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LDA # 92243-98
C01-M0000755

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OIL AND GAS LEASE

THIS LEASE made as of May 15, 1998, between **UNION PACIFIC RESOURCES COMPANY**, a corporation, whose address is P. O. Box 7, Fort Worth, Texas 76101-0007, as Lessor, and **UNITED STATES EXPLORATION, INC.**, a corporation, whose address is 1560 Broadway, Suite 1900, Denver, Colorado 80202, as Lessee..

WITNESSETH:

(1) Lessor, for good and valuable consideration, receipt of which is hereby acknowledged, and in consideration of the royalties herein provided and of the agreement of Lessee herein contained and subject to the limitations herein provided, grants, leases and lets unto Lessee for the purposes of investigating, exploring, prospecting, drilling and mining for and producing oil and gas [including, without limitation, nitrogen, carbon dioxide, hydrogen sulphide, helium, and other gaseous substances (except steam) and products associated therewith] and associated liquid hydrocarbons, and laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, refine, process, store, transport, own, sell and dispose of said oil, gas and associated liquid hydrocarbons, all of Lessor's right, title and interest as set forth in Exhibit "A" in and to the oil and gas in and under the leased premises described in Exhibit "A".

For shut-in royalty payment purposes, the land included in this lease shall be deemed to contain the acres set forth in Exhibit "A", whether it actually comprises more or less.

(2) This is a paid-up lease and there shall be no requirement for Lessee to pay delay rentals.

(3) Subject to the other provisions herein contained, this lease shall be for a primary term which expires at twelve o'clock (12:00) noon, Central Time, on May 15, 2001, which term shall hereinafter be referred to as "the primary term", and as long thereafter as oil, gas, or associated liquid hydrocarbons or any of them are produced from the leased premises in paying quantities hereunder, or drilling or reworking operations are conducted thereon under the terms hereof.

(4) Subject to the right of election reserved to Lessor below to take its share of production in kind, the royalties to be paid by Lessee are **Seventeen and One-Half Percent (17.50%)** of eight-eighths (8/8ths) of: (a) the greater of the market value at the well or the amount realized from the sale of oil and liquid petroleum products recovered at the well and (b) the market value at the well of gas sold, used off the leased premises or delivered to Lessee at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on gas sold at the well by Lessee in an arm's length transaction, the royalty shall be the same percentage of the amount realized from such sale. For avoidance of doubt, royalty is to be paid on all payments received by Lessee under or as a result of a gas purchase contract, including, but not limited to reservation charges and, subject to credit to Lessee when gas for which payment has been made earlier is eventually produced, take-or-pay or contract settlement proceeds and amounts paid for gas not taken. Lessee shall have free use of oil and gas from said land for operations on the leased premises, and the royalty on oil and gas shall be computed after deducting any production so used.

The royalties payable under this lease shall be free and clear of costs or deductions for exploration, drilling, development, and production, including but not limited to, costs of marketing,

dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons, but shall include gathering and transportation costs required to transport the gas to the plant. If Lessee treats and/or processes its gas in a natural gas plant (either on or off the leased premises), whether in Lessee's plant or in the plant of and under contract with a third party, Lessee shall treat and/or process or cause Lessor's gas to be treated and/or processed. In the event of any such treating and/or processing, Lessee shall be entitled to deduct from the value of the products recovered by the treating and/or processing of the gas, or if Lessor is taking its production in kind to charge Lessor for, the actual costs incurred by Lessee for such treating and/or processing, which costs shall include gathering or transportation costs required to transport the gas to the plant.

If there is a gas well on the leased premises or on land pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from the leased premises or on land pooled therewith sufficient to maintain this lease in full force and effect, this lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon this lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to One Dollar (\$1.00) per net acre covered by this lease, which payment shall be made to Lessor at P.O. Box 7, Fort Worth, Texas 76101-0007, ATTN: Manager, Land Administration, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment may be made on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the leased premises under all the terms and provisions of this lease (but only for so long as the well continues to be capable of producing in paying quantities); however, this lease may not be maintained by shut-in payments more than three (3) (cumulative) years during any five (5) year period.

Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well, but shall be under no obligation to market same under terms, conditions or circumstances which are unreasonable.

(5) Lessee may at any time execute and place of record a release or releases covering any portion or portions of the above described leased premises, furnishing a copy thereof to Lessor, and thereby surrender this lease as to such portion or portions and be relieved as to the acreage surrendered of all obligations not arising from activities of Lessee prior to said release. Upon the expiration of any portion of this lease, Lessee shall promptly record an appropriate, legally effective release or releases of said expired portion and provide Lessor a copy of the recorded instrument within ninety (90) days of said expiration.

(6) If Lessee is drilling a new well or reworking an old well at the expiration of the primary term, this lease shall continue in force as long as such drilling or reworking operations are prosecuted with no cessation of more than ninety (90) days, and if such drilling or reworking operations result in production of oil or gas or associated liquid hydrocarbons in paying quantities, then for so long thereafter as such production in paying quantities continues or this lease is otherwise maintained in full force and effect under the provisions hereof. If production on this lease ceases after the expiration of the primary term, this lease shall continue in force if drilling or reworking operations are commenced within sixty (60) days after such cessation of production; and if production is restored or new production is discovered as a result of any such drilling or reworking operations, conducted without cessation of more than ninety (90) days, this lease shall continue so long thereafter as production in paying quantities, or additional drilling or reworking operations are had without cessation of such production, drilling or reworking operations for more than ninety (90) consecutive days.

(7) At the expiration of the primary term, this lease shall terminate as to all land which is not located in a drillsite spacing unit (as hereinafter defined) in which there is a well on the leased premises or on

land pooled therewith, producing oil or gas in paying quantities, or a shut-in gas well, and in any such producing drillsite spacing unit or units, this lease shall terminate as to those depths lying below the stratigraphic equivalent of the deepest producing horizon in each drillsite spacing unit of land. For purposes hereof, drillsite spacing unit is defined as the minimum amount of land included in the drilling and production unit established under then-existing rules established by the state or federal regulatory authority having jurisdiction for the then-productive formation of the well; if no unit or spacing rule exists, then drillsite spacing unit shall be defined as the eighty (80) acre tract surrounding an oil well or three hundred twenty (320) acre tract surrounding a gas well. If Lessee is engaged in actual drilling or reworking operations on the leased premises or land pooled therewith at the expiration of the primary term, this provision shall be suspended for so long as Lessee continues such drilling or reworking operations on the leased premises or land pooled therewith with no cessation of more than ninety (90) consecutive days between the completion or abandonment of such drilling or reworking operations on one (1) well, and the commencement of actual drilling or reworking operations on the next well; provided, further, that irrespective of any such continuous drilling or reworking operations, the termination of this lease as to non-producing land and depths shall not be suspended for more than five (5) years from the expiration of the primary term hereof. If the leased premises are included in a Federal Unit then for the purposes of this provision the references to land pooled with the leased premises shall include only that land which is included in an approved participating area.

(8) Lessee, at its option, is hereby given the right and power to pool or combine the leased premises 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 the leased premises. Any such pooling shall be into a well unit or units not exceeding eighty (80) acres, plus an acreage tolerance of ten percent (10%), for oil, and not exceeding three hundred twenty (320) acres, plus an acreage tolerance of ten percent (10%), for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be prescribed by state governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and oil units need not conform as to area with gas units. The pooling in one (1) or more instances shall not exhaust the right of the Lessee hereunder to pool this lease 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. In order to be effective, Lessee shall promptly furnish to Lessor a copy of the document pooling the 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 and reworking operations thereon, and production of oil and gas therefrom, or the completion thereon of a well as a shut-in gas 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 completion were on the leased premises, whether or not the well or wells be located on the leased premises. In lieu of the royalties elsewhere herein provided, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of its net mineral acres placed in the unit 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 pooling identifying and describing the land added to the existing unit; provided, that if such supplemental declaration of pooling is not filed until after production is obtained on the unit as originally created, then and in such event the supplemental declaration of pooling shall not become effective until the first day of the calendar month next following the filing thereof and the furnishing to Lessor of a copy of such supplemental declaration. In the absence of production, Lessee may terminate the unitized area by filing with Lessor and of record a notice of termination.



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(9) Insofar as Lessor may grant such right, Lessee shall have the right at any time during the term of this lease or within six (6) months after the expiration of this lease to remove all property and fixtures placed by Lessee on the leased premises, including the right to draw and remove all casing.

(10) The rights of Lessor may be assigned in whole or in part. This lease may not be assigned by Lessee in whole or in part, without the prior written consent of Lessor, which consent shall not be unreasonably withheld, taking into account such factors as the credit-worthiness and technical competence of the assignee and/or the proposed number of assignees. Consent shall also be deemed reasonably denied if Lessee refuses to accept responsibility for the performance of any of its successors in interest. Notwithstanding the foregoing, Lessee may pledge this Lease pursuant to a mortgage, credit agreement or other security document, and any pledgee of this Lease may acquire this Lease upon foreclosure or by sale or assignment in lieu of foreclosure, provided, however, that any assignment of this Lease by the pledgee following such acquisition shall be subject to the consent requirement set forth in this Section 10. Lessor shall have ten (10) days from receipt of Lessee's request for consent to assign pursuant hereto to respond. Lessor's failure to respond within such ten (10) days shall be deemed consent to assign as requested by Lessee. Any attempted assignment by Lessee of the rights arising under this lease without such consent shall be void and of no effect. No change in the ownership of the land, or any interest therein, shall be binding on Lessee or any purchaser of production hereunder, 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. Unless provided otherwise in Lessor's approval of an assignment to be made by Lessee, Lessee shall continue to be responsible to Lessor for all unpaid sums then due to Lessor and obligations under Section 16 below with respect to the assigned portion or portions having to do with activities conducted prior to the date of assignment. In addition, the assignment of this lease, in whole or in part, shall not be valid as to Lessor until Lessor shall have been furnished a true and correct certified copy of such assignment. No change or division in ownership of the land, shut-in payments, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee.

(11) All express or implied covenants of this lease shall be subject to all applicable laws, orders, rules or regulations, and this lease shall not terminate, in whole or in part, nor shall Lessee be held liable in damages for failure to comply therewith, if compliance is prevented by, or if failure is the result of any applicable law, order, rule or regulation, or if prevented by an act of God, of the public enemy, or labor strikes.

(12) Lessee at its option may discharge any tax, mortgage, or other lien upon the leased premises, either in whole or in part, and in the event Lessee does so, it shall be subrogated to any lawful and enforceable rights of the prior creditor with the right to enforce same and apply shut-in payments and royalties accruing hereunder towards satisfying same. Except as provided in the immediately preceding sentence, Lessee shall not acquire or attempt to acquire, directly or indirectly, from any person other than Lessor, any rights or interests in the oil and gas estate in the leased premises or take any action inconsistent with or adverse to the ownership and quiet enjoyment by Lessor of its oil and gas estate in the leased premises. If Lessor owns an interest in the leased premises less than the entire fee simple estate, or if this lease covers less than Lessor's entire interest in the leased premises, then the shut-in payments and royalties to be paid Lessor shall be reduced proportionately. If any portion of the leased premises is included in a pooled unit, the amount of the shut-in royalty applicable to the Lessor's interest therein shall be based upon the amount of Lessor's net mineral acres included in any such pooled unit upon which such gas well is situated.

(13) The rights granted under this lease are granted **WITHOUT WARRANTY, EXPRESS OR IMPLIED**, and without covenants of title, including, without limitation, covenants to give possession or for quiet enjoyment.

(14) Without the prior written consent of the owner thereof, Lessee shall not make any entry upon or under any portion of any railroad right-of-way or station grounds for any of the purposes of this lease, and shall not drill any well or maintain any structures or facilities within two hundred feet (200') (by surface or subsurface measurement) of: (a) any railroad tracks or buildings on such right-of-way, or station grounds, or (b) any buildings upon the leased premises.

(15) Lessee shall be responsible for injury to or loss or destruction of property, and for injury to or death or illness of any person, arising out of or in connection with operations hereunder. Lessee expressly agrees to and shall assume all obligations and responsibility with respect to being in, establishing, achieving, documenting, or reporting full compliance with any and all applicable laws, orders, rules, regulations, and standards with respect to pollution, the continued operation and eventual plugging, replugging, and abandonment obligations of any unplugged or improperly plugged wells on the leased premises or land pooled therewith.

(16) Without limiting the generality of Section 15, Lessee shall pay either the tenant or the surface owner (whichever is appropriate) for any and all damages to land, structures, roads, fences, gates, cattleguards, trees, growing crops, irrigation facilities, equipment, and livestock caused by construction, operations, or maintenance of facilities, shall bury all pipelines below plow depth where they cross cultivated land, shall construct gates where necessary for crossing fenced lands and keep the gates in repair and closed. Lessee shall not permit any lien or other encumbrance to be filed or to remain against the leased premises as a result of operations hereunder. Irrespective of whether Lessor has consented to an assignment, farmout or other arrangement whereby Lessee consents to drilling or other operations on the leased premises by a third party, Lessee shall be responsible for any and all claims, demands, actions and causes of action or liens arising out of such operations, whether arising in law, at equity or administratively.

(17) In the event of Lessee's breach of this lease, Lessor shall notify Lessee by certified mail of such breach, and Lessee shall have thirty (30) working days from the receipt thereof to comply with this lease. If Lessee fails to remedy a material breach within the period above provided, and provided such notice patently mentioned the termination rights next described, Lessor may, at its option, promptly following such period terminate this lease and be relieved from any obligation hereunder. If the parties are unable to agree upon whether or not a breach is material, such determination shall be made by arbitration. If either party invokes its right to arbitration, then the parties shall attempt to arbitrate the matter by selecting one arbitrator who is acceptable to both parties. However, if the parties are unable to select one arbitrator who is acceptable to both of them, then each party shall select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. If the arbitration is handled by a single arbitrator, the parties shall each pay one-half (1/2) of the fees of the arbitrator, as well as one-half (1/2) of the costs and expenses of the arbitration, excluding the costs and expenses of either party's representatives, witnesses and attorneys. If three arbitrators are selected, each party shall bear the costs and expenses of the fees of the arbitrator it selects, and the two parties shall each pay one-half (1/2) of the fees of the third arbitrator, as well as one-half (1/2) of the costs and expenses of the arbitration, excluding the costs and expenses of either party's representatives, witnesses and attorneys. Unless otherwise specifically agreed by both parties in writing, the rules and procedures set forth in the arbitration laws of the state in which the leased premises are located shall govern the arbitration proceeding as fully as if all of such laws were set forth in full herein. Irrespective of whether Lessor elects to terminate this lease or exercise any other right or remedy under this lease or at law, Lessor shall be entitled to other available remedies, including specific performance to require Lessee to (a) abandon any well and/or restore the surface of the leased premises to its condition existing prior to entry thereon by Lessee, (b) furnish any reports required hereunder or information required hereunder from operations on the leased premises or land pooled therewith, and/or (c) make any payment due hereunder. Except as otherwise expressly provided in this lease, any notices or other communications required or permitted hereunder shall be in writing and shall be deemed given only when received by

the party to whom the same is directed at the address shown at the top of page 1 of this lease or to such other address as is provided to the other party with proper notice. As to any breach of this lease by Lessee or, except to the extent caused by the negligence of Lessor, any claim or suit of a third party resulting from Lessee's activities hereunder, Lessee shall indemnify and hold Lessor harmless against any expense, including attorneys' fees and costs of court, preparation and investigation, that Lessor would incur in enforcing its rights under this lease or defending said third party claims.

(18) Subject to Section 10, all the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

(19) This lease is subject to the exceptions and reservations set forth in:

- (a) Quitclaim Deed(s), as applicable, dated as of April 1, 1971, from Union Pacific Railroad Company to Union Pacific Land Resources Corporation, filed for record April 14, 1971, and appearing in Book 644, at Reception No. 1565712 in the office of the County Clerk and Register of Deeds of Weld County, Colorado.

Lessee recognizes that among the exceptions and reservations set forth in the above deeds are the rights of Lessor's predecessors in interest to use such portions of the leased premises as may not be required for the proper conduct of oil and gas operations for all purposes not inconsistent with such operations and without liability for compensation or damages. Lessee shall so conduct its operations so as not to interfere unreasonably with such reserved use; provided, nevertheless, that such other use of the leased premises shall not unreasonably interfere with the operations of the Lessee. Unless the requirement is waived in writing by Lessor at its discretion, no entry shall be made for drilling operations and no facility shall be installed upon any of the leased premises in which Lessor owns the mineral rights only, until a written agreement with the surface owner has been secured by Lessor, or at Lessor's request, by Lessee, in a form satisfactory to Lessor. Lessee shall request Lessor to obtain such agreement or to waive the requirement therefor at least thirty (30) days prior to the date Lessee intends to commence such operations. Payments out of or measured by production which the Lessor elects to pay to the surface owners shall be paid by Lessor out of its royalty.

(20) Production in Kind: Lessor expressly reserves the right, at any time and from time to time, to take in kind or separately dispose of its proportionate share of all oil, gas, and related hydrocarbons produced from the leased premises, or lands and leases unitized therewith. If Lessor elects, Lessee shall deliver to Lessor in kind Lessor's royalty share of oil and other liquid hydrocarbons saved at the well, into storage tanks on the leased premises; products recovered in a processing plant, into storage tanks or onto storage sites at the plant; and gas, at the tailgate of the plant, if processed, or at the well if the gas is sold at the well. In the event of such election, Lessor shall give to Lessee not less than sixty (60) days notice of its election and shall take said royalty share in kind for a period of not less than six (6) months following the termination of said sixty (60) day period. Any deliveries of production are to be made from Lessee's facilities at times and amounts which equitably adjust deliveries between the parties.

(21) Oil Production: In addition to the rights reserved by Lessor in the immediately preceding paragraph, Lessor and Lessee agree that Lessor shall have the right, at any time and from time to time, upon not less than 30 days' advance written notice to Lessee, to purchase all or any part of the oil (which term as herein used shall include crude oil, distillate, condensate, and other liquid hydrocarbons) produced and saved from or attributable to the leased premises, on Lessor's standard division order terms. The price payable for the oil contained in a delivery pursuant hereto shall not be less than the market price in the field at the time of delivery for oil of like grade and gravity produced in the same field in which the well is located. In the event oil is found on the leased premises or on lands pooled



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therewith, Lessee shall immediately notify Lessor in writing at Union Pacific Resources Company, ATTN: Crude Oil Sales, P. O. Box 7, Fort Worth, Texas 76101-0007.

(22) Gas Production: Lessor and Lessee further expressly agree that in the event gas is produced from or attributable to the leased premises, Lessor shall have a right of first refusal to purchase any or all of such gas which is attributable to the leased premises which Lessee is not selling under contracts of a month's duration or less. Under such right of first refusal, Lessee shall notify Lessor in writing of any bona fide offer for the purchase of its gas for a term greater than a month which it is willing to accept, furnishing the terms thereof, and Lessor shall have the right within 30 days of the receipt of such notice and information to elect to purchase the gas on the same terms and conditions as those contained in the bona fide offer. In the event Lessor elects not to exercise its right to purchase under its right of first refusal, then Lessee may, within 60 days thereafter, enter into a contract to sell the gas to such purchaser in accordance with said bona fide offer. If, however, Lessee does not timely enter into such contract with such purchaser (or if, for any reason, a sale of gas pursuant to such contract is discontinued) then this right of first refusal to purchase gas shall be reinstated subject to the terms and conditions set forth herein. For purposes hereof, an offer shall not be considered as a bona fide offer when the offer is made by an affiliated company of Lessee.

In the event that after a reasonable time (not exceeding 30 days) following the completion of a well capable of producing gas there is no bona fide offer to purchase the gas which is to be produced from or attributable to the leased premises, then Lessee shall notify Lessor in writing of that fact, and Lessor shall have the right, but not the obligation, to purchase such gas at the Market Price. As used herein the term "Market Price" shall mean the arithmetic average of the prices reported in the first issue of the month of delivery for the price references included in the Market Price Index applicable to a point of delivery, to be designated by Lessee, less the transportation, compression, gathering and other costs, if applicable, to deliver gas from such point of delivery to the mainline transmission point or points where such Market Price Index is established. As used herein, the term "Market Price Index" for a particular point of delivery shall mean the published price references, to be designated by Lessee, which reflect the price paid for gas sold under spot contracts between unaffiliated third parties into one or more mainline transmission systems which represent a market for the gas purchased by Lessee at such point of delivery. If the parties disagree on which price references should be included in the Market Price Index for a particular point of delivery, then the determination of the proper price references for the Market Price Index shall be submitted to arbitration. If Lessor does not make an offer to purchase the gas, or does not elect to purchase the gas at the Market Price, then Lessor's right of first refusal shall be reinstated with respect to any bona fide offer subsequently received by Lessee. In the event gas is found on the leased premises or on lands pooled therewith, Lessee shall immediately notify Lessor in writing at Union Pacific Resources Company, ATTN: Natural Gas Sales, P. O. Box 7, Fort Worth, Texas 76101-0007.

If either party invokes its right to arbitration, then the parties shall arbitrate the matter by selecting one arbitrator who is acceptable to both parties. However, if the parties are unable to select one arbitrator who is acceptable to both of them, then each party shall select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. If the arbitration is handled by a single arbitrator, the parties shall each pay one-half (1/2) of the fees of the arbitrator, as well as one-half (1/2) of the costs and expenses of the arbitration. If three arbitrators are selected, each party shall bear the expense of the fees of the arbitrator it selects, and the two parties shall each pay one-half (1/2) of the fees of the third arbitrator, as well as one-half (1/2) of the costs and expenses of the arbitration. The jurisdiction of the arbitrators will be limited to determining which published price references are consistent with the parties intent that the Market Price Index will reflect the prices paid for gas sold under spot contracts between unaffiliated third parties into mainline transmission systems which represent a market for the gas purchased by Lessor at the point of delivery. Unless otherwise specifically agreed to by both

parties in writing, the rules and procedures set forth in the Arbitration Laws of the State of Colorado shall govern the arbitration proceeding as fully as if all of such laws were set forth in full herein.

(23) If Lessor fails to take its production in kind and Lessee sells such production for the account of Lessor, Lessee shall use its best efforts to pay Lessor within 45 days of its receipt of an executed division order. In the event Lessee does not receive payment within 45 days after Lessee's receipt of the executed division order, Lessor may elect to receive interest on the unpaid proceeds in the amount provided under Colorado Revised Statutes Vol. 14, Sec. 34-60-118.5. Lessor reserves the right, but not the obligation, to collect from the purchaser the proceeds from any sale of production from the leased premises in order to insure the proper division thereof; after deducting the portion of such proceeds to which Lessor and any other party may be entitled, Lessor shall remit to Lessee its portion of the proceeds thus collected.

(24) Lessor reserves the right, but not the obligation, to collect from the purchaser thereof the proceeds of production attributable to Lessor's interest in the leased premises from any sale of production therefrom.

(25) Lessor shall be given fifteen (15) days notice prior to commencement of all drilling operations. Lessor's representative (as appointed by Lessor) shall have the right, at Lessor's risk, to have access to the derrick floor and to observe all operations on all wells drilled on the leased premises or land pooled therewith. Lessee shall promptly furnish Lessor's representative with not less than one copy of all applications and reports pertaining to the leased premises, of each daily drilling report, and of each well log, core analysis or other data taken from wells located on the leased premises. Lessee agrees, at Lessor's request, to furnish Lessor's representative true and correct information pertaining to each well, the production therefrom [including true and complete copies of all contracts or agreements (and all amendments and modifications thereof) for sale, processing or other disposition of any product produced from the leased premises] and such technical information as Lessee may acquire with respect to sands and formations encountered. Lessor's representative shall have the right to be present when wells are tested and/or tanks are gauged and shall have the right to examine all run tickets and to have full information as to production and runs, including copies of all run tickets upon request. In the event Lessee notifies Lessor in writing that Lessee considers any such information or data to be confidential, Lessor agrees, until the termination of this lease or for a period not to exceed the period that a particular matter is held confidential by the state agency, whichever is the shorter period of time, not to disclose such information or data to any third-party unless such information or data previously has been available to or examined by the third-party or otherwise generally available to the public or any governmental authority or agency other than the state agency. This shall not be interpreted to require Lessee to furnish Lessor or Lessor's representative with any interpretive information or data; or any information or data which Lessee is obligated to keep confidential.

(26) All operations on the leased premises shall be conducted so as not to damage any water supply. However, in the event Lessee's operations shall result in damage or destruction of any water supply, Lessee promptly shall repair, restore or replace any well, tank, surface pond or other water facility or any water supply so damaged or destroyed as a result of Lessee's operations. Lessee shall provide to Lessor and/or surface tenant emergency water and water facilities for use in either's operations until such damage or destruction is repaired, restored and replaced. The words "damage" and "destroy" shall also be construed to include contamination. Contamination is defined to mean the addition of substances to any water supply used for human or animal consumption to a degree which renders the water supply unfit for consumption by humans or animals, either during Lessee's operations or after such operations have ceased. Without limitation of the general requirements stated above, Lessee agrees, with reference to each well drilled on the leased premises, either to (a) set and circulate cement around sufficient surface casing to penetrate and adequately protect all fresh water sands; or (b) set and circulate cement around surface casing in a manner and to a depth acceptable to the state agency

and, in the event a second string of casing (either intermediate or production casing) is set in such well, circulate cement around such second string of casing with cement circulated either to the surface or into the surface casing previously set in such well; or (c) utilize such other technique as may be acceptable to the state agency and in conformance with accepted practices in the industry to assure the protection of the fresh water sands by placing cement in the annulus between the fresh water sands and the casing.

(27) In the event a well producing oil or gas in paying quantities is completed on lands in which Lessor does not own all of the oil and gas mineral estate within six hundred and sixty (660) feet of or draining the leased premises, Lessee shall, unless Lessee has already drilled or is drilling a well to the same zone or zones as are producing in the draining well and which a prudent operator would consider to have previously satisfied or to soon satisfy this offset obligation, within ninety (90) days after the commencement of production from such draining well, commence the drilling or recompletion of an offset well on the leased premises and shall make a good faith effort to establish commercial production in the sands or formations from which the draining well is producing. If at the time such offset obligation accrues, Lessee shall be engaged in the drilling of another well on the leased premises, then Lessee shall have not more than thirty (30) days after the date of completion or abandonment of such other well drilled by Lessee within which to commence the actual drilling of such offset well. If Lessee fails to timely drill a required offset well, it shall promptly surrender this lease except as to existing wellbores and reasonable use of the surface for ingress and egress, operations in the immediate vicinity of the surface location of the wells, and necessary telephone, pipeline, and utility easements.

(28) In the event that Lessee, during the term of this lease, should conduct geophysical activities upon the leased premises, Lessee shall promptly furnish Lessor for the entirety of each survey, shot point plats and elevations, observer's notes, surveyor's notes, copies of all field tapes, reproducible copy and one print of each final stacked section for each line and copies of any other processed or unprocessed data made available to Lessee.

(29) Lessee shall carry the following insurance in the indicated amounts:

- (a) Comprehensive General Liability Insurance, including contractual liability, with a combined single limit per occurrence of not less than \$1,000,000.00 for bodily injury and property damage.
- (b) Comprehensive Automobile Insurance, including hired and non-owned vehicles, with a combined single limit per occurrence of not less than \$1,000,000.00 for bodily injury and property damage.
- (c) Liability Umbrella (excess of underlying insurance coverage mentioned above) with a combined limit per occurrence coverage of not less than \$10,000,000.
- (d) Well Control Insurance including underground blowout, seepage and pollution, with a minimum limit of \$5,000,000.

Lessee shall require each independent contractor and subcontractor to carry and maintain insurance at its own expense in amounts deemed necessary to cover the risks inherent to the work or services to be performed by the contractor or subcontractor. Every such insurance policy shall contain a waiver on the part of the insurance carrier of all rights, by subrogation or otherwise, against Lessor. Lessor shall also be named as additional insured in each such policy.



2614697 05/22/1998 02:57P Weld County CO
10 of 13 R 66.00 D 0.00 JA Suki Tsukamoto


(30) Lessor may, at any time, require Lessee to provide a bond(s) to ensure timely and proper performance of Lessee's obligations hereunder and/or at law for abandonment of well(s) and restoration of the leased premises and/or to provide Lessor letter(s) of credit (which shall allow reduction as work is performed) to ensure payment of contractors performing drilling or other operations hereunder.

(31) If the leased premises are hereafter owned in severalty or in separate tracts, the leased premises, nevertheless, shall be developed and operated as an entirety, and royalties shall be paid to each separate owner in the proportion that the acreage owned by said owner bears to the entire leased premises.


(32) Without the prior written consent of Lessor, Lessee shall not abandon any well or (except when a replacement is made) remove from the wellbore any well casing, tubing, piping, fittings, tanks, pipe lines or other material and equipment which are necessary for the recovery and handling of production capable of being recovered from said well upon the leased premises. If Lessor takes over the well, Lessor shall promptly reimburse Lessee for the salvage value of all material and equipment in the well or used or acquired in connection with the well which Lessor elects to retain for its operations, less the estimated costs of salvaging and less the estimated costs of plugging and abandoning the well, and Lessee shall promptly deliver a bill of sale to Lessor for such material and equipment. If Lessor takes over the well, then Lessee shall be deemed to have relinquished and transferred back to Lessor, free of any burdens created by Lessee, all of the right, title and interest of Lessee in the wellbore, such material and equipment and the production therefrom. If the well taken over by Lessor is the only well serving to perpetuate this lease, Lessee shall release this lease to Lessor.

IN WITNESS WHEREOF, this lease is executed on the date of the respective acknowledgments hereinbelow, but shall be effective from the date first hereinabove written.

UNION PACIFIC RESOURCES COMPANY

By: 
Joseph F. Carroll
Its: Attorney-in-Fact

UNITED STATES EXPLORATION, INC.

By: 
Shirley R. Koxar
Its: Attorney-in-Fact

STATE OF TEXAS

§
§
§

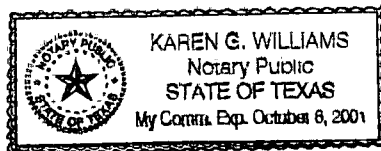
COUNTY OF TARRANT

2614697 05/22/1998 02:57P Weld County CO
11 of 13 R 66.00 D 0.00 JA Suki Tsukamoto

The foregoing instrument was acknowledged before me this 15th day of May, 1998, Joseph F. Carroll, Attorney-in-Fact of **UNION PACIFIC RESOURCES COMPANY**, a Delaware corporation, on behalf of the corporation.

Witness my hand and official seal.

SEAL



Karen G. Williams

Signature

Karen G. Williams

Name (Print)

My commission expires

October 6, 2001

STATE OF TEXAS

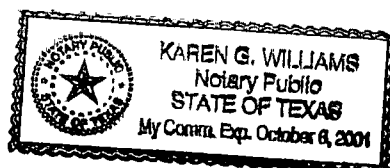
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COUNTY OF TARRANT

The foregoing instrument was acknowledged before me this 15th day of May, 1998, by Shirley R. Kovar, Attorney-in-Fact of **UNITED STATES EXPLORATION, INC.**, a Colorado corporation, on behalf of the corporation.

Witness my hand and official seal.

SEAL



Karen G. Williams

Signature

Karen G. Williams

Name (Print)

My commission expires

October 6, 2001


EXHIBIT "A"

ATTACHED TO AND A MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED MAY 15, 1998 BETWEEN UNION PACIFIC RESOURCES COMPANY, AS LESSOR, AND UNITED STATES EXPLORATION, INC., AS LESSEE.

STATE: COLORADO
COUNTY: WELD
ACRES: 80.00
INTEREST: 100%

DESCRIPTION: TOWNSHIP 2 NORTH, RANGE 66 WEST, 6TH P.M.
SECTION 1: S2NE

LIMITED TO THE SUSSEX/SHANNON FORMATIONS & BELOW 7,056' AS FOUND IN CPC #1REEVE 41-15 WELL IN NE 15-4N-65W


2614697 05/22/1998 02:57P Weld County CO
12 of 13 R 66.00 D 0.00 JA Suki Tsukamoto

UPRR 38 PAN AM V-1 NE HSR 50% J N/2 511370
UPRR 38 PAN AM V-Z NENW HSR 50% J N/2 511380

EXHIBIT "A"

ATTACHED TO AND A MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED MAY 15, 1998 BETWEEN UNION PACIFIC RESOURCES COMPANY, AS LESSOR, AND UNITED STATES EXPLORATION, INC., AS LESSEE.

STATE: COLORADO
COUNTY: WELD
ACRES: 79.72
INTEREST: 100%

DESCRIPTION: TOWNSHIP 2 NORTH, RANGE 66 WEST, 6TH P.M.
SECTION 1: N2NE



2614697 05/22/1998 02:57P Weld County CO
13 of 13 R 66.00 D 0.00 JA Suki Tsukamoto

UPRR 38 PAN AM V-1
UPRR 38 PAN AM V-2

Book 1213
Receipt No. 02159080

OIL AND GAS LEASE

THIS LEASE made effective on the 15th day of October, 1988, between UNION PACIFIC RESOURCES COMPANY, a Delaware corporation, authorized to do business in the State of Colorado, whose address is P. O. Box 1257, Englewood, Colorado 80150, Lessor, and BASIN EXPLORATION INC. a Colorado corporation, authorized to do business in said State of Colorado, whose address is Ste. 300, 155 E. Boardwalk Drive, Fort Collins, Colorado 80525, as Lessee.

W I T N E S S E T H :

(1) Subject to the exceptions and reservations set forth in:

- (a) Quitclaim Deed(s), as applicable, dated as of April 1, 1971, from Union Pacific Railroad Company to Union Pacific Land Resources Corporation, filed for record April 14, 1971, and appearing in Book 644, at Reception No. 1565712, in the office of the County Clerk and Recorder of Weld County, Colorado and
- (b) Mineral Deed dated August 31, 1973, from Union Pacific Land Resources Corporation to Champlin Petroleum Company predecessor in interest to Lessor,

Lessor, for a good and valuable consideration, receipt of which is hereby acknowledged, and in consideration of the royalties herein provided and of the agreement of Lessee herein contained, grants, leases and lets unto Lessee for the purposes of investigating, exploring, prospecting, drilling and mining for and producing oil and gas (including, without limitation, nitrogen, carbon dioxide, hydrogen-sulphide, and other natural gases and products associated therewith) and associated liquid hydrocarbons, and, subject to the provisions of Sections 14, 15, and 16 hereof, laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, refine, process, store, transport, own, sell and dispose of said oil, gas and associated liquid hydrocarbons, the following described land in Weld County, Colorado, to-wit:

One hundred percent (100 %) of Lessor's right, title and interest in and to the oil and gas in and under:

Township 2 North, Range 66 West
Section 1: S/2NE/4

See Exhibit "A" for other terms and conditions incorporated herein.

Limited to those depths and formations from the surface of the earth to the stratigraphic equivalent of 7,056 feet, as found in the Champlin #1 Reeve 41-15 Well located in the NE/4NE/4 of Section 15, T-4-N, R-65-W, Weld County, Colorado (excluding the Sussex and Shannon Formations).

Lessor reserves all other rights, horizons, strata, and formations, including, but not limited to, the right to the concurrent use of the surface and the right to drill through the leased interval.

For shut-in royalty payment purposes, the land included in this lease shall be deemed to contain eighty (80) acres, whether it actually comprises more or less.

(2) This is a paid-up lease and there shall be no requirement for Lessee to pay delay rentals.

(3) Subject to the other provisions herein contained, this lease shall be for a primary term which expires at twelve o'clock (12:00) noon, Mountain Time, on October 15, 1989, which term shall hereinafter be referred to as "the primary term", and as long thereafter as oil, gas, or associated liquid hydrocarbons or any of them are produced from said land in paying quantities hereunder, or drilling or reworking operations are conducted thereon under the terms hereof.

(4) Subject to the right of election reserved to Lessor below to take its share of production in kind, the royalties to be paid by Lessee are: (a) on oil and on liquid petroleum products recovered at the well, Twenty percent (20 %) of the market value at the well of 8/8ths of such production, but in no event less than Twenty percent (20 %) of the amount realized from such sale; and (b) on gas produced from said lands, the market value at the well of Twenty percent (20 %) of the gas sold or used off the premises or the market value of the gas at the tailgate of the plant to which the gas is delivered, plus the market value of the products recovered when such gas is processed; provided that on gas sold at the well by Lessee the royalty shall be Twenty percent (20 %) of the amount realized from such sale. Lessee shall have free use of oil and gas from

said land for operations on the lease premises, and the royalty on oil and gas shall be computed after deducting any production so used.

The royalties payable under this lease shall be free and clear of costs, expenses, or deductions for exploration, drilling, development, and production, including but not limited to, costs of dehydration, storage, compression, separation by mechanical means and stabilization of the hydrocarbons. If Lessee treats and/or processes its gas in a natural gas plant (either on or off the lease premises), whether in Lessee's plant or in the plant of and under contract with a third party, Lessee shall treat and/or process or cause Lessor's gas to be treated and/or processed; in the event of any such treating and/or processing, Lessee shall be entitled to deduct from the value of the products recovered by the treating and/or processing of the gas, or if Lessor is taking its production in kind to charge Lessor for, the actual cost incurred by Lessee for such treating and/or processing, which costs shall include gathering or transportation costs required to transport the gas to the plant.

If Lessor elects, Lessee shall deliver to Lessor in kind its royalty share of oil and other liquid hydrocarbons saved at the well, into storage tanks on the lease premises, products recovered in a processing plant, into storage tanks or onto storage sites at the plant, and gas, at the tailgate of the plant, if processed, or at the well if the gas is sold at the well. In the event of such election with respect to oil and products, Lessor shall give to Lessee not less than sixty (60) days notice of its election and shall take said royalty share in kind for a period of not less than six (6) months following the termination of said sixty (60) day period. Any deliveries of production are to be made from Lessee's facilities at times and amounts which equitably adjust deliveries between the parties. With respect to gas, Lessee shall give Lessor notice if it intends to enter into a gas contract on its share of the gas, and Lessor shall have a period of thirty (30) days from receipt of a copy of the gas sales agreement which Lessee is willing to execute to notify Lessee in writing that Lessor elects to take in kind and separately dispose of its share of such gas.

If there is a gas well on the lease premises or on acreage pooled therewith capable of producing in paying quantities, but from which gas is not being sold, and in the absence of oil or other production from said premises sufficient to maintain this lease in full force and effect, this lease shall be extended for a period of ninety (90) days from the date such well is or was shut-in, whereupon the lease shall terminate unless Lessee shall pay to Lessor as royalty, a sum equal to One Dollar (\$1.00) per acre covered by the lease, which payment shall be made to Lessor at P.O. Box 1257, Englewood, Colorado 80150, ATTN: Division Landman - Mountain Division, on or before the ninetieth (90th) day from and after the date on which such well is or was shut-in, and annually thereafter a similar payment on or before the anniversary date on which such well was shut-in. If such payment, or payments, are timely made, it shall be considered that gas is being produced in paying quantities from the lease premises under all the terms and provisions of this lease (but only for so long as the well continues to be capable of producing in paying quantities).

If any portion of the lease premises is included in a pooled unit, the amount of the shut-in royalty applicable to the Lessor's interest therein shall be reduced in the proportion that the amount of Lessor's net mineral acres included in any such pooled unit upon which such gas well is situated bears to the total acreage contained in such pooled unit.

Lessee shall be obligated to use diligence to market gas capable of being produced in paying quantities from a shut-in well, but shall be under no obligation to market same under terms, conditions or circumstances which are unreasonable.

(5) Lessee may at any time execute and place of record a release or releases covering any portion or portions of the above described lease premises, furnishing a copy thereof to Lessor, and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

(6) If Lessee is drilling a new well or reworking an old well at the expiration of the primary term, this lease shall continue in force as long as such drilling or reworking operations are diligently prosecuted, and if such drilling or reworking operations result in production of oil or gas or associated liquid hydrocarbons in paying quantities, then for so long thereafter as such production continues or this lease is otherwise maintained in full force and effect under the provisions hereof. If production on this lease ceases after the expiration of the primary term, this lease shall continue in force if drilling or reworking operations are commenced within sixty (60) days after such cessation of production; if production is restored or new production is discovered as a result of any such drilling or reworking operations, conducted without cessation of more than ninety (90) days, this lease shall continue so long thereafter as production in paying quantities, or additional drilling or reworking operations are had without cessation of such production, drilling or reworking operations for more than ninety (90) consecutive days.

(7) At the expiration of the primary term, this lease shall terminate as to all lands which are not located in a governmental section in which there is a well on the lease premises or on lands pooled or unitized therewith, producing oil or gas in paying quantities, or a shut-in gas well, and in any such producing governmental section or sections, this lease shall terminate as to those depths lying below the stratigraphic equivalent of the deepest producing horizon in each section of land. If Lessee is engaged in actual drilling or reworking operations on the lease premises or lands pooled or unitized therewith, at the expiration of the primary term, this provision shall be suspended for so long as Lessee continues such drilling or reworking operations on the lease premises or lands pooled or unitized therewith, with no cessation of more than ninety (90) consecutive days between the completion or abandonment of such drilling or reworking operations on one (1) well, and the commencement of actual drilling or reworking operations on the next well; provided, further,

that irrespective of any such continuous drilling or reworking operations, the termination of this lease as to non-producing lands and depths shall not be suspended for more than five (5) years from the expiration of the primary term hereof. If the lease premises is included in a Federal Unit then for the purposes of this provision the references to lands unitized with the lease premises shall include only those lands which are included in an approved participating area.

(8) Lessee, at its option, is hereby given the right and power to pool or combine the lands covered by this lease, 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 premises. Any such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten percent (10%), for oil, and not exceeding one hundred sixty (160) acres, plus an acreage tolerance of ten percent (10%), for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be ordered by state governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and oil units need not conform as to area with gas units. The pooling in one (1) or more instances shall not exhaust the right of the Lessee hereunder to pool this lease 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. In order to be effective, Lessee shall furnish to Lessor a copy of the document pooling the 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 and reworking operations thereon, and production of oil and gas therefrom, or the completion thereon of a well as a shut-in gas 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 completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of the royalties elsewhere herein provided, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of its net mineral acres placed in the unit 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 pooling identifying and describing the land added to the existing unit; provided, that if such supplemental declaration of pooling is not filed until after production is obtained on the unit as originally created, then and in such event the supplemental declaration of pooling shall not become effective until the first day of the calendar month next following the filing thereof and the furnishing to Lessor of a copy of such supplemental declaration. In the absence of production Lessee may terminate the unitized area by filing of record a notice of termination.

(9) Insofar as Lessor may grant such right, Lessee shall have the right at any time during the term of this lease or within six (6) months after the expiration of this lease to remove all property and fixtures placed by Lessee on the lease premises, including the right to draw and remove all casing.

(10) The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the successors and assigns of the parties hereto, but no change or division in ownership of the land, shut-in payments, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land, or any interest therein, shall be binding on Lessee or any purchaser of production hereunder, 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. Except as otherwise set forth in paragraph 17 below, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment; provided, however, that the assignment of this lease in whole or in part, shall not be valid as to Lessor until Lessor shall have been furnished a true and correct certified copy of such Assignment.

(11) All express or implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules or regulations, and this lease shall not terminate, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if failure is the result of any law, order, rule or regulation or inaction, or if prevented by an act of God, of the public enemy, or labor strikes.

(12) Lessee at its option may discharge any tax, mortgage, or other lien upon said land, either in whole or in part, and in the event Lessee does so, it shall be subrogated to any lawful and enforceable rights of the prior creditor with the right to enforce same and apply shut-in payments and royalties accruing hereunder towards satisfying same. Except as provided in the immediately preceding sentence, Lessee shall not acquire or attempt to acquire, directly or indirectly, from any person other than Lessor, any rights or interests in the oil and gas estate in the leased lands, or take any action inconsistent with or adverse to the ownership and quiet enjoyment by Lessor of its oil and gas estate in the leased lands. If Lessor owns an interest in said land less than the entire fee simple estate, or if this lease covers less than Lessor's entire interest in said lands, then the shut-in payments and royalties to be paid Lessor shall be reduced proportionately.

(13) The rights granted under this lease are granted without warranty and without covenants of title, including, without limitation, covenants to give possession or for quiet enjoyment.

(14) Lessee recognizes that among the exceptions and reservations set forth in the deeds referred to in Section 1 of this Oil and Gas Lease are the rights of Lessor's predecessors in interest to use such portions

of the lease premises as may not be required for the proper conduct of oil and gas operations, for all purposes not inconsistent with such operations, and without liability for compensation or damages. Lessee shall so conduct its operations so as not to interfere unreasonably with such reserved use; provided, nevertheless, that such other use of the lease premises shall not unreasonably interfere with the operations of the Lessee.

(15) Without the prior written consent of the owner thereof, Lessee shall not make any entry upon or under any portion of any railroad right-of-way or station grounds for any of the purposes of this lease, and shall not drill any well or maintain any structures within two hundred feet (200') (by surface or subsurface measurement) of: (a) any railroad tracks or buildings on such right-of-way, or station grounds, or (b) any buildings upon the lease premises.

(16) Unless the requirement is waived in writing by Lessor at its discretion, no entry shall be made for drilling operations and no facility shall be installed upon any of the leased lands in which Lessor owns the mineral rights only, until a written agreement with the surface owner has been secured by Lessor in a form satisfactory to it. Lessee shall request Lessor to obtain such agreement or to waive the requirement therefor at least thirty (30) days prior to the date Lessee intends to commence such operations. Payments out of or measured by production which the Lessor elects to pay to the surface owners shall be paid by Lessor out of its royalty.

Lessee shall pay for all damages to surface owners' lands, buildings, and growing crops caused by construction, operations, or maintenance of facilities, shall bury all pipelines below plow depth where they cross cultivated lands, shall construct gates where necessary for crossing fenced lands and keep the gates in repair and closed, and shall indemnify Lessor with respect to such obligations.

(17) Lessee agrees to hold Lessor harmless from and to indemnify it and any surface owner against any and all claims, demands, actions and causes of action for injury to or loss or destruction of property, and for injury to or death of any person, arising out of or in connection with operations hereunder.

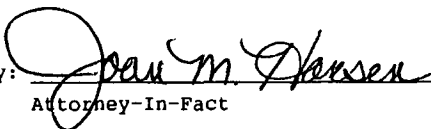
Lessee shall not permit any lien or other encumbrance to be filed or to remain against the lease premises as a result of operations hereunder, and Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action which may result from the filing of any such liens or encumbrances. Irrespective of whether Lessor has consented to an assignment, farmout or other arrangement whereby Lessee consents to drilling or other operations on the lease premises by a third party, Lessee shall indemnify and hold Lessor harmless from and against any and all claims, demands, actions and causes of action or liens arising out of such operations.

All the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

This lease is subject to all the terms and provisions of Farmout & Farmout Option Contract dated July 16, 1987.

IN WITNESS WHEREOF, this instrument is executed on the date of the respective acknowledgments hereinbelow, but shall be effective from the date first hereinabove written.


UNION PACIFIC RESOURCES COMPANY

By: 
Attorney-In-Fact

BASIN EXPLORATION INC.

By: 
Title

Attest:


Secretary

ACKNOWLEDGEMENTS

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

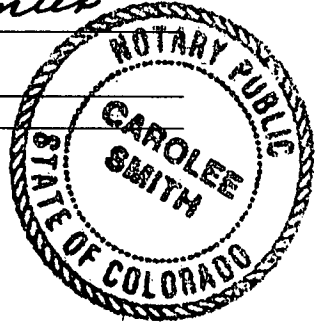
The foregoing instrument was acknowledged before me by Joan M. Hansen, as Attorney-In-Fact for UNION PACIFIC RESOURCES COMPANY, this 19th day of October, 1988.

WITNESS my hand and official seal.

Carolee Smith

Notary Public

Address _____



My Commission Expires:
CAROLEE SMITH
NOTARY PUBLIC, STATE OF COLORADO
MY COMMISSION EXPIRES 6/19/89

STATE OF COLORADO)
) ss.
COUNTY OF Larimer)

The foregoing instrument was acknowledged before me by Michael S. Smith, as President for Basin Exploration Inc., this 19th day of October, 1988.

WITNESS my hand and official seal.

Margerie Williamson

Notary Public

Address _____

My Commission Expires:
5-31-92

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated October 15, 1988, from Union Pacific Resources Company, as Lessor, to Basin Exploration Inc., as Lessee, covering lands in Weld County, Colorado.

1. For purposes hereof, the term "Shannon Formation" shall mean the stratigraphic equivalent of that certain interval located between 4,735 feet and 5,650 feet in the Champlin #1 Reeve 41-15 Well located in the NE/4NE/4 of Section 15, Township 4 North, Range 65 West, Weld County, Colorado, and the term "Sussex Formation" shall mean the stratigraphic equivalent of that certain interval located between 4,280 feet and 4,735 feet in the Champlin #1 Reeve 41-15 Well located in the NE/4NE/4 Section 15, Township 4 North, Range 65 West, Weld County, Colorado.
2. Upon obtaining the prior written consent of lessor, which will not be unreasonably withheld, lessee shall have the right to assign to third parties interests in this lease: provided, however, each such assignment shall specifically provide that such assignment is made subject to the terms of the Farmout and Farmout Option Contract dated July 16, 1987, which terms and conditions the assignee shall specifically assume and agree to perform. Further, in the event that written assurances are required in order to evidence the reversion of this lease or any of the rights hereunder, the assignment shall provide that lessee is appointed as agent for such third party and on behalf of such third party shall be binding upon such third party, and shall without further act of the third party effect the transfer back to lessor.

THIS AGREEMENT made this 16th day of October

1970, between UNION PACIFIC RAILROAD COMPANY, a Utah corporation authorized to do business in the State of Colorado, Lessor, and PAN AMERICAN PETROLEUM CORPORATION, a Delaware corporation authorized to do business in said State, Lessee,

WITNESSETH:

1. Lessor, for a good and valuable consideration, receipt of which is hereby acknowledged and in consideration 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 (gas for all purposes being defined without limitation, to include dry gas, casinghead gas, distillate, condensate, helium and all other gaseous substances), and associated liquid hydrocarbons, and, subject to the provisions of Sections 14, 15 and 16 hereof, 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, the following described land in Weld County, Colorado to-wit:

See description on attached Exhibit "A"

In addition to the land above described, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all oil, gas and associated liquid hydrocarbons underlying lakes, rivers, streams, roads, easements and rights-of-way (other than railroad rights-of-way) which traverse or adjoin any of said lands. For rental payment purposes, the land included within this lease shall be deemed to contain 5.725.20

acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of 5 years from its date (called "primary term") and as long thereafter as oil, gas or associated liquid hydrocarbons or any of them are produced from said land hereunder, or drilling or reworking operations are conducted thereon.

3. Lessee, within three months from the date of this lease, shall commence the actual drilling of a test well on the leased premises; and thereafter shall prosecute the drilling of said well diligently, without unnecessary delay and in a workmanlike manner. If the actual drilling of said well is not commenced within the time prescribed, this lease will automatically terminate.

4. The royalties to be paid by Lessee are: (a) on oil and on associated liquid hydrocarbons, 15% of that produced and saved from said land, the same to be delivered free of cost at the wells, or to the credit of Lessor into the pipe line to which the wells may be connected; (b) on gas produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the well of 15% of the gas so sold or used; provided that on gas sold at the wells the royalty shall be 15% 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, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

While there is a well on the leased premises or on acreage pooled therewith capable of producing only gas, but from which well production is not being sold or used, and in the absence of oil or other production from said premises, this lease shall be extended for a period of 90 days from the date such well is shut-in, and Lessee may tender or pay annually as royalty a sum equal to the amount of annual rentals which would be payable during the primary term to defer drilling operations on the leased premises then subject to this lease; payment or tender of such royalty to be made as provided in Section 5 hereof, with the first payment to be made on or before 90 days from and after the date on which such well is shut-in and a similar payment to be made annually thereafter on or before the anniversary date on which such well is shut-in. If such payments are so made, it shall be considered that gas is being produced in paying quantities from the leased premises under all the terms and provisions of this lease.

If any portion of the leased premises is included in a pooled unit, the amount of the shut-in royalty applicable to the Lessor's interest therein shall be reduced in the proportion that the amount of Lessor's net mineral acres included in any such pooled unit upon which such gas well is situated bears to the total acreage contained in such pooled unit as provided in Section 7 hereof.

Lessee shall use reasonable diligence to market gas capable of being produced in paying quantities from a shut-in well, but shall be under no obligation to market same under terms, conditions or circumstances which, in Lessee's good faith judgment, are unreasonable or unsatisfactory.

Lessee may from time to time purchase any royalty portion of oil or associated liquid hydrocarbons in its possession, paying the market price therefor prevailing in the field where produced on the date of purchase; provided, however, that if Lessor shall so elect, Lessee shall deliver to Lessor in kind its royalty share of oil and associated liquid hydrocarbons. In the event of such election, Lessor shall give to Lessee not less than 60 days' notice of its election and shall take said royalty share in kind for a period of not less than six (6) months following the termination of said sixty (60) day period. Any such deliveries are to be made from the facilities of Lessee, which shall have been installed for its own convenience at times and in amounts which equitably adjust deliveries of both parties.

5. If the well provided for in Section 3 hereof is drilled and completed as a dry hole and if operations for drilling are not commenced on said land as hereinafter provided on or before one year from this date, the lease shall then terminate as to both parties, unless on or before such anniversary date Lessee shall pay or tender to Lessor, Att'n: Assistant Treasurer, Natural Resources Division-Petroleum, P. O. Box 3467, Enid Oklahoma, 73701, the sum of Five Thousand Seven Hundred Twenty-Five and 20/100 Dollars (\$ 5,725.20).

(herein called rental), 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 rental herein referred to may be made in currency, draft or check at the option of the Lessee; and the depositing of such currency, draft or check in any post office, properly addressed to the Lessor, on or before the rental paying date, shall be deemed payment as herein provided. Lessee may at any time execute and place of record a release or releases covering any portion or portions of the above described premises, furnishing a copy thereof to Lessor, and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

If Lessee shall, on or before any rental date, make a bona fide attempt to pay rental to Lessor and if such payment shall be in an incorrect amount, Lessee shall be unconditionally obligated to pay to Lessor the rental properly payable for the rental period involved, but this lease shall be maintained in the same manner as if such erroneous rental payment had been properly made, provided that the erroneous rental payment be corrected within thirty (30) days after receipt by Lessee of written notice from such Lessor of such error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

6. Should any well drilled on the above described land during the primary term before production is obtained be a dry hole, or should production be obtained during the primary term and thereafter cease, then and in either event, if operations for drilling an additional well are not commenced or operations for reworking an old well are not pursued on said land on or before the first rental paying date next succeeding the cessation of production or drilling or reworking on said well or wells, then this lease shall terminate unless Lessee, on or before said date, shall resume the payment of rentals. Upon resumption of the payment of rentals, Section 5 governing the payment of rentals, shall continue in force just as though there had been no interruption in the rental payments. If during the last year of the primary term and prior to the discovery of oil, gas or associated liquid hydrocarbons on said land Lessee should drill a dry hole thereon, or if after discovery of oil, gas or associated liquid hydrocarbons before or during the last year of the primary term the production thereof should cease during the last year of said term from any cause, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, Lessee is conducting operations for drilling a new well or reworking an old well, this lease nevertheless shall continue in force as long as such drilling or reworking operations continue, or if, after the expiration of the primary term, production on this lease shall cease, this lease nevertheless shall continue in force if drilling or reworking operations are commenced within sixty (60) days after such cessation of production; if production is restored or additional production is discovered as a result of any such drilling or reworking operations, conducted without cessation of more than sixty (60) days, this lease shall continue as long thereafter as oil, gas or associated liquid hydrocarbons are produced and as long as additional drilling or reworking operations are had without cessation of such drilling or reworking operations for more than sixty (60) consecutive days.

7. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, 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 premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten per cent (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 prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, 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 the lease is pooled or combined as to any other stratum or strata, and oil units need not conform with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease 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 completion thereon of a well as a shut-in gas 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 completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of its net mineral acres placed in the unit 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.

This Section 7 shall not affect the provisions of Section 3.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligations as to the acreage surrendered arising subsequent to the date of surrender. Lessee shall have the right at any time during or within one year 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.

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

ment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable among the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. 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.

10. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation, or if prevented by an act of God, of the public enemy, labor disputes, inability to obtain material, failure of transportation, or other cause beyond the control of Lessee other than financial.

If, during the term of this lease, oil or gas or associated liquid hydrocarbons are discovered upon the leased premises, but Lessee is prevented from producing the same by reason of any of the causes set out in this Section, this lease shall nevertheless be considered as producing and shall continue in full force and effect until Lessee is permitted to produce the oil, gas or associated liquid hydrocarbons, and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

11. Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. If Lessor owns an interest in said land less than the entire fee simple estate in and to oil, gas and associated liquid hydrocarbons, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

12. This lease does not cover oil shale.

13. The rights granted under this lease are granted without covenants of title or to give possession or for quiet enjoyment.

14. Lessor reserves the right to use such portions of the leased premises as may not be required by Lessee in the conduct of its operations hereunder, for all purposes not inconsistent with the rights granted hereby, and Lessee shall so conduct its operations as not to interfere unreasonably with such use; provided, nevertheless, that the use of the leased premises by the Lessor shall not unreasonably interfere with the operations of the Lessee.

15. Lessee shall not make any entry upon or under any portion of the right of way or station grounds of Lessor for any of the purposes of this lease, and shall not drill any well or maintain any structures within two hundred feet (200') (a) of any railroad tracks or buildings on said right of way or station grounds, or (b) of any buildings upon the leased premises.

16. Notwithstanding anything to the contrary in this lease contained, no well shall be drilled upon or into and no facilities shall be installed upon any lands in which Lessor owns the mineral rights only, until the consents of the surface owners have been obtained under written instruments satisfactory to Lessor. Lessor will endeavor to obtain such consents and the Lessee agrees to cooperate. Any payments which the Lessor elects to pay to the surface owners shall be paid by Lessor out of its royalty.

Lessee shall pay for all damage to surface owners' lands, buildings and growing crops caused by construction, operations or maintenance of facilities, shall bury all pipe lines below plow depth where they cross cultivated lands, shall construct gates where necessary for crossing fenced lands and keep the gates in repair and closed, and shall indemnify Lessor with respect to such obligations.

17. Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action for injury to or loss or destruction of property, and for injury to or death of any person, arising out of or in connection with operations hereunder.

Lessee shall not permit or suffer any lien or other encumbrance to be filed or to remain against the leased premises as a result of its operations hereunder, and Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action which may result from the filing of any such lien or encumbrance.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

UNION PACIFIC RAILROAD COMPANY

By J. A. Redeker
Its Attorney in Fact

STATE OF COLORADO

COUNTY OF ARAPAHOE

ss.

Colorado-Wyoming
Acknowledgment

The foregoing instrument was acknowledged before me by J. A. Redeker
as Attorney in Fact for UNION PACIFIC RAILROAD COMPANY, this 16th day of October

WITNESS my hand and official seal.

Alberta M. Uhl
Notary Public

My Commission expires October 23, 1971

STATE OF _____

COUNTY OF _____

ss.

Utah-Nebraska
Acknowledgment

On the _____ day of _____, 19____, personally appeared before me, a Notary Public in and for said County, _____, personally known to me, who, being by me duly sworn did say that he is the Attorney in Fact of UNION PACIFIC RAILROAD COMPANY and that said instrument was signed as his voluntary act as Attorney in Fact for and in behalf of said corporation by authority and said _____ acknowledged to me that he, as such Attorney in Fact, executed the same.

WITNESS my hand and notarial seal the date last aforesaid.

Notary Public

My Commission expires _____

No. 1556609

OIL AND GAS LEASE

FROM
UNION PACIFIC RAILROAD COMPANY
TO
PAN AMERICAN PETROLEUM CORPORATION

Dated _____, 19____

Section _____ Township _____ Range _____

No. of Acres _____

County, _____

STATE OF Colorado
COUNTY OF Weld

ss.

This instrument was filed for record on the

_____ day of OCT 26 1970

19____ at 2 58 o'clock P. M. and duly

recorded in book 635, page _____ of

the records of this office.

By Anna Spomers
Kelle M. Kenney

When Recorded Return to _____

600037

LEASE DESCRIPTION - EXHIBIT "A"

Township 2 North - Range 66 West

Section 1:	Lot 2 (N/2 NW/4) (79.24), S/2 NW/4, S/2	479.24
Section 3:	Lot 2 (N/2 NW/4) (78.95), S/2 NW/4, <u>S/2</u>	478.95
Section 11:	NW/4, S/2	480.00
Section 13:	NW/4, S/2	480.00
Section 15:	NW/4, S/2	480.00
Section 23:	NW/4, S/2	480.00
Section 25:	NW/4, S/2	480.00

Township 2 North - Range 65 West

Section 5:	Lot 2 (N/2 NW/4) (71.97), S/2 NW/4, S/2	471.97
Section 7:	Lots 1 and 2 (W/2 W/2) (151.48), E/2 W/2, SE/4	471.48
Section 9:	NW/4, S/2	480.00
Section 19:	Lots 1 and 2 (W/2 W/2) (143.56), E/2 W/2, SE/4	463.56
Section 29:	NW/4, S/2	480.00

Containing 5,725.20 acres, more or less, in Weld County, Colorado.

Pan American