

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

LEASE FOR OIL AND GAS
(Sec. 17 Noncompetitive Public Domain Lease)
Act of February 25, 1920 (41 Stat. 437), as amended (30 U.S.C. 181-26)

Name
Street
City
State
Zip Code

Terra Resources, Inc.
900 Security Life Bldg.
Denver, CO 80202

C-19463

(Serial Number)

This oil and gas lease is issued for a period of ten (10) years to the above-named lessee pursuant and subject to the provisions of the Mineral Leasing Act and subject to all rules and regulations of the Secretary of the Interior now or hereafter in force, when not inconsistent with any express and specific provisions herein, which are made a part hereof.

Lands included in the lease: State: Colorado County: Montezuma

T. 36 N., R. 18 W., N.M.P.M.
Sec. 2: SW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$
Sec. 3: Lots 3, 4, S $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$
Sec. 4: Lots 1 thru 4, S $\frac{1}{4}$ N $\frac{1}{4}$, SW $\frac{1}{4}$

T. 37 N., R. 18 W., N.M.P.M.
Sec. 28: All
Sec. 33: Lots 1-4 inc., N $\frac{1}{4}$, N $\frac{1}{4}$ SE $\frac{1}{4}$ (All)

CLEAR LISTED BY USGS

Containing a total of 2058.35 acres Annual Rental \$ 1029.50

This lease is issued to the successful drawee pursuant to his "Simultaneous Oil and Gas Entry Card" application filed under 43 CFR 3123.9, and is subject to the provisions of that application and those specified on the reverse side hereof.

Effective date of lease: December 1, 1973

THE UNITED STATES OF AMERICA

No. 171-2120

NONCOMPETITIVE
OFFER TO LEASE FOR OIL & GAS

Name (last) TERRA RESOURCES, INC.

Edward Kaetner
Signature of Signing Officer)

Chief, Branch of
Minerals Operations
(Title)

Social Security Number
or Taxpayer Number

730 78 7746

Parcel Number

224

C-19463

Undersigned hereby offers to lease for oil and gas all or any portion of the above-identified parcel of land which may be available for noncompetitive leasing, and certifies: (1) applicant is a citizen of the United States, an association of such citizens, a partnership, a corporation, or a municipality of the United States, an association of such citizens, a partnership, a corporation, or a municipality organized under the laws of the United States or any State thereof, (2) applicant's interests in oil and gas offers to lease, lease, and options do not exceed the limitation provided by 30 U.S.C. 184(d); (3) applicant has not filed any other entry card for the parcel involved, and (4) applicant is the sole party in interest in this offer and the lease if issued, or if not the sole party in interest, that the names and addresses of all other interested parties are set forth on the reverse hereof. The undersigned agrees that the successful drawing of this card will bind him to a lease, on Forms 3110-2 or 3, and to the extent applicable, the stipulations provided in 43 CFR 3109.4-2.

November 13, 1973
(Date)

Signature of Applicant

Marion G. Reeb, Attorney in Fact

(Instructions on reverse)

Address, include zip code
900 Security Life Bldg.
Denver, Colo. 80202

Date

10-17-73

DO NOT DETACH

LESSEE

LEASE TERMS

Sec. 1. Rights of lessee.—The lessee is granted the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all the oil and gas deposits, except helium gas, in the lands leased, together with the right to construct and maintain thereupon, all works, buildings, plants, waterways, roads, telegraph or telephone lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary to the full enjoyment thereof, for a period of 10 years, and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior, the provisions of said agreement to govern the lands subject thereto where consistent with the terms of this lease.

Sec. 2. The leased acreage.

(a) Bonds.—(1) To file any bond required by this lease and the current regulations and until such bond is filed not to enter on the land under this lease. (2) To maintain any bond furnished by the lessee as to the issuance of this lease. (3) To furnish a bond in a sum double the amount of \$2 per acre annual rental but not less than \$1,000 nor more than \$10,000, upon the inclusion of any part of the leased land within the known geologic structure of a producing oil or gas field. (4) To furnish prior to beginning of drilling operations and maintain at all times thereafter as required by the lessor a bond in the penal sum of \$10,000 with approved corporate surety, or with deposit of United States bonds in the sum of \$10,000, upon compliance with the terms of this lease, unless a bond in that amount is already being maintained or unless such a bond furnished by an operator of the lease is accepted. (5) Until a general lease bond is filed to furnish and maintain a bond in the penal sum of not less than \$1,000 in these cases in which a bond is required by law for the protection of the owners of surface rights. In lieu of any of the bonds described herein, the lessee may file such other bond as the regulations may permit.

(b) Cooperative or unit plan.—Within 30 days of receipt of this lease, if the leased land is committed to an approved unit or cooperative plan and such plan is terminated prior to the expiration of this lease, within 30 days of demand made thereafter, to subscribe to and to operate under such reasonable cooperative or unit plan for the development and operation of the area, as a pool or part thereof, embracing the lands included herein as the Secretary of the Interior may then determine to be practicable and necessary or advisable, which plan shall adequately protect the rights of all parties in interest, including the United States.

(c) R.R. title.—(1) To drill and produce oil wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the United States leased at a lower royalty rate, or as to which the royalties and rentals are paid into different funds than a well on the leased land, or of any part of such drilling and production, with the consent of the Director of the Geological Survey, to compensate the latter in full each month for the estimated loss of royalty through drainage in the amount determined by said Director. (2) As to the election of the lessor, to drill and produce oil wells in conformity with any system of well spacing or production allotments affecting the field or area in which the leased lands are situated, which is authorized and sanctioned by applicable law or by the Secretary of the Interior; and (3) promptly after discovery of helium, to drill and produce such other wells as the Secretary of the Interior may reasonably require in order that the leased premises may be properly and timely developed and produced in accordance with good operating practice.

(d) Rentals and royalties.—(1) To pay rentals and royalties in amounts or value of production removed or sold from the leased lands as follows:

Results.—To pay the lessor in advance an annual rental at the following rates:

(a) If the lands are wholly outside the known geologic structure of a producing oil or gas field:

(i) For each leased acre a rental of 50 cents per acre or fraction of an acre.

(b) If the lands are wholly or partly within the known geologic structure of a producing oil or gas field:

(i) Beginning with the first lease year after 30 days' notice that all or part of the land is included in such a structure and prior to the first year of production, \$2 per acre or fraction of an acre.

(ii) If this lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, the rental prescribed for the respective lease years in subparagraph (a) of this section, shall apply to the acreage not within a participating area.

Minimum royalty.—Commencing with the first year beginning on or after a discovery on the leased land, to pay the lessor in lieu of rental, a minimum royalty of \$1 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1 per acre, and the prescribed minimum royalty of \$1 per acre, provided that if this lease is unitized, the minimum royalty shall be payable only on the participating acreage and rental shall be payable on the nonparticipating acreage as provided in subparagraph (b)(ii) above.

Royalty on production.—(1) To pay the lessor 12½ percent royalty on the production removed or sold from the leased lands computed in accordance with the Oil and Gas Operating Regulations (30 CFR Pt. 321).

(2) It is expressly agreed that the Secretary of the Interior may establish reasonable minimum values for purposes of computing royalty on any oil, gas, natural gasoline, and other products obtained from gas, the cost of production being given to the highest price paid for a part or for a majority of production of like quality in the same field, to the price received by the lessee, to posted prices, and to other relevant matters and, whenever appropriate, after notice and opportunity to be heard.

(3) When paid in value, such royalty on production shall be due and payable monthly on the last day of the calendar month next following the calendar month in which produced. When paid in amount of production, such royalty products shall be delivered in merchantable condition on the premises where production without cost to lessor, unless otherwise agreed to by the parties hereto, at such times and in such tanks provided by the lessee as reasonably may be required by the lessor, but in no case shall the lessee be required to hold such royalty oil or other products in storage beyond the last day of the calendar month next following the calendar month in which produced nor be responsible or held liable for the loss or destruction of royalty oil or other products in storage from causes over which he has no control, or reduced or royalties on the gas leasehold or any portion thereof segregated for royalty purposes may be reduced if the Secretary of the Interior finds that, for the purpose of encouraging the greatest ultimate recovery of oil or gas and in the interest of conservation of natural resources, it is necessary, in his judgment, to do so in order to promote development, or because the lease cannot be successfully operated under the terms fixed herein.

(4) **Payment.**—Unless otherwise directed by the Secretary of the Interior, to make rental, royalty, or other payments to the lessor, to the order of the Bureau of Land Management at the places mentioned in the regulation 43 CFR 3102.2. If there is no well on the leased lands capable of producing oil or gas or paying quantities, the lessee shall pay rental on or before the anniversary date shall automatically terminate the lease by operation of law. However, if the time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official non-holiday.

(5) **Consent for disposal of products.**—To file with the Oil and Gas Supervisor of the Geological Survey not later than 30 days after the effective date thereof any contract, or evidence of other arrangement, for the sale or disposal of oil, gas, natural gasoline, and other products of the leased land; *Provided*, That nothing in any such contract or other arrangement shall be construed as modifying any of the provisions of this lease, including, but not limited to, provisions relating to gas waste, taking royalty in kind, and the method of computing royalties due to the lessor at a minimum valuation and in accordance with the Oil and Gas Operating Regulations.

(6) **Statement, plus and reports.**—At such times and in such form as the lessor may, prescribe, to furnish detailed statements showing the amounts and quality of all products removed and sold from the lease, the proceeds therefrom, and the amount used for production purposes or unavoidably lost; a plat showing present and proposed improvements on the leased lands; and reports with respect to stockholders, investments, depreciation

and costs.

(7) **Records.**—To keep a daily drilling record, a log, and complete information on all well surveys and tests in form acceptable to or prescribed by the lessor of all wells drilled on the leased land, and an acceptable record of all subsurface investigations affecting said lands, and to furnish them, or copies thereof, to the lessor when required. All information obtained under this paragraph, upon the request of lessee, shall not be open to inspection by the public until the expiration of the lease.

(8) **Inspection.**—To keep open at all reasonable times for the inspection of any duly authorized officer of the Department, the leased premises and all wells, improvements, machinery, and fixtures thereon and all books, accounts, maps and records relative to operations and surveys or investigations on the leased lands or under the lease. All information obtained pursuant to any such inspection, upon the request of the lessee, shall not be open to inspection by the public until the expiration of the lease.

(9) **Prevention of waste, health and safety of workers.**—To exercise reasonable diligence in drilling and producing the wells herein provided for unless consent to suspend operations temporarily is granted by the lessor; to carry on all operations in accordance with the methods and practice provided in the Oil and Gas Operating Regulations, having due regard for the prevention of waste of oil or gas or damage to deposits or formations containing oil, gas, or water or to coal measures or other mineral deposits, for conservation of gas for future productive operations, and for the health and safety of workers and employees; to plug properly and effectively all wells drilled in accordance with the provisions of this lease or of any prior lease or permit upon the expiration of the lease or upon abandoning the same; to carry out at expense of the lessee all reasonable orders of the lessor relative to the matters in this paragraph, and that on failure of the lessee so to do the lessor shall have the right to enter on the property and to accomplish such orders as the lessor may deem proper; that the lessee shall not be held responsible for delays or casualties occasioned by causes beyond lessee's control.

(10) **Taxes and taxes, freedom of production.**—To pay when due all taxes levied upon and imposed and under the laws of the State or of the United States upon improvements, oil, and gas produced from the lands hereunder, or other rights, property, or assets of the lessee; to accord all workmen and employees complete freedom of purchase, to pay all wages due workmen and employees at least twice each month in the lawful manner of the United States.

(11) **Equal opportunity.**—During the performance of this contract the lessee agrees as follows:

(1) The lessee will not discriminate against any employee or applicant for employment because of race, color, or national origin. The lessee will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to race, color, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The lessee agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The lessee will, in all solicitations or advertisements for employees, be printed by or on behalf of the lessee, state that all qualified applicants will receive consideration for employment without regard to race, color, or national origin.

(3) The lessee will send to each labor union or representative of workers, with which the lessee has a collective bargaining agreement or that contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the lessee's commitments under Section 102 of Executive Order No. 12466 of September 24, 1965, and shall send copies of this notice in conspicuous places available to employees and applicants for employment.

(4) The lessee will comply with all provisions of Executive Order No. 12466 of September 24, 1965, and of the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(5) The lessee will furnish all information and reports required by Executive Order No. 12466 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the lessee's noncompliance with the nondiscrimination provisions of this contract, the contract may be cancelled, terminated or suspended in whole or in part and the lessee may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 12466 of September 24, 1965, and such other sanctions and remedies as may be imposed as provided in Executive Order No. 12466 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The lessee will include provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 12466 of September 24, 1965, so that such provisions will be binding upon any subcontractor or vendor. The lessee will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. *Provided, however*, That in the event the lessee is a contractor, or a subcontractor, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the lessee may request the United States to enter into such litigation to protect the interests of the United States.

(8) **Assignment of oil and gas lease or interest therein.**—As required by applicable law, to file for approval by the lessor any instrument of transfer made of this lease or any interest therein, including assignments of record title, operating interests, and subleases, making or royalty interests, within 90 days from the date of final execution of such instrument.

(9) **Pipeline to purchase or convey at reasonable rates and without discrimination.**—If owner, or operator, or owner of a controlling interest in any pipeline or of any company operating the same, which may be operated accessible to the oil or gas derived from lands under this lease, to accept and convey and, if a purchaser of such products to purchase at reasonable rates and without discrimination the oil or gas of the Government or of any citizen or company not the owner of any pipeline, operating a pipeline for the purpose of conveying oil, gas, or other products under the provisions of the act, or under the provisions of the act of August 7, 1947 (61 Stat. 913, 30 U.S.C. sec. 351).

(10) **Lease, patented with oil and gas deposits reserved to the United States.**—To comply with all statutory requirements and regulations thereunder, if the lands embraced herein have been or shall hereafter be disposed of under the laws reserving to the United States the deposits of oil and gas therein, subject to such conditions as are or may hereafter be provided by the laws reserving such oil or gas.

(11) **Reserved or segregated lands.**—If any of the land included in this lease is embraced in a reservation or segregated for any particular purpose, to conduct operations thereunder in conformity with the requirements and regulations made by the Director, Bureau of Land Management, for the protection and use of the land for the purpose for which it was reserved or segregated, so far as may be consistent with the use of the land for the purpose of this lease, shall be regarded as the same use unless otherwise provided herein or separately stipulated.

(12) **Protection of surface, natural resources, and improvements.**—The lessee agrees to take a reasonable step as may be needed to prevent operations on the leased lands from necessarily: (1) causing or contributing to soil erosion or damaging crops, including forage, and timber growth thereon or on Federal or non-Federal lands in the vicinity; (2) polluting air and water; (3) damaging improvements owned by United States citizens or other parties; or (4) destroying, damaging, or removing fossils, historic or prehistoric ruins, or artifacts and upon any partial or full relinquishment or the cancellation or expiration of this lease, or at any other time prior thereto when required and to the extent deemed necessary by the lessor if any pits, ditches

and other excavations, remove or cover all debris, and so far as reasonably possible, restore the surface of the leased land and access roads to their former condition, including the removal of structures as and if required. The lessor may prescribe the steps to be taken and restoration to be made with respect to the leased lands and improvements thereon whether or not owned by the United States. *Antiquities and objects of historic or scientific interest.*—When American antiquities or other objects of historic or scientific interest including, but not limited to historic or prehistoric ruins, fossils or artifacts are discovered in the performance of this lease, the item(s) or condition(s) will be left intact and immediately brought to the attention of the contracting officer or his authorized representative.

(13) **Overriding royalties.**—Not to create overriding royalties in excess of five percent except as otherwise authorized by the regulations.

(14) **Delivery of products in case of forfeiture.**—To deliver up to the lessor in good order and condition the land leased including all improvements which are necessary for the preservation of producing wells.

Sec. 3. The lessor reserves:

(a) **Access and right of way.**—The right to permit for joint use several easements or rights of way, including, easements in tunnels upon, through, or in the lands leased, occupied or used as may be necessary or appropriate to the working of the same or of other lands containing the deposits described in the act, and the treatment and shipment of products therefrom, or under authority of the Government, its lessees or permittees, and for other public purposes.

(b) **Disposition of surface.**—The right to lease, sell, or otherwise dispose of the surface of the leased lands under existing law or laws hereafter enacted, insofar as said surface is necessary for the use of the lease in the extraction and removal of the oil and gas therein, or to dispose of any resource in such lands which will not unreasonably interfere with operations under this lease.

(c) **Monopoly and law price.**—Full power and authority to promulgate and enforce all orders necessary to insure the sale of the production of the leased lands to the United States and to the public at reasonable prices, to protect the interests of the United States, to prevent monopoly, and to safeguard the public welfare.

(d) **Helium.** Pursuant to Section 1 of the act as amended, the ownership of helium and the right to extract or have it extracted from all gas produced under this lease, subject to such rules and regulations as shall be prescribed by the Secretary of the Interior. If the lessor elects to take the helium, the lessee shall deliver all or any portion of gas containing the same to the lessor, in the manner required by the lessor, at any point on the leased premises, or, if the area is served at the time of production by a gathering system owned or operated by the lessee, at any point of that system specified by the lessor, for extraction of the helium by such means as the lessor may provide. The residue shall be returned to the lessee, with no substantial delay in the delivery of the gas produced from the well to the owner or operator of the gas. The lessor shall pay the value of the helium extracted, the lessee shall not suffer a diminution of the value of the gas produced from the well, or loss otherwise, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium, for which he is not reasonably compensated. The lessor reserves the right to erect, maintain, and operate any and all reduction works necessary for extraction of helium on the leased premises. The lessee further agrees to include in any contract of sale of gas from the lands subject to this lease, the right to extract or have extracted, any helium in the gas sold and that the lessor may take the gas from a pipeline carrier or any other gas-gathering system and extract the helium and return the gas to the owner thereof, without delay after the extraction process, save for the value of the helium, the owner shall not suffer any diminution of the value of the gas from which helium has been extracted, or any other loss arising from the extraction of helium, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium, for which he is not reasonably compensated. It is further agreed that any rights reserved vested in the lessor under this paragraph shall also run to any agent or assignee of the lessor or any purchaser of the rights of the lessor.

(e) **Helium.** Pursuant to section 36 of the act to take royalties in amount or in value of production.

(f) **Helium.** Pursuant to section 40 of the act to purchase casing, and lease or operate valuable water wells.

Sec. 4. Drilling and producing restrictions.—It is agreed that the lessee, in carrying out operations under this lease, shall be subject to control in the public interest by the Secretary of the Interior, and in the exercise of his judgment the Secretary may, in consideration among other things, Federal and State laws, and regulations issued thereunder, or lawful agreements among operators regulating either drilling or production, or both. After utilization, the Secretary of the Interior, or any person, committee, or State or Federal officer or agency, authorized in the unit plan, may after or modify from time to time, the rate of prospecting and development and the quantity and rate of production from the lands covered by this lease.

Sec. 5. Surrender and termination of lease.—This lease may be surrendered or terminated by filing in the proper land office a written relinquishment, in triplicate, which shall be effective as of the date of filing subject to the continued obligation of the lessee and his surety to make payment of all accrued rentals and royalties and to place all wells on the leased lands in the unit plan, or to suspend or abandonment in accordance with the applicable lease terms and regulations.

Sec. 6. Purchase of machinery, tools, or equipment.—Upon the expiration of this lease, or the earlier termination of this lease pursuant to the last preceding section, the lessee shall have the privilege at any time within a period of 90 days thereafter of removing from the premises all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, or equipment and equipment subject to removal as above provided, which are allowed to remain on the leased lands shall become the property of the lessor on expiration of the 90-day period or such extension thereof as may be granted because of adverse climatic conditions throughout said period. *Provided*, That the lessee shall remove any or all of such property where so directed by the lessor.

Sec. 7. Proceedings in case of default.—If the lessee shall not comply with any of the provisions of the act or the regulations thereunder or of the lease, or shall make default in the performance or observance of any of the terms hereof (except that of payment of annual rental which results in the automatic termination of the lease), and such default shall continue for a period of 30 days after service of written notice thereof by the lessor, this lease may be cancelled by the Secretary of the Interior in accordance with section 31 of the act, except that if this lease covers lands known to contain valuable deposits of oil or gas, the lease may be canceled only by judicial proceedings in the district court of the United States in section 31 of the act; but this provision shall not be construed to prevent the exercise by the lessor of any legal or equitable remedy which the lessor might otherwise have. Upon cancellation of this lease, any casing, material, or equipment determined by the lessor to be necessary for use in drilling or preserving any well drilled on the leased land shall become the property of the lessor. A waiver of any particular cause of cancellation and forfeiture shall not prevent the cancellation and forfeiture of this lease for any other cause of cancellation and forfeiture, or for the same cause occurring at any other time.

Sec. 8. Heirs and successors-in-interest.—It is further agreed that each obligation hereunder shall extend to and be binding upon the heirs and every benefit hereof shall inure to, the heirs, executors, administrators, successors or assigns of the respective parties hereto.

Sec. 9. Unlawful interest.—It is also further agreed that no member of, or Delegate to, Congress, or Resident Commissioner, or Senator, or Representative in Congress, or other officer, or after he has qualified and during his continuance in office, and that no officer, agent, or employee of the Department of the Interior, except as provided in 43 CFR 7.4(a)(1), shall be used in any way to secure any share or part in this lease or derive any benefit that may arise therefrom; and the provisions of Sec. 3741 of the Revised Statutes of the United States, as amended, (41 Stat. 22) and Secs. 431, 432, and 433, Title 18 U.S.C., relating to contracts, enter into and form a part of this lease so far as the same may be applicable.