

see XXXX Year Paid-Up Lease

THIS AGREEMENT, made this 17th day of January, 1990, between Richard C. Jolley and Mary Louise Jolley, husband and wife; Brett L. Jolley, a single man; and Kent S. Jolley and Anne E. Jolley, husband and wife; 1288 Road 245, New Castle, Colorado 81647 Lessor (whether one or more), and Kimney Oil Company, P.O. Box 3086, Denver, Colorado 80201 Lessee, WITNESSETH:

1. Lessor, in consideration of Ten and more Dollars, (\$10.00+), in hand paid, the receipt and sufficiency of which is hereby acknowledged, 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 (including, but not limited to, gas producible from coal-bearing formations) and all substances produced in association therewith, lying pipe lines, building tanks, power stations, telephones lines, roads and other structures thereon to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described land (hereinafter called "said land"), in Garfield County, Colorado to wit:

TOWNSHIP 6 SOUTH-RANGE 91 WEST, 6TH P.M. See Exhibit "A" attached hereto and made a part hereof
 Section 7: EASE
 Section 8: EASE, W1SW1, SE1SW1, SW1SW1
 Section 9: W1W1, SE1SW1
 Section 16: N1NW1, SW1NW1, N1SW1, SE1SW1
 Section 17: SW1NE1, SE1NW1, E1SW1, W1SE1
 Section 20: N1NE1, SE1NE1, NE1NW1, E1SE1
 Section 21: N1NE1, NE1NW1, W1SW1
 of Section XXXX Township XXXX Range XXXX

The terms and conditions of this lease are subject to that Side Letter Agreement of even date

Recorded at 146 o'clock P M MAR 30 1990

Reception No. 411135 MILDRED ALSDORE, RECORDER

GARFIELD COUNTY, COLORADO

In addition to said land, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all lands owned by or claimed by Lessor which are adjacent, contiguous to or form a part of said land, including all oil, gas, other hydrocarbons and all other minerals underlying lakes, rivers, streams, roads, easements and rights-of-way which traverse or adjoin any of said land. Said land shall be deemed to contain 1480.00 acres, whether it actually comprises more or less.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, and/or to the discovery development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three (3) 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 hereunder, or drilling or reworking operations are conducted thereon.

3. The royalties to be paid by Lessee are: (a) on oil and other liquid hydrocarbons, one-eighth 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 are so connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where the oil is produced on the date of purchase; (b) on gas and the constituents thereof produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value of the well of one-eighth of the products so sold or used, provided that on product sold at the wells the royalty shall be one-eighth of the amount realized from such sale. Lessee shall have free use of oil, gas, and water from said land, except water from Lessor's wells, streams, lakes and ponds, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. If a well capable of producing gas and/or oil, in paying quantities is located on said land and is shut-in, before production commences, or at any time thereafter, this lease shall continue in effect for a period of one year from the date such well is shut-in. Lessee may thereafter, pay or tender to Lessor as royalty, on or before one year from the date such well is shut-in, an amount of \$100.00 per well, per year, and, if such payment or tender is made, such well shall continue this lease in effect for a further period of one year. In like manner and upon like payments or tenders annually made on or before each anniversary of the shut-in date of such well, such well shall continue this lease in effect for successive periods of twelve (12) months each. Notwithstanding any other provision to the contrary, this lease shall not terminate because of a failure to properly or timely make shut-in well payments unless Lessor shall have given Lessee written notice of such failure to properly or timely make such shut-in well payment and Lessee shall have failed for a period of thirty (30) days after receipt of such notice to tender such payment in the proper amount, together with a late or improper payment penalty of \$100.00.

5. If at the expiration of the primary term Lessee is conducting operations for drilling or reworking on said land or shall have completed a dry hole thereon within one hundred eighty (180) days prior to the end of the primary term, or, if, after the expiration of the primary term, production on said land shall cease, from any cause, this lease nevertheless shall continue in full force so long as operations for drilling or reworking on any existing or succeeding well as being conducted with no cessation of more than one hundred eighty (180) consecutive days and, if such operations result in production, so long thereafter as oil or gas is produced from said land.

6. Lessee, at its option, is hereby given the right and power to pool or combine said land, 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 land, such pooling to be into a well unit or units not exceeding one hundred and sixty (160) acres, plus an acreage tolerance of ten percent (10%) of one hundred and sixty (160) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten percent (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 permitted by governmental authorities having jurisdiction. Lessee may pool or combine said land, 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 said land is pooled or combined as to any other stratum or strata, and oil and gas 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 said land 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 location thereon of a well as a shut-in 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 shut-in well were on said land, whether or not the well or wells be located on said land. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed, or any such portion of the royalty stipulated herein as the amount of acreage from said land placed in the unit or Lessor's royalty interest therein 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.

7. Lessee also shall have the right to utilize, pool, or combine all or any part of said land with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operations and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said land or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operations whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of said land and be relieved of all obligation as to the acreage surrendered. Lessee shall have the right within a reasonable time 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 below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the heirs, successors and assigns of the parties hereto, but no change or division of ownership of said land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of said 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 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.

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EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas lease by and between Richard C. Jolley and Mary Louise Jolley, husband and wife, Brett L. Jolley, a single man, and Kent S. Jolley and Anne E. Jolley, husband and wife, as Lessors, and Kinney Oil Company, as Lessee, dated January 17, 1990.

14. Wherever the term one-eighth (1/8th) appears in this lease, it shall by this reference be amended to read 18.75%.

15. Any gas well shut-in provision contained in the referenced lease shall extend the primary term of the lease to a maximum period of three (3) years beyond the end of the original lease primary term.

16. Excluded from this lease are the Jolley # 1, Jolley #1-8, and Snyder # 2 wellbores, and all existing down hole equipment, well hole equipment and surface production equipment located in, on or about those wellbores. Kinney Oil Company will be held harmless as to any liability involving the aforementioned wells.

Jolley #1C-17

Signed for Identification this 18th day of January 1990

Richard C. Jolley
Richard C. Jolley

Mary Louise Jolley
Mary Louise Jolley

Brett L. Jolley
Brett L. Jolley

Kent S. Jolley
Kent S. Jolley

Anne E. Jolley
Anne E. Jolley

Handwritten notes:
m. h. g.
2/10/90
AG