

COLORADO

OIL AND GAS LEASE No. OG 82/7384-S

Containing 160.00 acres, more or less:

Land Fund: School

THIS LEASE AGREEMENT, Dated this 19th day of May, A.D. 19 82, 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 "Lessor", or "the Board", and Petroleum Investors, Ltd. 1022 Bannock St., Denver, CO 80204 party of the second part, hereinafter called "Lessee":

WITNESSETH

THAT WHEREAS, 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 \$ 12.75, plus a bonus consideration of \$ 38,400.00 fixed by Lessor as an additional consideration for the granting of this lease, and WHEREAS, All the requirements relative to said application have been duly complied with and said application has been approved and allowed by the Board;

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 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 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 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, the following described land situated in the county of Weld, State of Colorado, and more particularly described as follows:

| DESCRIPTION OF LAND | SECTION | TOWNSHIP | RANGE |
|---------------------|---------|----------|-------|
| NE/4 | 16 | 4N | 67W |

Surface Patents: #4564 - E/2NE/4; #6571 - W/2NE/4

TO HAVE AND TO HOLD Said land, and all the rights and privileges granted hereunder, to and unto 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 Lessee is diligently engaged in bona fide drilling or reworking operations on said land subject to the terms and conditions herein. 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. Rental payment in the amount set out in the rental schedule herein must be tendered to Lessor prior to the expiration date hereof which rental will entitle Lessee to hold this lease only so long as satisfactory and diligent operations as set out above are being carried on. There shall be no refund of unused rental.

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

1. RENTAL — During the primary term hereof Lessee shall pay to Lessor an annual rental of \$ 160.00 computed at the rate of \$ 1.00 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 21 hereof, Lessee shall during said extended period pay to 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 sentence 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 set at the time of production 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. ROYALTY — Except for oil and gas used on the leased premises for development and production or that unavoidably lost, Lessee shall pay to 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 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 in to pipelines or storage tanks.

CO - 001289-000

- (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. Lessor reserves the right to approve all contracts for sale of gas. 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 Lessee and such costs shall not directly or indirectly reduce the royalty payments to Lessor.
- (d) 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 to Lessor only in the proportion which its interest bears to the whole and undivided fee.

3. **REPORTS** — 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 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 Lessor, 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, subject to approval by Lessor, is provided.

4. **PAYMENTS** — 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.

All payments shall be made by cash, check, certified check or money order. Payments having restrictions, qualifications, or encumbrances of any kind whatsoever shall not be accepted by Lessor and a penalty shall be charged as set forth herein.

5. **PENALTIES** — A penalty shall be imposed for late payments or improper payments of any kind whatsoever. Said penalty shall be determined by Lessor unless otherwise provided for by law.

6. **SURRENDER** — Lessee may at any time, by paying to Lessor, 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 Lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law by 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.

7. **ASSIGNMENTS** — Lessee, with the written consent of Lessor, shall have the right to assign this lease as to the entire leasehold interest of said 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 Lessor may make an assignment charge in an amount to be determined by Lessor. Prior to written approval by Lessor of assignment of this lease, Lessee (assignor) shall not be relieved of its obligations under the terms and conditions herein. No assignment of undivided interests will be recognized or approved by Lessor; and the effect, if any, of any such assignments 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 shall operate to relieve Lessee from performance of any terms or conditions hereof or to postpone the time therefor. Any and all reservations or assignments of overriding royalties shall be subject to approval by Lessor. The total of said overriding royalties shall not exceed five percent (5%), including any overriding royalty previously provided for unless production exceeds a monthly average of 15 barrels per day. In the event that production drops to this amount or less, any overriding royalties which exceed five percent (5%) shall be suspended. Lessor's approval of a reservation or assignment of an overriding royalty shall not bind Lessor for payment of said overriding royalty and shall not relieve Lessee of any of its obligations for payment of royalties to Lessor as provided by paragraph 2 herein. Lessor will and shall at all times be entitled to look solely to 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 Board as herein stated, all instruments of every kind and nature whatsoever affecting this lease should be filed in the records of the Mineral Department of the Board.

8. **OFFSET WELLS** — 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.

9. **DEVELOPMENT** — 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.

10. **LAW** — The terms and conditions of this lease shall be performed and exercised subject to all laws, rules, regulations, orders, local ordinances or resolutions applicable to and binding upon the administration of grant lands owned by the State of Colorado, and to laws, rules and regulations governing oil and gas operations in Colorado.

11. **UNITIZATION** — In the event Lessor permits the lands herein leased to be included within a communitization or unitization agreement, the terms of this lease and the operation of this Paragraph 11 shall be deemed to be modified to conform to such agreement. When only a portion of the lands under this lease is committed by an agreement, 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 agreement. Nonproducing leases shall terminate on the first anniversary date of the lease following the termination date of the unit or part thereof modifying the lease.

12. **PRODUCTION** — 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.

13. **SHUT-IN GAS WELLS** — If Lessee shall complete a well on the leased lands productive of gas only and Lessee is unable to produce such gas due to a 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 may be deemed that gas is being produced hereunder in paying quantities. Except, however, that beginning the eleventh year of the lease, Lessee shall pay to Lessor a shut-in royalty equal to \$2.00 per acre of the lease per annum in addition to the annual rental, with a minimum amount of \$320.00 (160 acres). Each year's shut-in royalty shall be forfeited to Lessor except for the shut-in royalty paid for the year during which the well begins production. The maximum extension of the lease based on a shut-in well shall be five years beyond the secondary term of the lease. Any further extensions shall be entirely at the option of Lessor.

14. **OPERATIONS** — 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 Lessor 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 may be satisfied by such filing with the Oil and Gas Conservation Commission, except for copies of the reports as are required by Paragraph 15 hereof.

15. **NOTIFICATION** — Lessee agrees to notify Lessor of the location of each drill site before commencing drilling thereon by copy of Lessee's "Permit to Drill." Lessee further agrees to notify Lessor before commencing to plug and abandon a depleted well by copy of Lessee's request for approval to plug and abandon.

16. **BONDS** — 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 Lessee or his assignee shall have filed a good and sufficient bond with 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.

17. **SETTLEMENT** — Lessee shall not remove any machinery, equipment 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 Lessor under the terms of this agreement shall have been paid or satisfied. Any machinery, equipment or fixtures left on these premises for a period of more than six (6) months shall be the property of Lessor.

18. **OTHER DISCOVERY** — Should Lessee discover any valuable products other than oil and gas, on or within the leased premises, Lessee shall within seven (7) days report such discovery to Lessor, in which event Lessee and Lessor shall negotiate a provision for production of such discovery.

19. **WATER** — This lease does not grant permission, express or implied, to Lessee for water exploration, drilling, or establishing water wells without the written permission of the surface owner. If Lessor is the surface owner, said permission shall not be unreasonably withheld. If Lessee desires to establish or adjudicate any water right for beneficial use on the subject land, any such adjudication or application shall be in the name of Lessor if Lessor is the surface owner. The same shall apply to any nontributary water rights established on the subject land which may be put to beneficial use off of said land.

20. **DEFAULT** — Upon failure or default of Lessee or any assignee, to comply with any of the provisions or covenants hereof, 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 Lessee so defaulting, but shall not extend to nor affect the rights of any lessee 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 Lessee so defaulting, to the postoffice address of said lessee 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 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.

21. **EXTENSION** — If 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, 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 6 provided, or assigned as in Paragraph 7 provided) and the making of such extension shall be at the option of Lessor.

22. **ERRORS** — Every effort is made by Lessor to avoid errors in all procedures including but not limited to auction listings and lease preparation. Lessor shall not be liable for any inconvenience or loss caused by errors which may occur. Lessee shall notify Lessor immediately upon discovery of any errors or discrepancy whatever.

23. **ARCHAEOLOGY** — Lessee shall not destroy, disturb, mar, collect, remove or alter any prehistoric or historic resources of any kind on state lands as provided by law. These resources include but are not limited to all artifacts of stone, wood or metal, pictographs, structures, and bones. A discovery of anything of prehistoric or historic nature shall be reported to Lessor or the State Archaeologist immediately.

24. **DEFINITION** — "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.

25. HEIRS AND ASSIGNS — The benefits and obligations of this lease shall inure to and be binding upon the heirs, legal representatives, successors or assigns of Lessee; but no sublease 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 7 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 Lessee has signed this agreement, the day and year first above written.

STATE BOARD OF LAND COMMISSIONERS

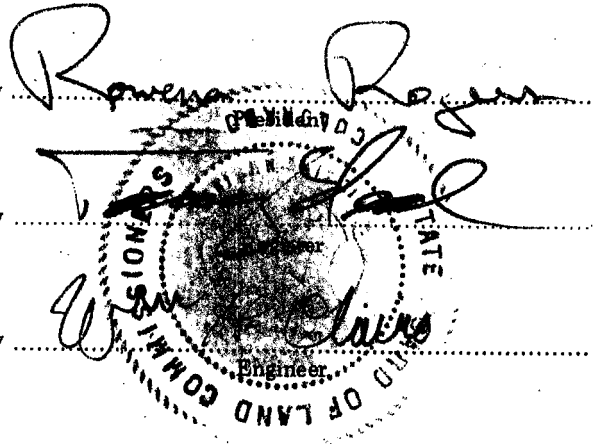
Recommended:

Mineral Director

By

By

By



LESSEE

Seal or Authority

R.W. FRANCK, GENERAL PARTNER
PETROLEUM INVESTORS, LTD.

ATTEST

State of

County of

The foregoing instrument was acknowledged before me this

day of

1982

by



(SEAL)

My Commission Expires

May 23, 1983

Notary Public

Gilbert Buckeye Petroleum
6600 S. Cornerstone Pl
Taken on 9/4/86

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Mar 1980