

OIL AND GAS LEASE  
(Five-Year Paid-Up Lease)

783409

THIS AGREEMENT, made this 30<sup>th</sup> day of December, 1999,  
between Houston C. Lasater and Geri H. Lasater, husband and wife

Lessor (whether one or more), and Finney Land Co., PO Box 2471, Durango, CO 81302  
Lessee, WITNESSETH:

1. Lessor, in consideration of Ten and More Dollars (\$ 10.00 + ), in hand paid, the receipt and sufficiency of which is hereby acknowledged, of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas (including, but not limited to, gas producible from coal-bearing formations) and all substances produced in association therewith, laying pipe lines, building tanks, pumpstations, telephone lines, roads and other structures thereon to produce, save, take care of, treat, transport and own said products, and-housing-its-employees, the following described land (hereinafter called "said land"), in La Plata County, Colorado, to-wit:

Township 34 North, Range 7 West, NMPM (SUL)  
Section 12U: W<sub>1/2</sub>N<sub>1/2</sub>W<sub>1/2</sub> and NE<sub>1/4</sub>N<sub>1/2</sub>, E<sub>1/2</sub>N<sub>1/2</sub>W<sub>1/2</sub>, S<sub>1/2</sub>N<sub>1/2</sub>

(N200)

See Exhibit "A", attached to and made a part hereof for additional provisions.

of Section \_\_\_\_\_ Township \_\_\_\_\_ Range \_\_\_\_\_

In addition to said land, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all lands owned by or claimed by Lessor which are adjacent, contiguous to or form a part of said land, including all oil, gas, other hydrocarbons and all other minerals underlying lakes, rivers, streams, roads, easements and rights-of-way which traverse or adjoin any of said land. Said land shall be deemed to contain 160.0 acres, whether it actually comprises more or less.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, and/or to the discovery development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three years from this date (called "PRIMARY TERM") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder, or drilling or reworking operations are conducted thereon.

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3. The royalties to be paid by Lessee are: (a) on oil and other liquid hydrocarbons, one-eighth of that produced and saved from said land, the same to be delivered to 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 and the constituents thereof produced from said land and sold or used off the premises or in the manufacture of products therefrom, one-eighth of the market value at the well of the product sold or used. On product sold at the well, the royalty shall be one-eighth of the net proceeds realized from such sale. All royalties paid on gas sold or used off the premises or in the manufacture of products therefrom will be paid after deducting from such royalty Lessee's proportionate amount of all post-production costs, including but not limited to gas production and severance taxes, gathering and transportation costs from the wellhead to the point of sale, treating, compression, and processing. Lessee shall have free use of oil, gas, and water from said land, except water from Lessor's wells, streams, lakes and ponds, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

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4. If a well capable of producing gas and/or oil, in paying quantities is located on said land and is shut-in, before production commences, or at any time thereafter, this lease shall continue in effect for a period of one year from the date such well is shut-in. Lessee may thereafter, pay or tender to Lessor as royalty, on or before one year from the date such well is shut-in, an amount of \$100.00 per well, per year, and, if such payment or tender is made, such well shall continue this lease in effect for a further period of one year. In like manner and upon like payments or tenders annually made on or before each anniversary of the shut-in date of such well, such well shall continue this lease in effect for successive periods of twelve (12) months each. Notwithstanding any other provision to the contrary, this lease shall not terminate because of a failure to properly or timely make shut-in well payments unless Lessor shall have given Lessee written notice of such failure to properly or timely make such shut-in well payment and Lessee shall have failed for a period of thirty (30) days after receipt of such notice to tender such payment in the proper amount, together with a late or improper payment penalty of \$100.00.

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5. If at the expiration of the primary term Lessee is conducting operations for drilling or reworking on said land or shall have completed a dry hole thereon within one hundred eighty (180) days prior to the end of the primary term, or, if, after the expiration of the primary term, production on said land shall cease, from any cause, this lease nevertheless shall continue in full force so long as operations for drilling or reworking on any existing or succeeding well are being conducted with no cessation of more than one hundred eighty (180) consecutive days and, if such operations result in production, so long thereafter as oil or gas is produced from said land.

6. Lessee, at its option, is hereby given the right and power to pool or combine said land, 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 land, such pooling to be into a well unit or units not exceeding one hundred and sixty (160) acres, plus an acreage tolerance of ten percent (10%) of one hundred and sixty (160) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten percent (10%) of six hundred and forty (640) acres for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be permitted by governmental authorities having jurisdiction. Lessee may pool or combine said land, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which said land is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool said land 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. 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 or reworking operations thereon or production of oil or gas therefrom, or the location thereon of a well as a shut-in 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 shut-in well were on said land, whether or not the well or wells be located on said land. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of acreage from said land placed in the unit or Lessor's royalty interest therein 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 unitization identifying and describing the land added to the existing unit; provided, that if such supplemental declaration of unitization is not filed until after production is obtained on the unit as originally created, then and in such event the supplemental declaration of unitization shall not become effective until the first day of the calendar month next following the filing thereof. In the absence of production Lessee may terminate any unitized area by filing of record notice of termination.

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*off* Lessee who shall have the right to unite, pool, or combine all or any part of said land with other lands in the same general area by entering into a cooperative 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 such 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 compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In 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.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of said land and be relieved of all obligation as to the acreage surrendered. Lessee shall have the right within a reasonable time 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 pipe lines 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 damage to crops, or improvements, caused by or resulting from any operations of Lessee.

9. 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 of ownership of said land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of said 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 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.

10. Lessee shall not be liable for breach of covenant, express or implied, nor shall this lease be subject to forfeiture for breach of condition, nor shall this lease be terminated by operation of any limitation provision herein as a result of Lessee's failure to pursue drilling operations on or to produce oil or gas from said land or lands pooled therewith if such operations on or production from said land is prevented or substantially impeded by governmental action or other cause not reasonably within the control of Lessee. After the cessation or termination of such governmental action or other cause, Lessee shall be entitled to a reasonable time to commence drilling operations or to commence or resume production.

11. 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 the event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Lessee shall pay all taxes based on the production from said land, and shall deduct such taxes attributable to Lessor's interest from royalty due hereunder. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately.

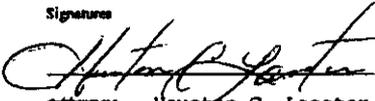
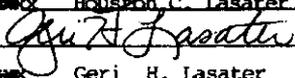
12. Lessor hereby releases and waives all right of dower and right of homestead under the laws of this state in and to said land to the extent of the rights granted by this lease.

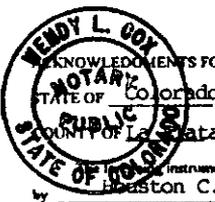
*off* 13. In the event that Lessee, during the primary term of this lease, receives a bona fide offer which Lessee is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of said land, herein, with the lease becoming effective upon expiration of this lease, Lessee 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 fifteen (15) days after 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 15-day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution on behalf of Lessor along with Lessee's collection check 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 shall promptly execute said lease and return the same along with the original draft to Lessee's representative 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.

IN WITNESS WHEREOF, this instrument is executed effective as of the date first above written.

Witness of Signatures	Signatures	Taxpayer Identification or Social Security Number
_____		_____
_____	Address: Houston, C. Lasater	_____
		_____
	Address: Geri H. Lasater	_____



KNOWLEDGMENTS FOR USE IN ARIZONA, OREGON, NEBRASKA, KANSAS, COLORADO, WYOMING, NORTH DAKOTA, NEW MEXICO  
STATE OF Colorado )  
COUNTY OF Larimer ) ss. (Individual(s) Acknowledgment)  
This instrument was acknowledged before me this 30<sup>th</sup> day of December, 1999  
by Houston C. Lasater and Geri H. Lasater, husband and wife

My Commission expires: 11/09/2002  
Wendy L. Cox  
Notary Public  
Address: P.O. Box 2471 Durango, CO 81302

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss. (Corporate Acknowledgment)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2000  
by \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission expires: \_\_\_\_\_  
Notary Public  
Address: \_\_\_\_\_

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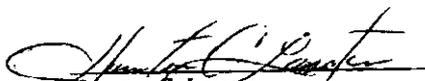
Exhibit "A"

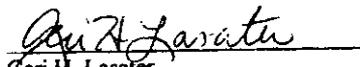
Attached to and made a part of that certain oil and gas lease dated December 30, 1999, by and between Houston C. Lastater and Geri H. Lastater, husband and wife, as Lessors, and Finney Land Co., as Lessee (hereinafter Lease).

1. Notwithstanding any provisions contained herein to the contrary, the royalty provided for in this oil and gas lease shall be three-sixteenths (3/16ths) of the market value at the well of gas produced sold and marketed by Lessee; however, in no event shall deductions from or charges made to such royalty payments exceed costs permitted by law nor shall such charges exceed actual costs which are charged to Lessees by 3rd parties. Both parties acknowledge that the ruling of the Colorado Supreme Court in the pending case *James P. Rogers vs. Westerman Farm Company* may affect the construction of this royalty clause.
2. Lessee agrees that it will not conduct any oil and gas operations, including without limitation placement of roads or pipelines on the described lands, on the W/2NW/4NW/4 of Section 12U, T34N, R7W, NMPM, without the prior express written consent of the Lessor.
3. This lease specifically covers Lessor's full mineral interest in the W/2NW/4NW/4 and only the mineral interest acquired from the heirs of George E. Fraham in the NE/4NW/4, E/2NW/4NW/4, S/2NW/4.
4. Lessee agrees to provide Lessor with a gas tap for Lessor's use in one principal dwelling that is located on the leased lands, subject to Lessor executing the "GAS USE AGREEMENT", attached hereto as Exhibit "B".
5. Paragraph No. 4 of the Lease shall be amended to provide for a shut-in royalty in the amount of \$400.00 per well, per year (which shall not be proportionately reduced). It shall also be amended so that the shut-in payment for a well shall continue this lease in effect for successive period of twelve (12) months each, not to exceed two (2) successive twelve month periods.
6. The term "unit" as used in paragraph No. 6 of the Lease shall refer to a drilling and spacing unit (together with the area communitized and/or pooled with respect thereto). No unit for oil in excess of 80 acres nor for gas in excess of 320 acres shall be formed by Lessee without the prior written consent of the Lessor, except that lands in Sec. 1U of T34N-R7W (SUL) shall be included within a unit if required by the Colorado Oil & Gas Conservation Commission.
7. Within thirty days following the end of the primary term of the Lease, this Lease shall terminate insofar as it covers depths greater than 200 feet below the deepest depth from which oil and/or gas is then being produced. In the event drilling or reworking operations are being conducted on the Lease at the end of the primary term, the time period for such termination shall run from the date of completion or plugging of the well which was being drilled at the end of the primary term.

Signed for Identification:

LESSOR:

  
Houston C. Lastater

  
Geri H. Lastater

LESSEE:

FINNEY LAND CO.

  
Michael F. Finney, President