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#750-03-2003



MINERALS AGREEMENT
between the
SOUTHERN UTE INDIAN TRIBE
and

RED WILLOW PRODUCTION COMPANY AND

SG INTERESTS VII, LTD.

Dated: May 29, 2002

879586 3/1/2004 11:22 57 AM Linda J. Daley
1 of 20 AGR R \$101.00 D \$0.00 Laplata County, CO

SG INTERESTS I, LTD.
909 FANNIN, SUITE 2800
HOUSTON, TEXAS 77010

MINERALS AGREEMENT

(Red Willow Production Company and SG Interests VII, Ltd.)

TABLE OF CONTENTS

	<u>Page</u>
Article 1. Definitions	
1.01 Contract Acreage.....	1
1.02 Earned Acreage Unit.....	1
1.03 Extended Term.....	2
1.04 Minerals.....	2
1.05 Participating Interest.....	2
1.06 Primary Term.....	2
1.07 Producing Unit.....	2
1.08 Productive Well.....	2
1.09 Proportionate Reduction.....	2
1.10 Royalty Interest.....	3
1.11 Spacing Unit.....	3
1.12 Substitute Well.....	3
1.13 Well.....	3
Article 2. Exploration of Contract Acreage	
2.01 Ownership of the Contract Acreage.....	3
2.02 Grant of Right to Explore and Produce.....	3
Article 3. Bonus Consideration	
3.01 Acreage Payment.....	4
Article 4. Costs and Interests in Wells	
4.01 Costs.....	4
4.02 Interests in Production.....	4
4.03 Severance Tax and Royalty Interest Adjustment.....	4
Article 5. Geological Information and Reports	
5.01 Disclosure.....	5

TABLE OF CONTENTS (Contd.)

	<u>Page</u>
Article 6. Operational Matters	
6.01 Abandonment	5
6.02 Shut-in Wells	6
6.03 Paying Quantities Determinations	7
6.04 Governmental Compliance	7
6.05 Indemnities and Tribal Liens	7
6.06 Substitute Wells	7
6.07 Affidavit of Compliance	8
6.08 Valuation of Tribe's Royalty Interest	8
6.09 Royalty In Kind	8
6.10 Pooling	8
6.11 Water Disposal	8
Article 7. Term of Agreement	
7.01 Primary Term	9
Article 8. General Provisions	
8.01 Notices	10
8.02 Surrender of Lease	10
8.02 Force Majeure	10
8.03 Consent to Jurisdiction	10
8.04 Assignments - Preferential Rights	11
8.05 Financing and Security Interests	12
8.06 Remedies	12
8.07 Conflicts	12
8.08 Secretary of Interior Approval	12
8.09 Inurement	12
8.10 Entire Agreement	12
8.11 Amendments	13
8.12 Counterparts	13

- END OF TABLE OF CONTENTS -

MINERALS AGREEMENT- #750-83-2003

(RED WILLOW PRODUCTION COMPANY and SG INTERESTS VII, LTD.)

This Agreement, dated this 29th day of May, 2002 is between the **SOUTHERN UTE INDIAN TRIBE** of the Southern Ute Indian Reservation, Tribal Affairs Building, Post Office Box 737, Ignacio, Colorado 81137 ("the Tribe"), and **THE SOUTHERN UTE INDIAN TRIBE DBA RED WILLOW PRODUCTION COMPANY**, P. O. Box 737, Ignacio, Colorado 81137, an undivided fifty percent (50.0%) Participating Interest (and corresponding Record Title interest) and **SG INTERESTS VII, LTD.**, 1331 Lamar, Suite 501, Houston, Texas 77010, an undivided fifty percent (50.0%) Participating Interest (and corresponding Record Title interest) (herein collectively referred to as "Lessee").

RECITALS:

A. Lessee desires to explore for and produce oil and gas minerals from one (1) proposed three hundred twenty (320) acre spacing unit which includes unleased tribal mineral lands within the Southern Ute Indian Reservation.

B. The Tribe, acting through its governing body, the Southern Ute Indian Tribal Council, has determined that it is in the Tribe's best interest to develop its oil and gas resources in a manner that gives the Tribe more control over such development than provided in standard industry oil and gas leases.

C. Lessee and the Tribe desire to enter into this Minerals Agreement ("Agreement") pursuant to the Indian Mineral Development Act of 1982, 25 U.S.C. §§ 2101, et seq., and the federal regulations implementing said law, 25 CFR Part 225.

AGREEMENT

In consideration of the mutual promises, covenants and obligations set out below, the parties agree as follows:

ARTICLE 1.

DEFINITIONS

As used in this Agreement, the following terms shall have the meaning indicated below:

1.01 CONTRACT ACREAGE shall mean 320.00 acres, more or less, of Southern Ute tribal land in La Plata County, Colorado, as more particularly described in Section 2.01.

1.02 EARNED ACREAGE UNIT shall mean the Spacing Unit which includes that portion of the Contract Acreage containing, or pooled with lands containing, any Well drilled pursuant to the terms of this Agreement. Unless otherwise agreed to by the parties, a unit shall not exceed 640 acres for each gas well or 80 acres for each oil well. Establishment of unit boundaries shall be

determined by the Bureau of Land Management, following consultation with and concurrence by the Tribe, in accordance with that certain Memorandum of Understanding between the Colorado Bureau of Land Management and the Colorado Oil & Gas Conservation Commission dated August 22, 1991, and that certain Memorandum of Understanding and Interagency Agreement entered into between the Tribe, the Bureau of Land Management, and the Bureau of Indian Affairs dated August 22, 1991 (collectively referred to as "the MOUs"). Alternatively, in the event of amendment or termination of the MOUs, unit boundaries shall be established in accordance with applicable tribal or federal governmental decision.

1.03 EXTENDED TERM shall mean that period of time following the initial two-year term of this Agreement, as described in Article 8, during which Lessee continues to operate a Well that is capable of producing minerals in paying quantities on the Contract Acreage or lands pooled therewith.

1.04 MINERALS shall mean oil, gas, including coalbed methane in coal beds, casinghead gas, other hydrocarbons (whether liquid or gaseous), carbon dioxide gas and sulphur.

1.05 PARTICIPATING INTEREST shall mean the right to explore and drill for, develop, take, produce, remove, store, treat, process, transport and market Minerals, and the right to proceeds from the sale of Minerals produced, subject to a proportionate share of costs, expenses and burdens attributable to the exploration for, development, production, processing and marketing of such Minerals.

1.06 PRIMARY TERM shall mean the initial term of this Agreement commencing on the date of approval of this Agreement by the Secretary of the Interior or his authorized representative, as definitively described in 7.01.

1.07 PRODUCING UNIT shall mean an Earned Acreage Unit that contains a Productive Well.

1.08 PRODUCTIVE WELL shall mean an oil and gas Well capable of producing Minerals in paying quantities, which is either producing or has been shut-in pursuant to Section 6.02.

1.09 PROPORTIONATE REDUCTION shall mean:

(a) The reduction resulting from any situation in which a party to this Agreement owns a Participating Interest or a Royalty Interest in less than all of the acreage that comprises a Spacing Unit for a Well and, as a result, said Participating Interest or Royalty Interest has been prorated based on the amount of Contract Acreage in such Unit in relation to the total acreage in such Spacing unit.

(b) With respect to the Tribe's severance tax, the reduction resulting from any situation where less than all of the acreage within a Spacing Unit for a Well is Contract Acreage and, as a result, the tribal severance tax has been prorated based on the amount of Contract Acreage in such unit in relation to the total acreage in such unit.

1.10 ROYALTY INTEREST shall mean the right to a proportionate cost free share of the value of Minerals produced, as calculated in accordance with Section 6.08, or of other compensation or consideration inuring to this Agreement which is associated with Lessee's right to produce Minerals, including proceeds associated with marketing contract settlements, amendments or buy-downs.

1.11 SPACING UNIT shall mean the drilling and spacing unit for a Well established in accordance with the procedures set forth in that certain Memorandum of Understanding between the Colorado Bureau of Land Management and the Colorado Oil & Gas Conservation Commission dated August 22, 1991, and that certain Memorandum of Understanding and Interagency Agreement entered into between the Tribe, the Bureau of Land Management, and the Bureau of Indian Affairs dated August 22, 1991, or, in the event of termination or amendment of the MOUs, the unit established in accordance with applicable tribal or federal enactments or regulations. Unless otherwise agreed to by the parties in writing, the configuration of any Earned Acreage Unit shall conform to the configuration of a Spacing Unit.

1.12 SUBSTITUTE WELL shall be a Well drilled pursuant to the terms set forth in Section 6.06.

1.13 WELL shall mean any well drilled pursuant to the terms of this Agreement.

ARTICLE 2.

EXPLORATION OF CONTRACT ACREAGE

2.01 OWNERSHIP OF THE CONTRACT ACREAGE. The Tribe represents and warrants that it owns the mineral estate underlying the Contract Acreage to all depths:

Township 34 North, Range 7 West, N.M.P.M.
Section 24: N/2
Containing 320.00 acres, more or less in
La Plata County, Colorado,

and that such acreage is not subject to any leases or other agreements granting rights to explore for or produce Minerals.

2.02 GRANT OF RIGHT TO EXPLORE AND PRODUCE. Subject to the terms and conditions of this Agreement, the Tribe hereby gives, grants and conveys to Lessee, its successors and assigns, during the term hereof, the exclusive right to explore the Contract Acreage for Minerals and to produce, treat or process, to remove, and to sell such Minerals. In exercising its rights hereunder, Lessee shall have the non-exclusive right to use the surface of the Contract Acreage and other tribal lands which Lessee reasonably deems necessary for the drilling, producing, saving, treating, transporting and marketing of Minerals. Lessee's use of tribal surface is subject to (i) the issuance of the Tribe's consent to the location of such surface facilities, including roads, drilling pads, pipelines, tanks, power stations and other needed structures; (ii) appropriate agency approval; (iii) payment of reasonable compensation for surface damage related to such roads and

facilities as set forth in the Tribe's uniform policy establishing rates for such compensation, as amended from time to time. The parties acknowledge that a copy of the current, written tribal schedules for surface damage compensation have been provided to Lessee and said schedules are deemed reasonable by the parties. Nothing herein contained is intended to preclude the Tribe or the United States from continuing to conduct mineral assessment or evaluation activities on the Contract Acreage concurrently with the exercise of Lessee's rights under this Agreement, provided, that the Tribe shall not grant rights to explore for or produce Minerals on the Contract Acreage or any portion thereof subject to this Agreement to any private third party during the time that said acreage is subject to this Agreement.

ARTICLE 3.

BONUS CONSIDERATION

3.01 ACREAGE PAYMENT. Upon approval of this Agreement by the Secretary of the Interior or his authorized delegate ("Secretarial Approval"), Lessee shall pay to the Tribe the sum of Thirty Five Thousand & No/100 Dollars (\$35,000.00), representing a payment of One Hundred Twenty Five Dollars (\$125.00) per net acre of tribal mineral lands in the Contract Acreage and representing bonus and rental payments for the entire two year term of this Agreement. Said payment shall be made within fifteen (15) days from the date of receipt of aforementioned approval and shall be tendered to the Southern Ute Indian Tribe, Department of Energy, in the form of a cashiers check or by wire transfer in accordance to the specific instructions to be given under separate cover.

ARTICLE 4.

COSTS AND INTERESTS IN WELLS

4.01 COSTS. All costs and expenses of drilling, testing, plugging and abandoning, or completing and equipping any Well and operating any Well shall be borne entirely by the owners of the Participating Interests.

4.02 INTERESTS IN PRODUCTION. Lessee shall own one hundred percent (100%) Participating Interest in all Minerals produced and sold from the Earned Acreage Unit for each Well, subject to the proportionate three-sixteenths (3/16) Royalty Interest in the Contract Acreage included in such Earned Acreage Unit held by the Tribe.

4.03 SEVERANCE TAX AND ROYALTY INTEREST ADJUSTMENT.

(a) The parties acknowledge that all Wells drilled pursuant to this Agreement shall be subject to the tribal severance tax, which is presently a proportionate 6.5% of the value of mineral production (tribal royalty share exempt) from the Contract Acreage. If the burden of the tribal severance tax and any other tribal taxes on mineral production from the Contract

Acreage, together with the burden of the Tribe's Royalty Interest, should ever exceed twenty-five percent (25%) of such production, the Tribe agrees that its Royalty Interest shall be reduced so that the combined burden of royalty and tax shall not exceed twenty-five (25%) of the proportionate value of mineral production from the Contract Acreage.

(b) Lessee shall not be permitted to create, reserve, convey or assign overriding royalty interests which would when combined with tribal royalty, tribal severance tax or other overriding royalty interests exceed an aggregate burden on the Participating Interests in excess of twenty-five percent (25%) of the proportionate value of mineral production from the Contract Acreage.

ARTICLE 5.

GEOLOGICAL INFORMATION AND REPORTS

5.01 DISCLOSURE. For each Well drilled on the Contract Acreage or on acreage pooled therewith, the Tribe shall be entitled to review and copy at the Tribe's expense all geological and geophysical data and interpretive analysis generated by Lessee with respect to such lands. Additionally, Lessee agrees to furnish the Tribe with the notices and reports provided for in Exhibit "A". All such information provided to the Tribe shall be kept confidential for a period of three (3) years after the Tribe's receipt thereof and shall not be disclosed during such period to any third party without Lessee's prior written consent. Restrictions on tribal disclosure shall not apply to that data or information which is otherwise made available to the public by Lessee or is required to be made available to the public by governmental agencies exercising jurisdiction over said Contract Acreage or lands pooled therewith.

ARTICLE 6.

OPERATIONAL MATTERS

6.01 ABANDONMENT.

(a) Lessee shall have the responsibility to plug and abandon any and all Wells drilled pursuant to this Agreement. Plugging and abandonment of said Wells, as well as surface remediation and reclamation of abandoned pads, roads or rights-of-way shall be conducted in conformity with the requirements of the Bureau of Land Management, Bureau of Indian Affairs, and those governmental departments of the Tribe with responsibility to oversee such reclamation. Additionally, such plugging, abandonment and reclamation shall conform to such additional governmental requirements imposed by agencies with jurisdiction over the lands and activities subject to this Agreement. Lessee specifically indemnifies and agrees to hold the Tribe harmless against all costs and liabilities associated with improper abandonment operations.

(b) Prior to abandonment of any Wells, roads or facilities located on tribal land, Lessee shall provide the Tribe with written notice of its intent to abandon. Upon receipt of

said notice, the Tribe shall have fifteen (15) days within which to advise Lessee of its decision to take over operations on said Well or to assume operations over any road or facility subject to abandonment located on tribal land. Notwithstanding the foregoing, if Lessee makes a decision to abandon a Well during the course of drilling or while a drilling rig is at the location, the Tribe shall have 48 hours, excluding holidays or weekends, within which to advise Lessee of its decision to take over operations on said Well.

(c) If the Tribe makes this election, to take over a Well, roads or facilities, the Well, road or facility shall no longer be deemed to be located on Contract Acreage, and the Tribe shall bear all future costs and expenses associated with plugging or abandonment, or reclamation of said Well or applicable facility location. Thereafter, the Tribe shall indemnify and hold Lessee harmless from all debts, claims and liabilities incurred by the Tribe in connection with all activities undertaken by the Tribe with respect to said Well or facility.

6.02 SHUT-IN WELLS

(a) If during the Primary Term Lessee drills and completes a Well capable of producing Minerals in paying quantities, but maintains such Well in a shut-in status for a period of eighteen (18) consecutive calendar months, Lessee shall be obligated to pay the Tribe the sum of One Dollar (\$1.00) per net mineral acre of the Contract Acreage included in the Earned Acreage Unit within thirty (30) days following said eighteen (18) month period. For each consecutive month thereafter that such Well remains in shut-in status, Lessee shall pay the Tribe the sum of One Dollar (\$1.00) per net mineral acre of the Contract Acreage included in the Earned Acreage Unit until expiration of the Primary Term.

(b) If following the Primary Term should a producing Well be shut-in (in accordance with prudent business judgment and sound oil and gas field practices), at any time and remain shut-in for more than thirty (30) consecutive days, then Lessee shall promptly inform the Tribe, through its designated representatives, of the reason for shut-in. Should the reason for shut-in be the result of a temporary mechanical failure, Lessee shall have sixty (60) days from the date that notice should have been provided to the Tribe to fix the mechanical failure. Should the reason for shut-in be something other than temporary mechanical failure, Lessee shall be obligated to pay the Tribe the sum of One Dollar (\$1.00) per net mineral acre of the Earned Acreage for each complete calendar month following the date that notice should have been provided to the Tribe during which said Well continues to be shut-in. Payment of said monthly shut-in royalty obligations shall serve to keep this Agreement in force as to the Contract Acreage included in the applicable Earned Acreage Unit during said shut-in period. In no event, following the Primary Term, however, shall a producing Well be permitted to remain shut-in for a period exceeding twelve (12) consecutive calendar months, regardless of payment of the months shut-in royalty obligations. Following the Primary Term, upon expiration of any period consisting of twelve (12) consecutive calendar months during which a producing Well is shut-in, or upon the expiration of any annual period commencing the first day of the month following the anniversary date of this Agreement, during which a Well fails to actually produce in paying quantities, regardless of payment of shut-in royalty obligations, the Contract Acreage included in the applicable Earned Acreage Unit attributable to said Well shall no longer be deemed as part of this Agreement.

6.03 PAYING QUANTITIES DETERMINATIONS. Promptly following the expiration of the Primary Term, and for each annual period thereafter (commencing on the first day of the month following the anniversary date), Lessee shall submit a report on the paying quantities status of each Well contained in an Earned Acreage Unit. For purposes of this Agreement, paying quantities shall be computed by subtracting the costs of operating the Well, including royalties, shut-in royalties and taxes (excluding income taxes), from the gross proceeds received for the sale of produced Minerals. If, over the course of the annual period, the gross proceeds exceed the cost of operation for any Well, the Contract Acreage included in the applicable Earned Acreage Unit shall remain held by this Agreement. Should the costs of operation exceed the gross proceeds for such Well, the Contract Acreage for such Earned Acreage Unit shall be deemed no longer included in this Agreement effective on the last day of said annual period, subject to Lessee's ongoing plugging and abandonment and reclamation obligations.

6.04 GOVERNMENTAL COMPLIANCE. All operations conducted hereunder on the Contract Acreage shall be subject to all applicable federal and tribal laws, regulations and notices, including those applicable to oil and gas exploration, drilling and production activities on Indian lands found in Titles 25, 30 and 43 of the Code of Federal Regulations ("CFR").

6.05 INDEMNITIES AND TRIBAL LIENS.

(a) Lessee shall indemnify and save the Tribe harmless from debts, claims or liabilities incurred in connection with the drilling, completing, operating or plugging and abandoning of any Well contemplated by this Agreement, except in those wells which the Tribe has made an election to take over a Well, in accordance with Article 6.01 (c).

(b) All owners of Participating Interests hereunder agree: (i) to furnish such bond as may be required by applicable regulations, including those contained in 25 CFR Part 225, for the conduct of operations; and (ii) that the obligation to pay royalties to the Tribe hereunder, and the obligation to pay tribal taxes, until such payments are made, shall constitute a prior tribal governmental lien on all Wells drilled and facilities installed pursuant to this Agreement, superior to all other liens relative to said Wells and facilities.

6.06 SUBSTITUTE WELLS. If impenetrable substances are encountered or other conditions arise that render further drilling of any Well provided for in this Agreement impracticable or inadvisable, or if mechanical difficulties are encountered that require Lessee to abandon the original hole before the objective depth for such Well has been reached, Lessee may discontinue drilling and plug and abandon such Well and thereafter Lessee shall have the option for ninety (90) days following such cessation of drilling to commence the actual drilling of a substitute Well at a legal location in the same proposed Spacing Unit as the abandoned Well. If Lessee elects to drill a substitute Well, Lessee shall be considered as complying with the terms of this Agreement. If Lessee drills said substitute Well in the same manner and subject to the same conditions as the original Well, then the substitute Well shall be deemed for all purposes of this Agreement as the Well for which it is a substitute.

6.07 AFFIDAVIT OF COMPLIANCE. Upon the completion of any Well that earns interests in an Earned Acreage Unit, Lessee shall submit to the Tribe for tribal execution an affidavit of compliance in the form of Exhibit B, which the Tribe shall promptly execute, acknowledge and deliver to Lessee. Said affidavit shall evidence that Lessee has earned Participating Interests as specified in this Agreement for the Earned Acreage Unit designated for such Well.

6.08 VALUATION OF TRIBE'S ROYALTY INTEREST. The value of the Tribe's Royalty Interest shall be determined in accordance with the applicable provisions of Title 30 CFR existing at the time of production. Payment and reporting shall be made in accordance with the requirements of Titles 43 and 30 CFR. For royalty purposes, volumes of produced Minerals shall be measured and computed at the wellhead for each Well. Should Lessee desire to gather, collect and sell Minerals from central delivery facilities rather than at the wellhead, prior tribal approval shall be obtained regarding the location of such facilities and the formula of allocation of volumes, costs and proceeds relative to such central facilities.

6.09 ROYALTY IN KIND. The Tribe shall have the right to elect on thirty (30) days' prior written notice to take its Royalty Interest in kind. When such Royalty Interest is to be paid in kind, mineral production shall be delivered, unless otherwise agreed to by the Tribe, in merchantable condition at such time as may be required by the Tribe at the wellhead or such other location mutually acceptable to Lessee and the Tribe, without cost to the Tribe, unless otherwise agreed to by the parties hereto.

6.10 POOLING.

(a) Lessee shall have the right at its option to pool or combine portions of the Contract Acreage with other lands or leases when in Lessee's judgment it is necessary or advisable to do so in order to develop the Contract Acreage properly. Such pooling shall be in Spacing Units not to exceed 640 acres each for gas and 80 acres each for oil. Upon the pooling of a portion of the Contract Acreage into such a Spacing Unit, the Tribe's Royalty Interest shall be allocated its proportionate share of Minerals produced from such Spacing Unit, which share shall be determined by the surface acreage method specified in Section 1.10 (a).

(b) In order to exercise its right to pool, Lessee shall submit to the Tribe a Communitization Agreement in a form acceptable to the Tribe. Such agreement shall provide, among other things, that all lands pooled with the Contract Acreage shall be subject to federal and Tribal oil and gas regulation, as if such lands were part of the Contract Acreage. It is acknowledged by the parties that all activities conducted under this Agreement in a pooled Spacing Unit are matters impacting the general health and welfare of the Tribe, and it is the intent of the parties that such federal and tribal regulation shall be to the exclusion of other governmental regulation.

6.11 WATER DISPOSAL.

(a) Lessee shall dispose of water produced from any Well in a water injection well or by other means which are approved by the Tribe.

(b) In the event that produced water cannot be disposed of in a manner that is acceptable to the Tribe, then Lessee agrees to shut-in the Well as necessary. The shut-in period shall be a force majeure event pursuant to Section 9.02 until Lessee and the Tribe agree on acceptable water disposal methods.

ARTICLE 7.

TERM OF AGREEMENT

7.01 PRIMARY TERM. The Primary Term of this Agreement ("the Primary Term") shall be for two (2) years from the date of Secretarial Approval. On the date of expiration of the Primary Term, this Agreement shall continue in accordance with the following provisions:

(a) Should an Earned Acreage Unit contain a Well that has produced in paying quantities as defined in this Agreement and is either producing or is shut-in in accordance with Section 6.02, this Agreement shall continue as to the Contract Acreage (to earned depth) contained in such Earned Acreage Unit for so long as Minerals continue to be produced in paying quantities or for so long as shut-in royalty payments are permitted to be paid and are made in accordance with the provisions of Section 6.02.

(b) Should an Earned Acreage Unit contain a Well that has produced Minerals, but for less than an annual period, and is either producing or shut-in in accordance with Section 6.02, and should the Tribe and Lessee jointly believe that said Well is capable of producing in paying quantities, then this Agreement shall continue as to the Contract Acreage (to earned depth) contained in such Earned Acreage Unit for so long as Minerals continue to be produced in paying quantities or for so long as shut-in royalty payments are permitted to be made and are made in accordance with the provisions of Section 6.02.

(c) Unless otherwise agreed to by the parties, any portion of the Contract Acreage which is not included in a Spacing Unit that includes a Well from which actual production of Minerals in paying quantities has been achieved at the expiration of the Primary Term, shall no longer be deemed to be part of the Contract Acreage for purposes of exploration and production of Minerals.