

OIL AND GAS LEASE

THIS AGREEMENT made this 12th day of January 19 81, between CHAMPLIN PETROLEUM COMPANY, a Delaware Corporation, authorized to do business in the State of Colorado Lessor, and Nielson Enterprises, Inc. authorized to do business in said State, Lessee:

WITNESSETH:

- 1. Subject to the exceptions and reservations set forth in (a) that certain Quitclaim Deed dated as of April 1, 1971, from Union Pacific Railroad Company to Union Pacific Land Resources Corporation filed for record April 14, 1971, and appearing in Book 644 at Page 23-1 in the Office of the County Clerk and Recorder of Weld County, Colorado, and (b) that certain Mineral Deed dated April 14, 19 80, from Union Pacific Land Resources Corporation to Lessor,

Lessor, for a good and valuable consideration, receipt of which is hereby acknowledged and in consideration of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas (gas for all purposes being defined without limitation, to include dry gas, casinghead gas, distillate, condensate, and other gaseous substances), and associated liquid hydrocarbons, and, subject to the provisions of Sections 14, 15 and 16 hereof, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described

an undivided fifty percent (50%) of Lessor's interest in and to the oil and gas in and under the following described lands located in Weld County, Colorado, to wit:

Township 3 North, Range 66 West Section 7: E 1/4 NE 1/4 less .26 acres of UPRR right-of-way as it crosses the NE 1/4 of Section 7 from the surface of the earth to the stratigraphic equivalent of the total depth drilled in the Salamanca No. 1 well located in the NW 1/4 of Section 7, T-3-N, R-66-W.

All other rights, horizons, strata, and formation, including, but not limited to, the right to the concurrent use of the surface and the right to drill through the leased interval, are reserved and retained by the Lessor.

This Lease is subject to the terms and provisions of that certain Farmout Contract dated May 5, 1980, by and between Lessor and Lessee.

Notwithstanding that the grant contained herein is for an undivided fifty percent (50%) of Lessor's interest, the "Lesser Interest" provision of Section 11 hereof may be used to reduce the royalties and rentals recited herein by fifty percent (50%) upon payout of the earning well as defined in said Farmout Contract.

This Lease shall terminate at the end of the primary term hereof as to all lands not allocated to a spaced, producing unit or not allocated to a spaced unit upon which drilling or reworking operations are being conducted. If the lands are not spaced, this Lease shall so terminate as to all lands except the legal subdivision upon which a well is located.

tender to Lessor, at P.O. Box 552, Enid, Oklahoma 73701, the sum of Seventy-Nine and 74/100 Dollars (\$ 79.74), (herein called rental), which shall cover the privilege of deferring commencement of operations for drilling for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of operations for drilling may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental herein referred to may be made in currency, draft or check at the option of the Lessee; and the depositing of such currency, draft, or check in any post office, properly addressed to the Lessor, on or before the rental paying date, shall be deemed payment as herein provided. Lessee may at any time execute and place of record a release or releases covering any portion or portions of the above described premises, furnishing a copy thereof to Lessor, and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

If Lessee shall, on or before any rental date, make a bona fide attempt to pay rental to Lessor and if such payment shall be in an incorrect amount, Lessee shall be unconditionally obligated to pay to Lessor the rental properly payable for the rental period involved, but this lease shall be maintained in the same manner as if such erroneous rental payment had been properly made, provided that the erroneous rental payment be corrected within thirty (30) days after receipt by Lessee of written notice from such Lessor of such error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

6. Should any well drilled on the above described land during the primary term before production is obtained be a dry hole, or should production be obtained during the primary term and thereafter cease, then and in either event, if operations for drilling an additional well are not commenced or operations for reworking an old well are not pursued on said land on or before the first rental paying date next succeeding the cessation of production or drilling or reworking on said well or wells, then this lease shall terminate unless Lessee, on or before said date, shall resume the payment of rentals. Upon resumption of the payment of rentals, Section 5 governing the payment of rentals, shall continue in force just as though there had been no interruption in the rental payments. If during the last year of the primary term and prior to the discovery of oil gas or associated liquid hydrocarbons on said land Lessee should drill a dry hole thereon, or if after discovery of oil, gas or associated liquid hydrocarbons before or during the last year of the primary term the production thereof should cease during the last year of said term from any cause, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, Lessee is conducting operations for drilling a new well or reworking an old well, this lease nevertheless shall continue in force as long as such drilling or reworking operations continue, or if after the expiration of the primary term, production on this lease shall cease, this lease nevertheless shall continue in force if drilling or reworking operations are commenced within sixty (60) days after such cessation of production; if production is restored or additional production is discovered as a result of any such drilling or reworking operations, conducted without cessation of more than sixty (60) days, this lease shall continue as long thereafter as oil, gas or associated liquid hydrocarbons are produced and as long as additional drilling or reworking operations are had without cessation of such drilling or reworking operations for more than sixty (60) consecutive days.

7. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, or any portion thereof, as to oil and gas, or either of them, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten per cent (10%) of six hundred and forty (640) acres, for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall execute in writing and place of record an instrument or instruments identifying and describing the pooled acreage. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, as if it were included in this lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereof of a well as a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operations were on or such production were from or such completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of its net mineral acres placed in the unit bears to the total acreage so pooled in the particular unit involved. Should any unit as originally created hereunder contain less than the maximum number of acres hereinabove specified, then Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified. In the event an existing unit is so enlarged, Lessee shall execute and place of record a supplemental declaration of unitization identifying and describing the land added to the existing unit; provided, that if such supplemental declaration of unitization is not filed until after production is obtained on the unit as originally created, then and in such event the supplemental declaration of unitization shall not become effective until the first day of the calendar month next following the filing thereof. In the absence of production Lessee may terminate any unitized area by filing of record notice of termination.

This Section 7 shall not affect provisions of Section 3.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligations as to the acreage surrendered arising subsequent to the date of surrender. Lessee shall have the right at any time during or within one year 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.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the successors and assigns of the parties hereto, but no change or division in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land, or any interest therein, shall be binding on Lessee until Lessee shall be furnished with a certified copy of all recorded instruments, all court proceedings and all other necessary evidence of any transfer, inheritance, or sale of said rights. In event of the assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable among 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. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment; provided, however, that no assignment of this lease, in whole or in part, shall be valid until Lessor shall have been furnished a true and correct copy of such assignment.

10. 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 liable in damages, for failure to comply therewith, except as is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation, or if prevented by an act of God, of the public enemy, or by war, strikes, inability to obtain material, failure of transportation, or other cause beyond the control of Lessee other than financial.

11. If, during the term of this lease, oil or gas or associated liquid hydrocarbons are discovered upon the leased premises, but Lessee is prevented from producing the same by reason of any of the causes set out in this Section, this lease shall nevertheless be considered as producing and shall continue in full force and effect until Lessee is permitted to produce the oil, gas or associated liquid hydrocarbons, and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

12. Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. If Lessor owns an interest in said land less than the entire fee simple estate in and to oil, gas and associated liquid hydrocarbons, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

13. This lease does not cover oil shale.

14. The rights granted under this lease are granted without covenants of title or to give possession or for quiet enjoyment.

15. Lessee recognizes that among the exceptions and reservations set forth in the deeds referred in Section 1 of this Oil and Gas Lease are the rights of Lessor's predecessors in interest to use such portions of the leased premises as may not be required for the proper conduct of oil and gas operations for all purposes not inconsistent with such operations. Lessee shall so conduct its operations as not to interfere unreasonably with such use; provided, nevertheless, that such other use of the leased premises shall not unreasonably interfere with the operations of the Lessee.

16. Without the prior written consent of the owner thereof, Lessee shall not make any entry upon or under any portion of any railroad right-of-way or station grounds for any of the purposes of this lease, and shall not drill any well or maintain any structures within two hundred feet (200 ft.) (a) of any railroad tracks or buildings on such right-of-way or station grounds, or (b) of any buildings upon the leased premises.

17. Notwithstanding anything to the contrary in this lease contained, no well shall be drilled upon or into and no facilities shall be installed upon any lands in which Lessor owns the mineral rights only, until the consents of the surface owners have been obtained under written instruments satisfactory to Lessor, Lessor will endeavor to obtain such consents and the Lessee agrees to cooperate. Any payments which the Lessor elects to pay to the surface owners shall be paid by Lessor out of its royalty.

18. Lessee shall pay for all damage to surface owners' lands, buildings and growing crops caused by construction, operations or maintenance of facilities, shall bury all pipe lines below plow depth where they cross cultivated lands, shall construct gates where necessary for crossing fenced lands and keep the gates in repair and closed, and shall indemnify Lessor with respect to such obligations.

19. Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action for injury to or loss or destruction of property, and for injury to or death of any person, arising out of or in connection with operations hereunder.

20. Lessee shall not permit or suffer any lien or other encumbrance to be filed or to remain against the leased premises as a result of its operations hereunder, and Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action which may result from the filing of any such lien or encumbrance.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

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

ATTEST:

CHAMPLIN PETROLEUM COMPANY

By *R. M. Moss*

Assistant Secretary

Attorney in Fact

APPROVED	
DIV.	
LEGAL	<i>TK</i>
LAND	<i>Rmr</i>
GEOLOG.	
OPR.	
ACCTG.	
PRODS.	

STATE OF Colorado)
) SS.
COUNTY OF Arapahoe)

The foregoing instrument was acknowledged before me by R. M. Moss this 16th day of January, 1981.

Witness my hand and official seal.

Patricia Willett
Notary Public

My Commission Expires:
My Commission Expires June 2, 1984

acknowledged to me that he, as such Vice President executed the same.

WITNESS my hand and notarial seal the date last aforesaid.

Notary Public

My Commission expires

No. _____	OIL AND GAS LEASE	BOOK 926	Recorded at <u>2:06</u> o'clock <u>P</u> M.	JAN 30 1981	at _____ o'clock _____ of _____
		Rec. No. 1848476	<i>M. J. Mintzstein</i>		
		State of Colo., Weld County Clerk & Recorder			
	FROM CHAMPLIN PETROL TO	Dated _____	Section _____	No. of Acres _____	STATE OF _____
			Township _____		COUNTY OF _____
					This instrument was filed
					day of _____ o'clock _____
					in book _____, page _____
					of the records of this office.
					By _____
					When Recorded Return to <u>600-H</u>
					<i>Nelson Enterprises Inc.</i>
					<u>1675 Broadway, #2270</u>
					<u>Denver, Colo. 80202</u>