

AR2107152

OIL AND GAS LEASE

THIS AGREEMENT, made and entered into this 27th day of MAY, 1987

by and between

LeROY J. BAKER AND NANCY J. BAKER, husband and wife,4260 Weld County Road No. 5Erie, Colorado 80516Party of the first part, hereinafter called Lessor (whether one or more) and ADAM C. BUNA, an individual,2291 Arapahoe, Suite 2-A, Boulder, Colorado 80302

Party of the second part, hereinafter called Lessee.

WITNESSETH:

1. That Lessor, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, paid in advance upon the execution hereof, receipt of which as full and adequate consideration for all rights granted herein is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept, and performed by Lessee, has this day granted, demised, leased, and let, and hereby grants, demises, leases, and lets exclusively unto Lessee for the purpose of investigating, exploring, and prospecting by geophysical and other methods, and drilling, mining, and operating for and producing oil, gas, casinghead gas, casinghead gasoline, other hydrocarbons, and other minerals and gases, or either or any of them, produced therewith (hereinafter for brevity, unless otherwise required by the context, all being jointly and severally referred to as Oil and Gas), laying pipelines, building tanks, stations, power lines, telephone lines, and other structures thereon to explore for, produce, store, sell, treat, transport, and take care of all such substances, and for housing and boarding employees in its operations on said Lands or

adjacent Land, the following described tract of Land (hereinafter referred to as the "Land") in WELD County, State of COLORADO to wit:

TOWNSHIP 5 NORTH, RANGE 64 WEST OF THE 6th P.M.

Section 2: a tract of Land located in the west half of the northwest quarter (W1/2 NW1/4) described as follows: BEGINNING at the northwest corner of said Section 2 from which the north quarter corner of said Section 2 bears S89°55'45"E; thence S01°02'45"W for a distance of 1,325.17 feet along the west line of said Section 2 to a point; thence S89°56'10"E for a distance of 1,319.20 feet and parallel with the East-West centerline of said Section 2 to the east line of the west half of the northwest quarter (W1/2 NW1/4) of said Section 2; thence N01°03'00"E for a distance of 1,325.01 feet along the east line of the west half of the northwest quarter (W1/2 NW1/4) of said Section 2 to the northeast corner of the west half of the northwest quarter (W1/2 NW1/4) of said Section 2; thence N89°55'45"W for a distance of 1,319.29 feet along the north line of said Section 2 to the TRUE POINT OF BEGINNING, containing 40.13 acres, more or less.

In addition to the Land above described, it is the intention of the parties to include within this Lease, and Lessor does hereby grant, lease and let exclusively unto Lessee to the same extent as if specifically described herein, not only the specified Oil and Gas Land described, but also all Lands owned or claimed by Lessor which are adjacent, contiguous to or form a part of the Lands above particularly described, including all Oil and Gas underlying lakes, rivers, streams, roads, easements and 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 40.13 gross acres, whether it actually comprises more or less.

2. TO HAVE AND TO HOLD the same for a term of 3 years from and after the date hereof (called "primary term") and so long thereafter as Oil and Gas is produced from the Land or from Lands with which the Land is pooled or combined therewith by Lessee, or operations are being conducted on the Land or upon other Lands combined or pooled by Lessee with the Land for the exploration for and/or production of the same, all as herein provided.

3. 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.

4. The royalties to be paid by Lessee are: (a) on oil, of that produced and saved from said Land, the same to be delivered at the wells, or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other hydrocarbon substance, 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 the gas so sold or used, provided that on gas sold at the wells the royalty shall be of the amount realized from such sale. The Lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling on said Land by making his own connections with the well, the use of said gas to be at the Lessor's sole risk and expense. 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. Where oil and/or gas from a well capable of or which could be made capable of producing oil and/or gas is not sold or used for a period of one year, Lessee shall pay or tender as royalty One Dollar per year per acre of the Land hereunder applicable to such well (such payment or tender to be made on or before the anniversary date of this Lease next ensuing after the expiration of one year from the date such well is shut-in or becomes capable of producing and thereafter on the anniversary date of this Lease during the period such well is shut-in or remains nonproducing) to the Lessor. If such payment or tender is made, it will be considered that oil and/or gas is being produced from the Land within the meaning of paragraph 2 above. The Lessee may suspend drilling operations on any natural gas well at any time during the drilling of said well after the penetration of any natural gas bearing formation with potential for commercial production when there is presently not a market for the natural gas and further drilling of said well, in the Lessee's reasonable judgement, will render the condition, pressure, quantity and/or any other aspect of the natural gas to be such as would be detrimental to the marketability of natural gas from said wells. A well which is suspended and capped in this manner will be deemed capable of producing natural gas as that term is employed in this paragraph.

5. Lessee shall have the right to drill to completion with reasonable diligence and dispatch: (1) any well commenced within the primary term or any extended term of this lease and (2) any well commenced within ninety (90) days of the completion of a well which has been commenced within either such term. If Oil and Gas shall be found in paying quantities in any such well, this Lease shall continue to be in force with like effect as if such well has been completed within the primary term or any extended term of this Lease. Lessee shall also have the right to drill to completion with reasonable diligence and dispatch any well which has been suspended and capped as referred to in paragraph 4 above at such time as natural gas can be marketed therefrom, and it is expressly agreed that the Lessee will act with reasonable diligence to market the natural gas in said suspended well.

6. Lessee is hereby granted the right and power to pool, unitize, or combine the Land (hereinafter commonly referred to as "pooling") covered by this Lease, or any portion thereof, with other Land, lease, or leases in the vicinity thereof at any time, and from time to time, whether before or after production, when in Lessee's judgement it is necessary or advisable to do so. Such pooling shall be effected by Lessee's executing and filing, in the office where this Lease is recorded, an instrument identifying and describing the pooled acreage. The production of pooled substances and the same effect, except for the payment of royalty, as drilling, completion, production, development, and operation on the Land under the terms of this lease, regardless of the formation or formations pooled or combined. The royalties here provided shall accrue and be paid to Lessor on pooled substances produced from any such unit in the proportion, but only in the proportion, that Lessor's acreage interest in the Land covered hereby and placed in the unit bears to the total acreage in such unit.

Lessee also shall have the right to unitize, pool, or combine all or any part of the Land with other Lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any plan or agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by the event that said Land or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the Land covered by said plan, then the production allocated to any particular tract of Land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of Land to which it is allocated and not to any other tract of Land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

7. If prior to the discovery of Oil and Gas on the Land or on Land pooled therewith Lessee drills a dry hole or holes thereon or if after discovery of Oil and Gas, production thereafter should cease for any cause for a period of ninety (90) days, this lease shall not terminate if Lessee commences additional drilling or reworking operations within ninety (90) days thereafter, this Lease shall continue for so long thereafter as Oil and Gas is produced from the Land or from other Lands pooled or combined with the Land or operations are being conducted for the exploration for or production of Oil and Gas on any such Lands. If at the expiration of the primary term Oil and Gas is not being produced on the Land or on Land pooled or combined therewith but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in effect so long as operations are prosecuted either on the same well or any other well thereafter commenced with no cessation of more than six (6) months; and if they result in the production of Oil and Gas, this Lease shall remain in effect so long thereafter as such production continues.

8. If Lessor owns a lesser interest in the Land than the entire and undivided fee simple estate to the Oil and Gas therein; then the royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee. However, such rentals shall be increased at the next succeeding rental anniversary after any reversion having occurred to cover the interest so acquired with notice of said reversion by Lessor to Lessee.

9. 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. Lessee shall have the right at any time during or 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. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said Land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee. In the event Lessor and Lessee fail to agree on the amount of damages caused by Lessee's operations, Lessor and Lessee hereby agree to allow an arbitration committee set the specific amount of damages incurred. Lessor and Lessee shall each choose an arbitrator, who in turn will pick a third arbitrator to determine the fair settlement amount for damages, said settlement to be determined within fifteen business days of obtaining arbitrators. Lessor and Lessee agree to be bound by the decision of the Arbitrators.

10. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this Lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this Lease, Lessor shall notify Lessee. In writing, of the facts relied upon as constituting a breach thereof; and Lessee, if in default, shall have a reasonable period of time after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. The provisions of this paragraph shall be applicable to the payment by Lessee of shut-in gas royalty except to the extent that the time for the lessee to cure any nonpayment thereof is otherwise stated herein.

11. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the heirs, 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 assignment 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.

12. Lessor further agrees that should Lessee be prevented from complying with any express or implied covenant of this lease by reason of war, public enemy, insurrection, strikes, riots, fires, storms, floods, epidemics, compliance with or obedience to any Federal, State or County law or any regulation, rule or order of any governmental authority having jurisdiction, or any other circumstances reasonably beyond Lessee's control (other than financial), whether similar or dissimilar from those enumerated, from continuing operations as to said lease, then, Lessee shall be excused during the period it is actually prevented by such causes from the performance of its obligations of this lease. As soon as the circumstances necessitating the termination of operations shall cease, Lessee's obligations herein shall resume. Lessee agrees to promptly give notice to Lessor of the commencement of and/or termination of any force majeure matter and to diligently pursue a remedying of the same.

13. Lessor hereby warrants and agrees to defend the title to said Land and agrees that 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. Lessors, for themselves and their heirs, successors, and assigns, hereby surrender and release all right of dower and homestead in the Land insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made as recited herein.

14. In the event that Lessor, during the primary term, or any extension thereof, of this lease receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the Oil and Gas covered by this lease and covering all or a portion of the Land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of twenty business days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this Section. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail or telegram prior to expiration of said 20-day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution on behalf of Lessor(s) along with Lessee's sight draft payable to Lessor in payment of the specified amount as consideration for the new lease, such draft being subject only to approval of title according to the terms thereof. Upon receipt thereof, Lessor(s) shall promptly execute said lease and return same along with the endorsed draft to Lessee's representative or through Lessor(s) bank of record for payment.

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

This agreement shall be binding on each of the above named parties who sign the same, regardless of whether it is signed by any of the other parties. If the Lessor herein is more than one person, this lease may be executed in counterparts, and each counterpart hereof, when executed by a named Lessor, shall constitute a lease of the executing Lessor's interest and the counterparts together shall constitute a lease of the entire interest of the named Lessors.

IN WITNESS WHEREOF, the undersigned have executed this instrument as of the day and year first above written.

Nancy J. Baker (SEAL)
NANCY J. BAKER (SEAL)
(SEAL)

LeRoy J. Baker (SEAL)
LEROY J. BAKER (SEAL)
(SEAL)

SS# 523-54-6084

SS# 522-50-9875

STATE OF COLORADO)

) SS.

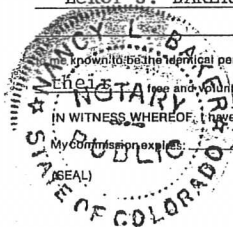
COUNTY)

ACKNOWLEDGEMENT FOR INDIVIDUAL (5)

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 4th day of June, 1987, personally appeared
LEROY J. BAKER AND NANCY J. BAKER, husband and wife,

known to be the legal person s, described in and who executed the within and foregoing instrument of writing and acknowledged to me that they duly executed the same as
their free and voluntary act and deed for the uses and purposes therein set forth.

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



Nancy J. Baker
Notary Public
Address:

ACKNOWLEDGEMENT FOR CORPORATION

STATE OF)

) SS.

COUNTY OF)

ON THIS _____ day of _____, A.D. 19____, before me personally appeared _____

_____ to me personally known, who, being by me duly sworn, did say that he is the _____ of _____

and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors,
and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Witness my hand and seal this _____ day of _____ A.D. 19____

My Commission expires: _____

(SEAL)

Notary Public
Address:

THIS instrument was filed for record on:

* WHEN recorded, return to:
Colorado Land Services
2291 Arapahoe #2-A
Boulder Colo 80302

C-2095.600
#1703