

Lease #:
Prospect #:

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 11th day of **September, 2006** by and between **Alexander L. Gates, dealing in his sole and separate property**, whose post office address is **P.O. Box 35747, Tulsa, OK 74153-0747**, hereinafter called Lessor (whether one or more) and:

Williams Production RMT Company
1515 Arapahoe Street, Tower 3, Suite 1000
Denver CO 80202

hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and more DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the **County of Garfield, State of Colorado**, described as follows, to-wit:

Township 7 South, Range 95 West, 6th P.M.
Section 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Including any right, title and interest Lessor may have in and to any mineral rights lying in or under any and all streets, county roads, highways, railroad strips and / or rights-of-way, canals, ditches and other waterways lying across and / or adjacent and / or in any way appertaining to the lands hereinabove described

and containing **40.37** acres, more or less. This lease shall specifically include coal bed gas and occluded gas from coal seams.

- It is agreed that this lease shall remain in force for a **term of three (3) years** from the date hereof and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.
In the event a well or wells is drilled and completed on the lands, or on the lands pooled therewith, for the purpose of developing coalbed gas, the word "operations" shall mean, in addition to those matters covered in the preceding paragraph, (1) operations of said wells to remove water or other substances from the coalbed, or to dispose of such water or other substances, even though such operations do not result in the production of hydrocarbons in paying quantities, or (2) shutting-in or otherwise discontinuing production from said wells to allow for surface or underground mining affecting the drillsite or wellbore.
- This is a **PAID-UP LEASE**. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.
- In consideration of the premises the said Lessee covenants and agrees:
 - To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal ~~seventeen and a-half percent (17.5%)~~ part of all oil produced and saved from the leased premises.
 - To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, ~~seventeen and a-half percent~~ of the net proceeds derived from such sale or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of ~~seventeen and a-half percent~~ of such gas and casinghead gas, lessor's interest, in either case, to bear ~~seventeen and a-half percent~~ of the cost of transporting such gas and casinghead gas from the mouth of the well to the point of sale or use.
 - To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of ~~seventeen and a-half percent (17.5%)~~ of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.
- Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.
- If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears the whole and undivided fee.
- Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon. Lessor shall have the right to gas free of cost from any well on the lands covered herein for use in the principal dwelling house on said lands at the date of this lease. Lessor shall be fully responsible for conditioning the gas for domestic use and the safety and maintenance of connecting lines.
- When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.
- No well shall be drilled nearer than 200 feet to the house or barn, now on said premises without written consent of Lessor.
- Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.
- Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.
- The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission or any other leasehold owner.
- Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or utilize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has