

17-3-65

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 7, Fort Worth, Texas 76101-0007, Lessor, and Basin Exploration, Inc, a 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 Recorded of Weld County, and

(b) Mineral Deed dated August 31, 1973, from Union Pacific Land Resources Corporation 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 3 North, Range 65 West, 6th P.M.
Section 17: E/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 4N, R 65W, 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 the 15th day of October, 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 7, Fort Worth, Texas 76101-0007, 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 and 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:

James M. Hansen
Its Attorney-In-Fact

Attest: ,

Arthur Longhi
Secretary

Basin Exploration, Inc.

By:

Richard J. Smith
Its President

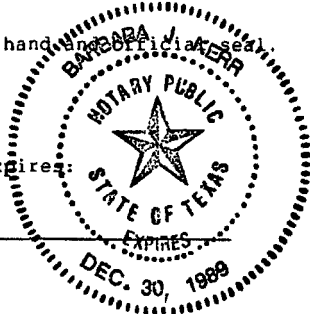
Title

ACKNOWLEDGEMENTS

STATE OF TEXAS)
) ss.
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me by Joan M. HANSEN, as Attorney-In-Fact for UNION PACIFIC RESOURCES COMPANY, this 13th day of February, 1989.

WITNESS my hand and official seal.



My Commission Expires:

[Signature]
Notary Public

STATE OF COLORADO)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me by Michael S. Smith, as President for Basin Exploration, Inc., this February day of February, 1989.

WITNESS my hand and official seal.

[Signature]
Notary Public

My Commission Expires:

10-21-91

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated effective 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 of 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.