

OIL, GAS AND MINERAL LEASE 2-1

144837 Book 523 No. 14 137

THIS AGREEMENT, made this 11th day of August, 1965

between TWO E RANCHES, INC.

whose post office address is First National Bank, Greeley, Colo.

Lessor (whether one or more), and Mel C. Bedinger, P. O. Box 503, Greeley, Colorado

Lessee, WITNESSETH:

1. Lessor, in consideration of [redacted] Dollars

(5.00) In hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of testing, by any method or methods, for formations or structures, investigating, exploring, prospecting, drilling and mining for and producing oil, gas, and all other minerals, 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, and for dredging and maintaining canals, constructing and maintaining roads and bridges, and, in general, for all appliances or structures, equipment, servitudes and privileges which may be necessary, useful or convenient in connection with any such operations conducted by Lessee thereon, the following described

Colorado

land in the County of Weld, State of COLORADO, to-wit:

Township 2 North, Range 64 West Township 3 North, Range 64 West

Sec. 4: SE 1/4 Sec. 4: Lots 1 & 2, (N 1/2 N 1/2), S 1/2 N 1/2, & S 1/2 (all)

Sec. 10: All sec. 10: N 1/2

Township 2 North, Range 65 West Sec. 11: All, except 40 acres lying east of line: Beg. at NW corner of E 1/2 NE 1/4, thence SE-erly to SE corner of NE 1/4. (Recorded Bk. 1177, page 339, Weld Cty R.

Sec. 12: NE 1/4, except 21 acres (Recorded Bk. 516, #1438220) (Weld County Records)

Township 4 North, Range 64 West Sec. 14: E 1/2 NW 1/4, W 1/2 NE 1/4, & E 1/2 E 1/2

Sec. 33: All Sec. 19: S 1/4

Sec. 34: W 1/2, & SE 1/4 Sec. 20: SW 1/4, & E 1/2

Sec. 22: NW 1/4

For the purpose of calculating the rental payments for which provisions hereinafter is made, said land shall be treated as comprising 4737.74 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of ten years from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from the land hereinabove described.

3. The royalties to be paid Lessor are: (a) on oil, one-eighth (1/8) of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price thereof prevailing for oil of like grade and gravity in the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance produced from said land and sold or used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth (1/8) of the gas sold or used, provided that on gas sold at the well the royalty shall be one-eighth (1/8) of the amount realized from such sale; and (c) on all other minerals mined and marketed, one-tenth either in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be fifty cents (50c) per long ton. Lessee shall have free use of oil, gas, coal, wood and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas and coal shall be computed after deducting any so used. 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.

4. If operations for drilling are not commenced on said land on or before the 11th day of August, 1965, the lease shall then terminate as to both parties unless on or before such date Lessee shall pay or tender to Lessor or to the credit of Lessor in the

First National Bank at Greeley, Colo. (which bank and its successors shall continue as the depository for all rentals payable hereunder regardless of changes in ownership of said land or of the rentals) the sum of [redacted] Dollars

(5.00) (herein called rentals), 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 rentals may be made by the check or draft of Lessee mailed or delivered in person to the bank or its successor on or before such date. Any charge made by such bank for exchange or otherwise in connection with its services as depository shall be borne by Lessor. If such bank (or any successor bank) should fail, liquidate, or for any reason fail or refuse to accept rentals, Lessor shall deliver to Lessee a proper recordable instrument naming another bank to receive such rentals, and, in that event, Lessee shall not be held in default for failure to make such payment or tender of rentals until and until it shall have failed for fifteen (15) days after receipt of such recordable instrument to pay or tender such rentals to Lessor or to the substitute bank. The down cash payment is consideration for this lease according to its terms and shall not be allocated as more rental for a period. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering all or any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and terminate from and after the date of surrender all obligations as to the acreage surrendered, including any obligations to offset producing wells, and thereafter any rentals payable hereunder shall be reduced in the proportion that the surface acreage covered hereby is reduced by said release or releases. Should this lease be signed by more than one Lessor, Lessee may pay the rentals herein provided to the Lessors jointly until such time as the Lessors shall deliver to Lessee a recordable agreement in writing, specifying to whom and in what proportions said rentals shall be paid; or, at Lessee's option, said rentals may be paid to the Lessors severally in the proportions in which their respective interests appear of record as of the date of the lease, or as of any subsequent date as disclosed by the last certification to an abstract in Lessee's possession, supplemented by evidence of changes in ownership furnished Lessee in accordance with the provisions of Paragraph 12 hereof. The failure of Lessee properly to pay rentals to any particular Lessor owning less than the full mineral interest shall not invalidate or affect this lease insofar as it covers the interest of other Lessors to whom rentals are properly paid.

5. If prior to discovery of oil, gas or other mineral on said land Lessee should drill a dry hole or holes thereon, or if after discovery of oil, gas or other mineral all wells thereon should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within sixty (60) days thereafter or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of dry hole or cessation of production. If at the expiration of the primary term there is no well upon said land capable of producing oil, gas or other mineral, but Lessee has commenced operations for drilling or reworking thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than thirty (30) consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas or other mineral is produced from said land. Production under the terms of this lease in order to continue the same in force, whether during or subsequent to the primary term, need not be in paying quantities; provided, however, that Lessee shall not be obligated to, but may at its option produce any well which does not yield operating costs plus a reasonable profit.

6. Lessee is granted the right and option to consolidate the lands covered hereby, or any portion or portions thereof, with other lands, and Lessee may consolidate any stratum or strata under said lands with the same stratum or strata in and under other lands, to form a unit for the production of (1) oil and casinghead gas, (2) dry or gas well gas, and (3) condensate or distillate, or any or more of such three substances, the unit or units to be of such shape and of such dimensions as Lessee may select; provided that such unit or units when completed shall be composed of tracts each of which is contiguous to, touches or connects with some one or more of the other tracts in the unit in such manner as to form one connected tract or unit, and provided further that any tracts included in such unit or units separated only by a road, highway, street, railroad right of way, river, canal, or a strip of land having an average width not greater than six hundred (600) feet the title to which strip of land or the minerals therein or any part thereof is to the state or the United States, shall be considered as contiguous, cornering or touching within the meaning of this paragraph. Any unit formed for the production of oil and casinghead gas shall not exceed forty-three (43) acres in surface area; any such unit for the production of dry or gas well gas shall not exceed six hundred sixty (660) acres in surface area; and any such unit for the production of condensate or distillate shall be of such surface area as may be prescribed by state or federal regulation at the time such unit is formed, or in the absence of any such state or federal regulation at the time such unit is formed, such unit shall not exceed three hundred thirty (330) acres in surface area.

7. Lessee may exercise its right and option to consolidate said land or any part thereof as authorized in Paragraph 6 hereof at any time during the term of this lease by executing an instrument in writing describing the consolidated unit, specifying the purposes for which such consolidation is made, and mailing or delivering to the Lessor a copy thereof, or by filing same for record in the County where such land is located. Separate consolidations may be made, at the same or at different times, for the purposes of (1) oil and casinghead gas, (2) dry or gas well gas, (3) condensate and distillate; and the inclusion of a particular area in a unit for one purpose shall not preclude the inclusion of such area or any part thereof in another unit for another purpose. The lands, stratum, strata or estates so consolidated shall be developed and operated as one tract as if said consolidated tract had been originally covered by one lease for the purposes for which the consolidation is made. Any well or wells of the type covered by the consolidation (i. e., oil, gas, or condensate or distillate wells) that may have been commenced or completed prior to, or that may be commenced and completed after, the consolidation, on any portion of the consolidated tract, regardless of where located thereon, shall be deemed to have been drilled under the terms of this lease on lands covered hereby for all purposes except for the payment of royalties on production. In lieu of royalties specified elsewhere hereon, Lessor shall receive on production from a consolidated tract subsequent to effective date of consolidation only such portion of the royalties stipulated in Paragraph 3 hereof as its net royalty acreage bears to the lands, stratum or strata placed in the consolidated tract bears to the total surface area of the lands, stratum or strata comprising the consolidated tract. The consolidation shall not have the effect of changing the ownership of any rental which may become payable under the provisions of this lease.

375