

NWE 28 (1)

OIL AND GAS LEASE #80036

AGREEMENT, Made and entered into this 24th day of October, 1978

by and between Arnold L. Mackley and Elsie D. Mackley, husband and wife, of 4031 320 Rd., Rifle, Colorado 81650 hereinafter called lessor (whether one or more) and Northwest Exploration Company, Suite 1487, One Park Central, Denver, Colorado 80202 hereinafter called lessee:

WITNESSETH, That the said lessor, for and in consideration of Ten and More (10.00+) DOLLARS cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased, and let and by these presents does grant, demise, lease and let unto the said lessee, its successors and assigns for the sole and only purposes of surveying by geological, geophysical and all other methods, mining and operating for oil and gas, and laying pipe lines, and building tanks, power stations and structures thereon to produce, save and take care of said products all that certain tract of land, together with any reversionary rights therein, situate in the County of Garfield State of Colorado, described as follows, to wit:

Township 6 South, Range 94 West, 6th P.M. Section 34: W 1/2 SW 1/4, and the East 23 acres of the SW 1/4 NW 1/4.

There is excepted from this lease, unless otherwise granted by Lessor's prior written consent, the presently existing well, described as the Carter & Carter #1 Edward T. Bernklau, located 1733.4' FSL and 958.7' FWL - Section 34, T-6S, R-94W, 6th P.M., and all rights with respect thereto. (EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF)

and containing 103.00 acres, more or less. It is agreed that this lease shall remain in force for a term of Six (6) years from date, and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee, its successors and assigns.

In consideration of the premises the said lessee covenants and agrees:

- First. The lessee shall deliver to the credit of lessor as royalty, free of cost in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved from the leased premises, or, at lessee's option, may buy or sell such one-eighth royalty and pay lessor the market price for oil of like grade and gravity prevailing in the field on the day such oil is run into pipe lines or into storage tanks.
Second. To pay lessor one-eighth (1/8) of the proceeds received for gas sold from each well where gas only is found, or the market value at the well of such gas used off the premises.
Third. To pay lessor one-eighth (1/8) of the market value at the well for gas produced from any oil well and used off the premises, or for the manufacture of casing-head gasoline or dry commercial gas.

If no well be commenced on said land on or before the 24th day of October, 1979, this lease shall terminate as to both parties, unless the lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the First National Bank at Rifle, Colorado 81650

or its successor or successors, or any bank with which it may be merged, or consolidated, or which succeeds to its business or assets or any part thereof, by purchase or otherwise, which shall continue as the depository regardless of changes in the ownership of the said land, the sum of One Hundred Three and no/100 DOLLARS,

which shall operate as a rental and cover the privilege of deferring the commencement of a well for twelve months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said first rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. Rentals may be paid by check or draft and may be remitted by mail. Mailing of rental on or before the rental-paying date shall be deemed a timely tender thereof and shall preclude termination of this lease. Notwithstanding the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors and administrators of such person.

Should any well drilled on the land above described be a dry hole or cease to produce and there are no other producing well or wells on the land or drilling operations are not being conducted thereon, then and in that event if a well is not commenced before the next ensuing rental-paying date after the expiration of ninety (90) days from the date of such dry hole or cessation of production, this lease shall terminate as to both parties, unless the lessee, on or before the rental-paying date next ensuing after the expiration of ninety (90) days from the date of the completion of the dry hole or cessation of production, shall resume the payment of rentals in the same amount and in the same manner as hereinbefore provided, and it is agreed upon resumption of the payment of rentals, as above provided, the last preceding paragraph hereof, governing the payment of rentals and the effect thereof, shall continue in force as though there had been no interruption in the rental payment. If a dry hole should be drilled or if production ceases at any time subsequent to ninety (90) days prior to the beginning of the last year of the primary term, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, after the expiration of the primary term hereof, production shall cease from any cause, this lease shall not terminate if lessee resumes operations for the drilling of a well or restoration of production within ninety (90) days from such cessation, and this lease shall remain in force and effect during the prosecution of such operations and, if production results therefrom, then as long thereafter as such production continues.

If at any time, either before or after the expiration of the primary term of this lease, there is any gas well on the lands covered hereby, or on other lands with which said lands are pooled or unitized, which is capable of producing in paying quantities, but which is shut-in either before or after production therefrom, and the production therefrom is not being sold or used, lessee agrees to pay or tender to the mineral owners in the depository bank named in the lease, as royalty, a sum equal to the amount of delay rentals payable under this lease. Such payments shall be made on or before the shut-in royalty payment date, as herein defined, next accruing after the expiration of ninety (90) days from the date the well was shut-in, unless prior to such date gas from the well is produced and sold or used. In like manner, on or before each succeeding shut-in royalty payment date while such gas well remains shut-in, lessee shall make payment of shut-in gas royalty in the same amount and manner. A shut-in gas well capable of producing in paying quantities shall be considered under all provisions of this lease as a producing well and this lease shall be in force and effect in like manner as though the gas therefrom were actually being produced and sold or used. The term "gas well" shall include wells capable of producing natural gas, condensate, distillate, or any gaseous substance, and wells classified as gas wells by any governmental authority. The term "shut-in royalty payment date" shall mean any rental-paying date of this lease if within the primary term, or any subsequent anniversary thereof, if after the primary term, or any anniversary date of this lease if no rental-paying date is specified herein.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rentals shall be increased at the next succeeding rental anniversary after lessee has been notified of any reversion having occurred to cover the interest so acquired.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells and reservoirs of lessor. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

Lessee shall pay for damages caused by its operations on said lands. When requested by the lessor, lessee shall bury his pipe lines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee is hereby granted the right and power to pool or combine the acreage covered by this lease, or any portion thereof, with other land, lease or leases in the vicinity thereof at any time and from time to time, whether before or after production, when in Lessee's judgment it is necessary or advisable to do so for the prevention of waste and the conservation and greatest ultimate recovery of oil or gas. Such pooling shall be into a unit or units not exceeding in area the acreage prescribed or required in any Federal or State law, order, rule or regulation for the drilling or operation of one well, or for obtaining the maximum allowable production from one well, or 30 acres each for the production of oil, or 640 acres each for the production of gas, whichever is the larger, plus a tolerance over the maximum area of 80 acres for the production of oil or 640 acres for the production of gas to include additional acreage in any irregular governmental subdivision or lot or portion thereof. Such pooling shall be effected by Lessee's executing and filing in the office where this lease is recorded an instrument identifying and describing the pooled acreage. The production of pooled substances and development and operation on any portion of a unit so pooled, including the commencement, drilling, completion and operation of a well thereon, shall be considered and construed, and shall have the same effect, except for the payment of royalty, as production, development and operation on the leased premises under the terms of this lease. The royalties herein provided shall accrue and be paid to Lessor on pooled substances produced from any unit in the proportion, but only in the proportion, that Lessor's acreage interest in the land covered hereby and placed in the unit bears to the total acreage in the land placed in such unit.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a certified copy thereof; and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of said lands which the said lessee or any assignee thereof shall make due payment of said rentals. An assignment of this lease, in whole or in part, shall as to the extent of such assignment relieve and discharge the lessee of all obligations hereunder. Lessee shall pay for all abstract costs directly attributable to the oil and gas lease, which

Compliance with any now or hereafter existing act, bill or statute purporting to be enacted by any Federal or State legislative authority, or by any order, judgment, decrees, rules, regulations made or promulgated by State or Federal courts, State or Federal offices, boards, commissions or committees purporting to be made under authority of any such act, bill or statute, shall not constitute a violation of any of the terms of this lease or be considered a breach of any clause, obligation, covenant, undertaking, condition or stipulation contained herein, nor shall it be or constitute a cause for the termination, forfeiture, reversion or revesting of any estate or interest herein and hereby created and set out, nor shall any such compliance confer any right of enforcement or become the basis of any action for damages or suit for the forfeiture or cancellation hereof; and while any such compliance is in force and effect there shall, when complied with by lessee or assigns, to the extent of such compliance operate as modifications of the terms and conditions of this lease which are inconsistent therewith.

Lessee shall have the right to completion with reasonable diligence and dispatch (1) any well commenced within the term of this lease and (2) any well commenced before the completion of a well which has been, commenced within such term. If oil and gas or either of them be found in paying quantities in any such well, this lease shall continue and be in force with like effect as if such well had been completed within the term of year herein first mentioned.

Lessee may at any time surrender this lease, in whole or in part, by delivering or mailing a release to the lessor, or by placing a release of record in the proper county. In the event of a partial release, the annual delay rental above mentioned shall be reduced proportionately. Lessor hereby releases and relinquishes any right of homestead, dower or curtesy they or either of them may have in or to the leased land. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment, any mortgage, taxes or other liens on the above described lands in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof.

This lease and all its terms, conditions and stipulations binds each executing lessor and shall extend to and be binding on his assigns, heirs and devisees and successors, and those of the lessee, though unsigned by other lessors named herein.

IN WITNESS WHEREOF, We sign the day and year first above written.

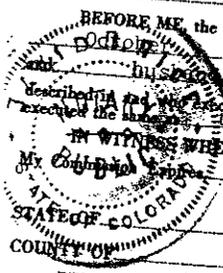
Arnold L. Mackley (SEAL)  
Arnold L. Mackley (SEAL)

Elsie D. Mackley (SEAL)  
Elsie D. Mackley (SEAL)

STATE OF Colorado }  
COUNTY OF Garfield } SS.

Arizona, Colorado, Idaho, Kansas, Montana  
Nebraska, Nevada, New Mexico, North Dakota,  
South Dakota, Utah, Wyoming

ACKNOWLEDGMENT - INDIVIDUAL



BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 25th day of October, 1978, personally appeared Arnold L. Mackley and Elsie D. Mackley, described in and who executed the within and foregoing instrument of writing and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

Arnold L. Mackley Notary Public

Arizona, Colorado, Idaho, Kansas, Montana  
Nebraska, Nevada, New Mexico, North Dakota,  
South Dakota, Utah, Wyoming

ACKNOWLEDGMENT - INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, personally appeared \_\_\_\_\_ and \_\_\_\_\_ described in and who executed the within and foregoing instrument of writing and acknowledged to me that they executed the same as \_\_\_\_\_ free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

Notary Public

Form with fields for: No. of acres, Section, Township, Range, County, State of, County of, Dated, Lot, Block, Addition, TO, FROM, OIL AND GAS LEASE, County Clerk-Register of Deeds, Deputy.

OF \_\_\_\_\_  
TY OF \_\_\_\_\_ } SS.

Arizona, New Mexico, Utah, Wyoming  
ACKNOWLEDGMENT - CORPORATION

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn, did say that he is \_\_\_\_\_ and that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of \_\_\_\_\_; and said \_\_\_\_\_ acknowledged said instrument to be the free \_\_\_\_\_

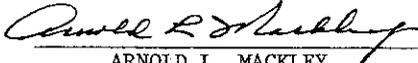
IN WITNESS my hand and official seal the day and year last above written.  
Commission Expires \_\_\_\_\_

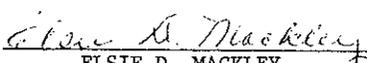
Attached to and made a part of  
Oil and Gas Lease dated October 24,  
1978, between ARNOLD L. MACKLEY and  
ELSIE D. MACKLEY, husband and wife,  
Lessor, and NORTHWEST EXPLORATION  
COMPANY, Lessee

Lessor shall have the privilege of using dry gas from any dry gas well on  
said land out of any surplus gas not needed for operations hereunder. This  
privilege, and any connections are to be made at the Lessor's expense and  
risk and shall conform with any federal, state, and county regulations.

If oil or gas or either of them is not being produced from said land as  
described in this lease or lands pooled therewith, or drilling operations  
are not being conducted on said lands or lands pooled therewith, then in  
that event if a well is not commenced on said land or within 1.5 miles  
of the leased premises on or before October 24, 1983, this lease shall  
then terminate and shall be null and void and of no further effect.

SIGNED FOR IDENTIFICATION:

  
ARNOLD L. MACKLEY

  
ELSIE D. MACKLEY