible for assuring compliance with the approved surface use plan is:

Address:

Harvey E. Yates, Jr., President
Jalapeno Corporation
P.O. Box 1668
Albuquerque, NM 87103

Contact Information:

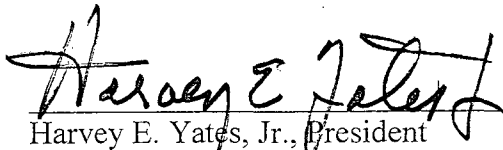
Albuquerque Office Phone: (505) 242-2050

Harvey E. Yates, Jr., President
Cell Phone: (505) 980-7761 or (575) 840-9408

Emmons Yates, Oil & Gas Exploration
Cell Phone: (505) 980-0703 or (575) 626-8964

OPERATING CERTIFICATION

I hereby certify that I, or someone under my direct supervision, have inspected the proposed drill site and access route proposed herein; that I am familiar with the conditions which currently exist; that I have full knowledge of State and Federal laws applicable to this operation; that the statements made in this APD package are, to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Jalapeno Corporation and its contractors and sub-contractors in conformity with this APD package and the terms and conditions under which it is approved. I also certify that I, or the company I represent, am responsible for the operations conducted under this application. This statement is subject to the provisions of no. 18 U.S.C. #1001 for filing of false statements.



Harvey E. Yates, Jr., President
Jalapeno Corporation

9/13/12
Date

OIL & GAS LEASE

THIS AGREEMENT made this 6th day of September, 2010, effective September 1, 2010, between

Marlin D. Virden and Barbara J. Virden, Co-trustees of the Virden Family Trust

of _____
(Post Office Address)

herein called lessor (whether one or more) and Jalapeno Corporation, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in Otero County, New Mexico, to-wit:

See Exhibit "A"

704.63 gross

704.63 net

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of five years from this date (called "primary term"), and as long thereafter as oil or gas, is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/8th of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the month of the well of 1/8th of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/8th of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease, if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$1.00 per net acre which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the First National Bank

Alamogordo, New Mexico

at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any, lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. 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 pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable 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 hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. 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, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas 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) then the royalties, shut-in royalty, rental, and other payments, if any, 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. 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.

11. Lessee, its/his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

12. This lease continues on Exhibit "A" attached.

Executed the day and year first above written.

Marlin D. Virden

Barbara J. Virden

Marlin D. Virden

Barbara J. Virden, his wife

STATE OF NEW MEXICO,

County of Otero

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 6th day of September, 19 2010 by Marlin D. Virden

My Commission expires Jan. 19, 19 2013



OFFICIAL SEAL
YAN ZHANG
NOTARY PUBLIC
STATE OF NEW MEXICO

STATE OF NEW MEXICO,

County of Otero

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 6th day of September, 19 2010 by Barbara J. Virden

My Commission expires Jan. 19, 19 2013



OFFICIAL SEAL
YAN ZHANG
NOTARY PUBLIC
STATE OF NEW MEXICO

STATE OF NEW MEXICO,

County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

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

My Commission expires _____, 19 _____

Notary Public

STATE OF _____

County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

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

My Commission expires _____, 19 _____

Notary Public

No. _____	
OIL AND GAS LEASE NEW MEXICO	
FROM	TO
Date _____, 19 _____	
Section _____, Township _____, Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO	
COUNTY OF _____	
I hereby certify that this instrument was filed for record on the _____ day of _____, A. D., 19 _____, at _____ o'clock _____ m., and was duly recorded in Book _____ at Page _____ of the Records of said County.	
By _____ County Clerk	By _____ Deputy

STATE OF NEW MEXICO

County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____ Notary Public

STATE OF _____

County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____, _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____ Notary Public

EXHIBIT "A"

Attached to and made part of that certain Oil & Gas Lease dated September 6, 2010 and effective September 1, 2010 between Marlin D. Virden, joined by Barbara J. Virden, his wife, Co-trustees and Lessors, and Jalapeno Corporation, Lessee.

- G. At the conclusion of the lease or, at the Lessee's option, at the conclusion of each drilling and production, Lessee shall return those portions of the leased acreage damaged by its operations to a condition reasonably similar to their present condition. Lessee shall seed continued grass on bare spots caused by its operations. Lessee shall give Lessor notice prior to seeding grass so a representative of Lessor may have the opportunity to observe the seeding operation. Lessee shall not be liable if seeded grass fails to grow.
- H. If in drilling a well Lessee encounters water which Lessor wishes to appropriate to Lessor's use, Lessee, before abandoning the well, shall offer it to Lessor. If Lessor accepts the hole, Lessor shall thereupon relieve Lessee of plugging and all other liability associated with the well, and shall comply with governmental regulations related to assumption of the hole for water well purposes. This paragraph shall not be construed to inhibit Lessee from retrieving all casing and other equipment, except surface casing, from the hole before giving it to Lessor.

Nothing Follows

