

MINERALS AGREEMENT

791649

(SG Interests V, Ltd.)

This Agreement, dated this ____ day of _____, 19____, 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 SG INTERESTS V, LTD., 1331 Lamar, Suite 501, Houston, Texas 77010 ("Lessee").

RECITALS:

A. Lessee desires to explore for and produce oil and gas minerals from five 5 proposed three hundred twenty (320) acre spacing units which include unleased tribal mineral lands within the Southern Ute Indian Reservation.

B. Additionally, Lessee desires the opportunity to expand its operations in the event its initial exploratory activities justify such expansion.

C. 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.

D. 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 I.

DEFINITIONS

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

1.01 **ADDITIONAL WELL** shall mean any Well drilled pursuant to the provisions of Article 4, including without limitation wells drilled during the Primary Term and Extended Term.

1.02 **CONTRACT ACREAGE** shall mean 960.00 acres, more or less, of Southern Ute tribal land in La Plata County, Colorado, as more particularly described in Section 2.01.

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 12U: SW/4, W/2E/2
 Section 13U: N/2, SW/4
 Section 14U: SE/4
 Containing 960.00 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.

INITIAL PAYMENT AND TEST WELL

3.01 ACREAGE PAYMENT. Upon approval of this Agreement by the Secretary of the Interior or his authorized delegate ("Secretary Approval"), Lessee shall pay to the Tribe the sum of Forty Eight Thousand Dollars (\$48,000), representing a payment of Fifty Dollars (\$50.00) per

Acreage not within an Earned Acreage Spacing Unit. Should Lessee fail to pay the additional bonus described above, this Agreement will terminate as to the Contract Acreage not within an Earned Acreage Spacing Unit.

(d) During the Extended Term, Lessee shall have the right to drill such Additional Wells on each Earned Acreage Unit in accordance with applicable spacing requirements and surface location review procedures.

(e) If during the Extended Term production from a Well holding a portion of Contract Acreage within an Earned Acreage Unit ceases and Lessee determines to abandon said Well, said Earned Acreage Unit shall no longer be held by Lessee as part of the Contract Acreage, unless, within ninety (90) days of the date of cessation of production, Lessee commences actual drilling of a new Well or reworking the existing Well in said Earned Acreage Unit and diligently and continuously proceeds to complete said Well as a producing Well. In the event that such a replacement Well is drilled or reworked in a timely manner and completed as a producing Well, then said Earned Acreage Unit shall continue to be held by Lessee in accordance with the other provisions of this Agreement.

4.03 INTEREST EARNED BY SUBSEQUENT DEVELOPMENT. For each Additional Well drilled in accordance with this Article 4 on the Contract Acreage or on lands pooled therewith, Lessee shall earn a one hundred percent (100%) Participating Interest in the Earned Acreage Unit for such Well, in and to all formations from the surface down to one hundred (100') feet below the base of the deepest formation tested, in said Earned Acreage Unit, subject to a proportionate one eighth (1/8) Royalty Interest held by the Tribe in all Minerals in and under the Contract Acreage.

4.04 FAILURE TO DRILL. The Tribe's sole remedy for a failure to drill any Wells in accordance with this Agreement shall be (i) in the case of the Initial Test Well, the Lessee will pay the Tribe the sum of Nine Thousand Six Hundred (\$9,600); and (ii) in the case of the Additional Wells, the Lessee will pay the Tribe the Ten Dollars (\$10) per net acre of tribal mineral lands in the Contract Acreage not contained within an Earned Acreage Unit held by production at the end of the initial three year term of this agreement.

4.05 SURRENDER OF LEASE. Lessee shall have the right at any time without the Tribe's consent to surrender all or any portion of the Contract Acreage and be relieved of all obligations as to the acreage surrendered, except as to those obligations outlined in Article(s) 3.04 & 4.04 above. Lessee shall have the right to within a reasonable time after the expiration of this Agreement to remove all property and fixtures placed by Lessee on said Contract Acreage, including the right to draw and remove all casing, except in those wells which the Tribe has made an election to take over a Well, in accordance with Article 7.01 (c).

ARTICLE 5.

COSTS AND INTERESTS IN WELLS

5.01 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.

5.02 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 one eighth (1/8) Royalty Interest in the Contract Acreage included in such Earned Acreage Unit held by the Tribe. The Royalty Interest in the Contract Acreage held by the Tribe will convert to a proportionate fifteen percent (15%) five (5) years after Secretarial Approval of this Agreement.

5.03 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 6.

GEOLOGICAL INFORMATION AND REPORTS

6.01 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

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.

7.10 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 1.12(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.

7.11 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.

7.12 PLUGGING OF EXISTING WELLS.

Lessee shall have the responsibility to plug and abandon the Echols Ute #2-12U after completion of operations to re-establish production if such operation is unsuccessful, pursuant to Section 7.01. The Tribe will indemnify and agree to hold Lessee harmless against all costs and liabilities associated with the Echols Ute #2-12U subsequent to the proper abandonment operations.

The Tribe shall reimburse Lessee Twenty Two Thousand Dollars (\$22,000.00) within fifteen (15) days of notification from the appropriate governmental authority that the Echols Ute #2-12U Well has been properly abandoned. Said payment shall be made by wire transfer or cashiers check in accordance with instructions given by Lessee at that time.

and are not reasonably controllable or preventable by Lessee, provided that Lessee strictly complies with the procedures outlined below.

(a) Within five (5) days after suspending any operation pursuant to force majeure conditions, Lessee shall provide the Tribe written notice setting forth the precise nature of the force majeure, the scope of operations suspended, and the anticipated period of suspension. Upon recommencing the suspended operations, Lessee shall promptly notify the Tribe of the termination of those conditions for which suspension was necessitated.

(b) In the event that notification of a force majeure condition is not timely made as provided herein, it shall be conclusively presumed that a force majeure condition did not exist for any time period more than five (5) days prior to the date of actual notification.

9.03 CONSENT TO JURISDICTION.

(a) Lessee and the Tribe acknowledge that the matters related to the performance of this Agreement are matters in which the Tribe has a paramount subject matter interest. Should a dispute arise between the parties, which is not resolved following good faith efforts to do so through negotiation, or should any third party challenge or contest any activity undertaken pursuant to this Agreement, the matter in dispute shall be submitted to jurisdiction of the Southern Ute Indian Tribal Court for resolution. Should the matter in dispute also be subject to federal court jurisdiction, then, following the exhaustion of tribal administrative and judicial remedies, and following the exhaustion of federal administrative remedies, if applicable, said matter may be submitted by either party to the federal court for appellate review as permitted by law. As between parties to this Agreement, a prevailing party shall be entitled to an award of reasonable attorney's fees, costs and expenses incurred in those judicial proceedings resulting in the favorable decision.

(b) For the limited purposes of interpreting this Agreement and for obtaining performance of this Agreement, the Tribe hereby waives its sovereign immunity from suit in the forums provided for above, and the Tribe shall be deemed a necessary party in any judicial or administrative proceeding in which the terms of this Agreement or operations conducted hereunder are substantially at issue. This limited waiver of immunity is not intended to constitute a waiver of the Tribe's immunity from damage claims brought against the Tribe or its officials by any person or entity that is not a party to this Agreement.

9.04 ASSIGNMENTS - PREFERENTIAL RIGHTS.

(a) Except as provided herein, neither Lessee, its successors or assigns shall assign, directly or indirectly, any right obtained under this Agreement or any interest in the Contract Acreage.

(b) No assignment of any right obtained under this Agreement or any interest in the Contract Acreage, including overriding royalty interests, shall be of any validity unless and

Affairs. Perfection and recording of such security interests shall be conducted in accordance with applicable federal and tribal law or regulation. In no event shall such security interest obtain a higher priority, lien or security position than the Tribe's perpetual governmental lien on Royalty Interest proceeds and severance tax obligations.

9.06 REMEDIES. Except where in conflict with the provisions of this Agreement or federal or tribal law, the parties shall have all the remedies available to them under the laws of Colorado with regard to any breach of the terms and condition hereof, and for purposes of this Agreement, where no conflict would exist between federal or tribal law and the terms of this Agreement, the laws of the State of Colorado shall govern the rights, obligations and remedies of the parties.

9.07 CONFLICTS. In the event of a conflict between the terms of this Agreement and the terms of any of the exhibits hereto, the terms of this Agreement shall control.

9.08 SECRETARY OF INTERIOR APPROVAL. This Agreement is subject to the requirement of approval hereof by the Secretary of the Interior or his authorized delegate. If such approval is not received on or before 90 days from the date of this Agreement, Lessee shall have the option, upon written notice to the Tribe, to terminate this Agreement with no liability whatsoever to Lessee or to the Tribe.

9.09 INUREMENT. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

9.10 ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding between the parties and supersedes any and all prior agreements, understandings and negotiations, written or oral, relating to the subject matter hereof.

9.11 AMENDMENTS. The Agreement may be modified and amended only by written instrument executed by the parties hereto, subject to approval of the Bureau of Indian Affairs, where applicable, under the provisions of 25 CFR Part 225.

