

COLORADO

OIL AND GAS LEASE No. OG 70/8528

THIS LEASE AGREEMENT, Dated this 21st day of October, A.D. 1970, made and entered into by and between the STATE OF COLORADO, acting by and through the STATE BOARD OF LAND COMMISSIONERS, party of the first part and hereinafter called the "lessor", and ENERGY MINERALS CORPORATION, 632 Guaranty Bank Building, Denver, Colorado 80202 party of the second part, hereinafter called the "lessee":

WITNESSETH

THAT WHEREAS, The said lessee has applied to the State Board of Land Commissioners for an oil and gas lease covering the land herein described, and has paid a filing fee in the amount of \$32.00, plus a bonus consideration of \$1,840.00 fixed by the lessor as an additional consideration for the granting of this lease, and

WHEREAS All of the requirements relative to said application have been duly complied with and said application has been approved and allowed by the State Board of Land Commissioners;

THEREFORE, For and in consideration of the premises, as well as the payment of rentals hereinafter provided for, and of the covenants and agreements hereinafter contained, on the part of the lessee to be paid, kept and performed, the said lessor has granted and demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said lessee for the sole and only purpose of exploration, development and production of oil and gas, or either of them, thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights of way, easements and servitudes for pipe lines, telephone and telegraph lines, tanks and fixtures for producing and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary for the economical operation of said land for oil and gas, with right to the use of all otherwise unappropriated water from said lands, but not from lessor's water wells or reservoirs, and with the right of removing either during or within six (6) months after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the conditions hereinafter set out, the following described land situated in the county of Field State of Colorado, and more particularly described as follows:

DESCRIPTION OF LAND	SECTION	TOWNSHIP	RANGE
N/2 NE/4; NW/4; E/2 SE/4	36	3-North	68-West

Surface Patents: NE/4: #3391; NW/4: #5448
SW/4: #4807; SE/4: #3416; E/2 SE: #5753

Land Fund: School
containing 320.00 acres, more or less:

TO HAVE AND TO HOLD Said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five (5) years from the hour of twelve o'clock noon on the date hereof, and so long thereafter as oil and gas, or either of them, is produced in paying quantities from said land or the lessee is diligently engaged in bona fide drilling or reworking operations on said land. Drilling or reworking operations shall be deemed to be diligently performed if there is no delay or cessation thereof for a greater period than thirty consecutive days unless an extension in writing is granted by lessor. Provided that such drilling or reworking operations are commenced during said primary term or any extension thereof or while this lease is in force by reason of production of oil and gas or either of them, or that such reworking is commenced immediately upon cessation of production for the purpose of re-establishing the same, and provided further that such production is commenced during such primary term or any extension thereof, or while this lease is in force by reason of such drilling or reworking operations or other production.

In consideration of the premises, the parties covenant and agree as follows:

1. During the primary term hereof lessee shall pay to lessor an annual rental of \$150.00, computed at the rate of \$0.50 per acre or fraction thereof of the lands covered hereby, and in the event that, upon the expiration of said primary term, this lease is extended for an additional term of five (5) years as provided for in Paragraph 1st hercof, lessee shall during said extended period pay to the lessor an annual rental at double the rate above specified for the lands covered hereby. Extension of the term of this lease solely by discovery and production of oil or gas as in the preceding paragraph provided, shall not operate to increase the rentals payable under this paragraph; that is to say, the rental in effect at the time of discovery and production shall not be increased by reason of extension of the term of this lease by reason only of such production, but annual rentals in such amount shall be paid during the remaining life of this lease. The rentals as above provided shall be paid annually in advance on or before each anniversary of the date of this lease.

2. Except for oil and gas used on the leased premises for development and production or that unavoidably lost, the lessee shall pay the lessor as royalty, in addition to the rentals provided in this lease, the following:

(a) On oil, one-eighth of the oil produced and saved from the leased premises.

At the option of lessor, lessor may take its royalty oil in kind, in which event lessee shall deliver such royalty oil to lessor on the leased premises, free of cost or deduction, into the pipe lines or storage tanks designated by lessor, but lessee shall not in such case be required to provide free tankage for any such oil for a longer period than one month after the same is run into tanks.

When paid in cash, the royalty shall be calculated upon the reasonable market value of the oil at the well which shall not be deemed to be less than the price actually paid or agreed to be paid to the lessee at the well by the purchaser thereof; and in no event shall the royalties be based upon a market value at the well less than the posted price in the field for such oil, or in the absence of a posted price in the field for such oil, upon a market value at the well less than the prevailing price received by other producers in the field for oil of like grade and gravity at the time such oil is run into pipelines or storage tanks.

- (b) On gas, including casinghead gas or other gaseous substance, one-eighth of the reasonable market value at the well or of the price received by lessee at the well, whichever is greater, of all gas produced from the leased premises and sold or utilized by lessee. Where gas is sold under a contract that has been approved by lessor, the reasonable market value of such gas for determining the royalties payable hereunder shall be the price at which such gas is sold under such contract; provided, however, that no approval by lessor of the terms of any such agreement shall operate to make lessor a party thereto or obligate it in any way except as herein provided, and lessee agrees to save lessor harmless from any such obligation.
- (c) All costs of marketing the oil and/or gas produced shall be borne by the lessee and such costs shall not directly or indirectly reduce the royalty payments to the lessor.

3. Lessee agrees to make a monthly production report of the production on the leased premises covering the preceding month, which report shall be filed with lessor on or before the last day of each month, and shall be accompanied by full settlement for all royalties due the lessor for such preceding month under this lease; lessee further agrees to keep and to have in possession, books and records showing the production and disposition of all oil and gas produced from the leased premises and to permit the lessor or its agents, at all reasonable hours, to examine the same. Royalties due under this lease shall be calculated on actual tankage measurements, unless the same are shown to be incorrect, or a more accurate means of measurement is provided.

4. The lessee may at any time, by paying to the State of Colorado, acting by its State Board of Land Commissioners, all amounts then due as provided herein, surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder with respect to the lands so surrendered; provided that no partial surrender or cancellation of this lease shall be for less than contiguous tracts of approximately forty (40) acres or Governmental lot corresponding to a quarter-quarter section; provided further that this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law by the lessee, lessor or any assignee of either to enforce this lease, or any of its terms express or implied, but in no case shall surrender be effective until lessee shall have made full provision for conservation of the minerals and protection of the surface rights of the leased premises.

5. All payments due hereunder shall be made on or before the day such payment is due, and this lease shall not be in effect until lessor has received for the initial rental, the cash or cash proceeds of any checks therefor regardless of the date of this lease. Nothing in this paragraph shall be construed to extend the expiration of the primary term hereof beyond five (5) years from the date hereof.

6. The lessee, with the written consent of the lessor, shall have the right to assign this lease as to the entire leasehold interest of such lessee in all or part of the lands covered hereby, not less, however, than contiguous tracts of approximately forty (40) acres or Governmental lot corresponding to a quarter-quarter section for any partial assignment, and for approval of such assignment the lessor may make an assignment charge in the amount set forth in the current regulations issued by the Board. No assignment of undivided interests or retention or reservation of overriding royalties will be recognized or approved by lessor; and the effect, if any, of any such assignments or reservations will be strictly and only as between the parties thereto, and outside the terms of this lease, and no dispute between parties to any such assignment or reservation shall operate to relieve the lessee from performance of any terms or conditions hereof or to postpone the time therefor. Lessor will and shall at all times be entitled to look solely to the lessee or his assignee shown on its books as being the sole owner hereof, and for the sending of all notices required by this lease and for the performance of all terms and conditions hereof. If any assignment of a portion of the lands covered hereby shall be approved, a new lease shall be issued to the assignee covering the assigned lands, containing the same terms and conditions as this lease, and limited as to term as this lease is limited, and the assignor shall be released and discharged from all further obligations and liabilities, and shall be held to have released all rights and benefits thereafter accruing with respect to the assigned land, as if the same had never been a part of the subject matter of this lease. Although not binding on the State Board of Land Commissioners as heretofore stated, all instruments of every kind and nature whatsoever affecting this lease should be filed in the records of the Mineral Department of the State Land Board.

7.

- (a) Lessee agrees to reasonably protect the leased premises from drainage by offset wells located on adjoining lands not owned by lessor, when such drainage is not reasonably compensated for by counter-drainage. It shall be presumed, for the purpose of this lease, that the production of oil and gas from offset wells results in drainage from the leased premises, unless lessee demonstrates to lessor's satisfaction by engineering, geological, or other data, that production from such offset well does not result in such drainage, or that the drilling of a well or wells on leased premises would not accomplish the purposes of protecting the deposits under leased premises. The Board's decision as to the existence of such drainage shall be final, and lessee shall comply with the Board's order thereon or, in lieu thereof, surrender this lease as to any such undeveloped acreage as designated by the Board.
- (b) Upon discovery of oil and gas on the leased lands, lessee shall with reasonable diligence proceed to develop said premises at a rate and to an extent commensurate with the economic development of the field in which the leased lands lie.
- (c) The terms and conditions of this Paragraph 7 and of this lease shall be performed and exercised subject to all laws, regulations, orders, local ordinances or resolutions applicable to and binding upon the administration of grant lands owned by the State of Colorado.
- (d) In the event lessor permits the lands herein leased to be included within a unitization agreement, the terms of this lease and the operation of this Paragraph 7 shall be deemed to be modified to conform to such unitization agreement. When only a portion of the lands under this lease is committed to a unit, the lessor may segregate the lands and issue a separate lease for each portion and the terms of the lease on that portion included in the unit shall be deemed to be modified to conform to such unit agreement.

8. Lessee shall, subject to applicable laws, regulations and orders binding upon the administration of State lands, operate and produce all wells upon the leased premises so long as the same are capable of producing in paying quantities, and shall operate the same so as to produce at a rate commensurate with the rate of production of wells on adjoining lands within the same field and within the limits of good engineering practice, except for such times as there exist neither market nor storage therefor, and except for such limitations on or suspensions of production as may be approved in writing by lessor. If lessee shall complete a well on the leased lands productive of gas only and lessee is unable to produce such gas due to lack of suitable market therefor, lessor may grant lessee suspension of his obligations to produce hereunder until a suitable market for such gas can be found and during any such suspension period, it shall be deemed that gas is being produced hereunder in paying quantities.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon. No exploration, drilling or production operation, including permanent installations, shall be within 200 feet of any building or other improvement, including water well or reservoir, without the written permission of the owner of said improvements. Lessee shall keep a correct log of each well drilled hereunder, showing by name or description the formations passed through, the depth at which each formation was reached, the number of feet of each size casing set in each well, where set, and the total depth of each well drilled. Lessee, within thirty (30) days after the completion or abandonment of any well drilled hereunder, shall file in the office of the State Board of Land Commissioners, at Denver, Colorado, a complete and correct log of such well, together with a copy of the electric log and the radioactivity log of the well when such logs, or either of them, are run, and also a copy of all drill stem test results, core records and analyses, record of perforations and initial production tests, if any. If any of the information required by this paragraph is contained in reports required to be filed with the Oil and Gas Conservation Commission of Colorado, the requirements of this paragraph for such information will be satisfied by the filing, with the Oil and Gas Conservation Commission, of extra copies of such reports as is required by Paragraph 15 hereof.

10. Lessee shall be liable and agrees to pay for all damages to the surface of the land, livestock, growing crops, water wells, reservoirs, or improvements caused by lessee's operations on said lands. It is agreed and understood that no operations shall be commenced on the lands hereinabove described unless and until the lessee or his assignee shall have filed a good and sufficient bond with the lessor in an amount to be fixed by lessor, to secure the payment for such damage to the surface of the land, livestock, growing crops, water or improvements as may be caused by lessee or his assignee's operations of said lands and also compliance with all the provisions, conditions, covenants and obligations of this lease and the statutes of the State of Colorado, and rules and regulations thereto appertaining. When requested by lessor, lessee shall bury pipe lines below plow depth. Lessee shall set and cement sufficient surface casing to protect the fresh water wells of the area.

11. The lessee shall not remove any machinery or fixtures placed on said premises, other than drilling equipment, nor draw the casing from any well unless and until all payments and obligations currently due the lessor under the terms of this agreement shall have been paid or satisfied.

12. Should lessee discover any valuable products other than oil, gas, gasoline, casinghead gas or other hydrocarbons on or within the leased premises, lessee shall within seven (7) days report such discovery to lessor, and lessee shall have no right thereto because of such discovery; provided, that the terms — oil, gas or gasoline — shall not be deemed to include any substance over which the United States Government assumes exclusive control.

13. If lessee shall initiate or establish any water right for the leased premises, the point of surface diversion or ground water withdrawal of which is on the leased premises, such right shall, if the surface rights of said premises are owned by lessor, become property of lessor, without cost, at the termination of the lease.

14. Upon failure or default of the lessee or any assignee, to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed, by the lessee or assignee so defaulting, but shall not extend to nor affect the rights of any lessee or approved assignee claiming lands segregated by assignment from this lease; provided, that in the event of any such default or failure to comply with any of the terms and conditions hereof, lessor shall, before any such cancellation shall be made, send by certified mail to the lessee or assignee so defaulting, to the postoffice address of said lessee or assignee, as shown by the records of lessor, a notice of intention to cancel for such default, specifying the same, and if within thirty (30) days from the date of mailing said notice, the said lessee or assignee shall have paid all rents or royalties in default, and shall have begun in good faith to correct such other default as may have been specified, and shall thereafter diligently prosecute the correction of such default, there shall not be a cancellation therefor. If such default is not corrected, or correction thereof is not begun in good faith as hereinabove required, within thirty (30) days after the mailing of such notice, this lease will terminate and be cancelled by operation of this paragraph without further action by lessor, or further notice to lessee.

15. If the lessee shall have failed to make discovery of oil and gas or either of them in paying quantities during the primary term hereof, or during drilling operations commenced during the primary term hereof, the lessee may make written application to lessor to extend this lease for an additional term of five years as to all of the land covered hereby (excluding any lands theretofore surrendered as in Paragraph 4 provided, or assigned as in Paragraph 6 provided) and the making of such extension shall be at the option of lessor.

16. Lessee will comply with all statutory requirements, and all rules and regulations of the Oil and Gas Conservation Commission of Colorado applicable to the administration of State owned lands, or to the development and production of oil and gas thereon, and will furnish to the Oil and Gas Conservation Commission extra copies of all reports of any kind or nature that are required by said laws, rules and regulations to be furnished to the said Oil and Gas Conservation Commission of Colorado.

17. "Paying quantities" as used herein shall mean and refer to quantities of oil and gas or of either of them sufficient to pay for the current cost of producing same.

18. If lessor owns a lesser interest in the oil and gas deposits of the above described land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid the lessor only in the proportion which its interest bears to the whole and undivided fee.

19. The benefits and obligations of this lease shall inure to and be binding upon the heirs, legal representatives, successors or assigns of the lessee; but no sub-lease or assignment hereof, or of any interest herein, shall be binding upon lessor until the same has been approved by it as provided for in Paragraph 6 hereof.

IN WITNESS WHEREOF, The party of the first part has hereunto signed and caused its name to be signed by the STATE BOARD OF LAND COMMISSIONERS, with the seal of the office affixed, and the lessee has signed this agreement, the day and year first above written.

Recommended:

W. A. Moore
Mineral Director

STATE BOARD OF LAND COMMISSIONERS

By Raymond H. Simpson
President

By Harold M. Shultz
Register

By Wesley E. Trachsel
Engineer

LESSEE

Energy Minerals Corporation
By: Weldon C. Julander
Weldon C. Julander, President

