

OIL AND GAS LEASE

Ann Spomer, Recorder

THIS AGREEMENT made this 16th day of October 3-1 1970, between UNION PACIFIC RAILROAD COMPANY, a Utah corporation authorized to do business in the State of Colorado, Lessor, and PAN AMERICAN PETROLEUM CORPORATION, a Delaware corporation authorized to do business in said State, Lessee, INDEXED

WITNESSETH:

1. Lessor, for a good and valuable consideration, receipt of which is hereby acknowledged and in consideration 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 (gas for all purposes being defined without limitation, to include dry gas, casinghead gas, distillate, condensate, helium and all other gaseous substances), and associated liquid hydrocarbons, and, subject to the provisions of Sections 14, 15 and 16 hereof, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products and housing its employees, the following described land in Weld County, Colorado to-wit:

See description on attached Exhibit "A"

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In addition to the land above described, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all oil, gas and associated liquid hydrocarbons underlying lakes, rivers, streams, roads, easements and rights-of-way (other than railroad rights-of-way) which traverse or adjoin any of said lands. For rental payment purposes, the land included within this lease shall be deemed to contain 5,737.27 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of 6 years from its date (called "primary term") and as long thereafter as oil, gas or associated liquid hydrocarbons or any of them are produced from said land hereunder, or drilling or reworking operations are conducted thereon.

3. Lessee, within three months from the date of this lease, shall commence the actual drilling of a test well on the leased premises; and thereafter shall prosecute the drilling of said well diligently, without unnecessary delay and in a workmanlike manner. If the actual drilling of said well is not commenced within the time prescribed, this lease will automatically terminate.

4. The royalties to be paid by Lessee are: (a) on oil and on associated liquid hydrocarbons, 15% of that produced and saved from said land, the same to be delivered free of cost at the wells, or to the credit of Lessor into the pipe line to which the wells may be connected; (b) on gas produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the well of 15% of the gas so sold or used; provided that on gas sold at the wells the royalty shall be 15% of the amount realized from such sale. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

While there is a well on the leased premises or on acreage pooled therewith capable of producing only gas, but from which well production is not being sold or used, and in the absence of oil or other production from said premises, this lease shall be extended for a period of 90 days from the date such well is shut-in, and Lessee may tender or pay annually as royalty a sum equal to the amount of annual rentals which would be payable during the primary term to defer drilling operations on the leased premises then subject to this lease; payment or tender of such royalty to be made as provided in Section 6 hereof, with the first payment to be made on or before 90 days from and after the date on which such well is shut-in and a similar payment to be made annually thereafter on or before the anniversary date on which such well is shut-in. If such payments are so made, it shall be considered that gas is being produced in paying quantities from the leased premises under all the terms and provisions of this lease.

If any portion of the leased premises is included in a pooled unit, the amount of the shut-in royalty applicable to the Lessor's interest therein shall be reduced in the proportion that the amount of Lessor's net mineral acres included in any such pooled unit upon which such gas well is situated bears to the total acreage contained in such pooled unit as provided in Section 7 hereof.

Lessee shall use reasonable diligence to market gas capable of being produced in paying quantities from a shut-in well, but shall be under no obligation to market same under terms, conditions or circumstances which, in Lessee's good faith judgment, are unreasonable or unsatisfactory.

Lessee may from time to time purchase any royalty portion of oil or associated liquid hydrocarbons in its possession, paying the market price thereof prevailing in the field where produced on the date of purchase; provided, however, that if Lessor shall so elect, Lessee shall deliver to Lessor in kind its royalty share of oil and associated liquid hydrocarbons. In the event of such election, Lessor shall give to Lessee not less than 60 days' notice of its election and shall take said royalty share in kind for a period of not less than six (6) months following the termination of said sixty (60) day period. Any such deliveries are to be made from the facilities of Lessee, which shall have been installed for its own convenience at times and in amounts which equitably adjust deliveries of both parties.

5. If the well provided for in Section 3 hereof is drilled and completed as a dry hole and if operations for drilling are not commenced on said land as hereinafter provided on or before one year from this date, the lease shall then terminate as to both parties, unless on or before such anniversary date Lessee shall pay or tender to Lessor, Attn: Assistant Treasurer, Natural Resources Division-Petroleum, P. O. Box 3457, Enid Oklahoma, 73701, the sum of Five Thousand Seven Hundred Thirty-Seven and 27/100 Dollars (\$5,737.27) (herein called rental), which shall cover the privilege of deferring commencement of operations for drilling for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of operations for drilling may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental herein referred to may be made in currency, draft or check at the option of the Lessee; and the depositing of such currency, draft or check in any post office, properly addressed to the Lessor, on or before the rental paying date, shall be deemed payment as herein provided. Lessee may at any time execute and place of record a release or releases covering any portion or portions of the above described premises, furnishing a copy thereof to Lessor, and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

If Lessee shall, on or before any rental date, make a bona fide attempt to pay rental to Lessor and if such payment shall be in an incorrect amount, Lessee shall be unconditionally obligated to pay to Lessor the rental properly payable for the rental period involved, but this lease shall be maintained in the same manner as if such erroneous rental payment had been properly made, provided that the erroneous rental payment be corrected within thirty (30) days after receipt by Lessee of written notice from such Lessor of such error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

6. Should any well drilled in the above described land during the primary term before production is obtained be a dry hole, or should production be obtained during the primary term and thereafter cease, then and in either event, if operations for drilling an additional well are not commenced or operations for reworking an old well are not pursued on said land on or before the first rental paying date next succeeding the cessation of production or drilling or reworking on said well or wells, then this lease shall terminate unless Lessee, on or before said date, shall resume the payment of rentals. Upon resumption of the payment of rentals, Section 5 governing the payment of rentals, shall continue in force just as though there had been no interruption in the rental payments. If during the last year of the primary term and prior to the discovery of oil, gas or associated liquid hydrocarbons on said land Lessee should drill a dry hole thereon, or if after discovery of oil, gas or associated liquid hydrocarbons before or during the last year of the primary term the production thereof should cease during the last year of said term from any cause, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, Lessee is conducting operations for drilling a new well or reworking an old well, this lease nevertheless shall continue in force as long as such drilling or reworking operations continue, or if, after the expiration of the primary term, production on this lease shall cease, this lease nevertheless shall continue in force if drilling or reworking operations are commenced within sixty (60) days after such cessation of production; if production is restored or additional production is discovered as a result of any such drilling or reworking operations, conducted without cessation of more than sixty (60) days, this lease shall continue as long thereafter as oil, gas or associated liquid hydrocarbons are produced and as long as additional drilling or reworking operations are had without cessation of such drilling or reworking operations for more than sixty (60) consecutive days.

7. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, 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 premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten per cent (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 prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, 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 the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to areas with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease 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 completion thereof of a well as a shut-in gas 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 completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. 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 its net mineral acres placed in the unit 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.

This Section 7 shall not affect the provisions of Section 3.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligations as to the acreage surrendered arising subsequent to the date of surrender. Lessee shall have the right at any time during or within one year 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.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the successors and assigns of the parties hereto, but no change or division in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land, or any interest therein, shall be binding on Lessee until Lessee shall be furnished with a certified copy of all recorded instruments, all court proceedings and all other necessary evidence of any transfer, inheritance, or sale of said rights. In event of the assign-

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ment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned among the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

10. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation, or if prevented by an act of God, of the public enemy, labor disputes, inability to obtain material, failure of transportation, or other cause beyond the control of Lessee other than financial.

11. If, during the term of this lease, oil or gas or associated liquid hydrocarbons are discovered upon the leased premises, but Lessee is prevented from producing the same by reason of any of the causes set out in this Section, this lease shall nevertheless be considered as producing and shall continue in full force and effect until Lessee is permitted to produce the oil, gas or associated liquid hydrocarbons, and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

12. Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. If Lessor owns an interest in said land less than the entire fee simple estate in and to oil, gas and associated liquid hydrocarbons, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

13. This lease does not cover oil shale.

14. The rights granted under this lease are granted without covenants of title or to give possession or for quiet enjoyment.

15. Lessor reserves the right to use such portions of the leased premises as may not be required by Lessee in the conduct of its operations hereunder, for all purposes not inconsistent with the rights granted hereby, and Lessee shall so conduct its operations as not to interfere unreasonably with such use; provided, nevertheless, that the use of the leased premises by the Lessor shall not unreasonably interfere with the operations of the Lessee.

16. Lessee shall not make any entry upon or under any portion of the right of way or station grounds of Lessor for any of the purposes of this lease, and shall not drill any well or maintain any structures within two hundred feet (200') (a) of any railroad tracks or buildings on said right of way or station grounds, or (b) of any buildings upon the leased premises.

17. Notwithstanding anything to the contrary in this lease contained, no well shall be drilled upon or into and no facilities shall be installed upon any lands in which Lessor owns the mineral rights only, until the consents of the surface owners have been obtained under written instruments satisfactory to Lessor. Lessor will endeavor to obtain such consents and the Lessee agrees to cooperate. Any payments which the Lessor elects to pay to the surface owners shall be paid by Lessor out of its royalty.

18. Lessee shall pay for all damage to surface owners' lands, buildings and growing crops caused by construction, operations or maintenance of facilities, shall bury all pipe lines below plow depth where they cross cultivated lands, shall construct gates where necessary for crossing fenced lands and keep the gates in repair and closed, and shall indemnify Lessor with respect to such obligations.

19. Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action for injury to or loss or destruction of property, and for injury to or death of any person, arising out of or in connection with operations hereunder.

20. Lessee shall not permit or suffer any lien or other encumbrance to be filed or to remain against the leased premises as a result of its operations hereunder, and Lessee agrees to hold Lessor harmless from and to indemnify it against any and all claims, demands, actions and causes of action which may result from the filing of any such lien or encumbrance.

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

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

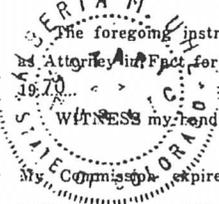
UNION PACIFIC RAILROAD COMPANY

By J. A. Redeker  
Its Attorney in Fact

STATE OF COLORADO }  
COUNTY OF ARAPAHOE } ss.

Colorado-Wyoming  
Acknowledgment

The foregoing instrument was acknowledged before me by J. A. Redeker  
As Attorney in Fact for UNION PACIFIC RAILROAD COMPANY, this 16th day of October



Albert M. Hal  
Notary Public

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ } ss.

Utah-Nebraska  
Acknowledgment

On the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, personally appeared before me, a Notary Public in and for said County, \_\_\_\_\_, personally known to me, who, being by me duly sworn did say that he is the Attorney in Fact of UNION PACIFIC RAILROAD COMPANY and that said instrument was signed as his voluntary act as Attorney in Fact for and in behalf of said corporation by authority and said \_\_\_\_\_ acknowledged to me that he, as such Attorney in Fact, executed the same.

WITNESS my hand and notarial seal the date last aforesaid.

Notary Public

My Commission expires \_\_\_\_\_

1556608

OIL AND GAS LEASE

FROM  
UNION PACIFIC RAILROAD COMPANY  
TO  
PAN AMERICAN PETROLEUM CORPORATION

Date of \_\_\_\_\_, 19\_\_\_\_  
Section \_\_\_\_\_ Township \_\_\_\_\_ Range \_\_\_\_\_  
No. of Acres \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF Colorado  
COUNTY OF Weld } ss.

This instrument was filed for record on the  
day of OCT 26 1970  
19\_\_\_\_ at 2:57 o'clock P M., and duly  
recorded in book 635 page \_\_\_\_\_ of  
the records of this office.

By Ann Spomer  
Keselle M. Kearney

When Recorded Return to \_\_\_\_\_

600038

LEASE DESCRIPTION - EXHIBIT "A"

<u>Township 3 North - Range 64 West</u>		
Section 1:	Lot 2 (N/2 NW/4) (79.69), S/2 NW/4, S/2	479.69
Section 3:	Lot 2 (N/2 NW/4) (78.87), S/2 NW/4, S/2	478.87
Section 7:	Lots 1 and 2 (W/2 W/2) (138.32), E/2 W/2, SE/4	458.32
Section 9:	NW/4, S/2	480.00
Section 15:	NW/4, S/2	480.00
Section 17:	NW/4, S/2	480.00

<u>Township 3 North - Range 65 West</u>		
Section 1:	Lots 3 and 4 (N/2 NW/4) (80.60), S/2 NW/4, S/2	480.60
Section 5:	Lots 3 and 4 (N/2 NW/4) (79.79), S/2 NW/4, S/2	479.79
Section 9:	NW/4, S/2	480.00
Section 11:	NW/4, S/2	480.00
Section 13:	NW/4, S/2	480.00
Section 15:	NW/4, S/2	480.00

Containing 5,737.27 acres, more or less, Weld County, Colorado.

A F F I D A V I T

10/2/70

STATE OF NEBRASKA )  
                          ) ss  
COUNTY OF DOUGLAS )

H. R. WILLIAMS, being first duly sworn, deposes and says that he is General Manager Property of the Land Division of the Union Pacific Railroad Company; that he has jurisdiction over real property matters and records of said Company; that by Patent No. 48, dated April 12, 1902, recorded July 9, 1902, in Book 201 at Page 71 and following, in the office of the County Clerk and Recorder of Weld County, Colorado, The United States of America granted to Union Pacific Railroad Company, with other lands, Section 3, Township 3 North, Range 64 West of the Sixth Principal Meridian; that by Warranty Deed dated July 27, 1909, recorded August 11, 1909, in Book 233 at Page 246 and following, in the Office of the County Clerk and Recorder of Weld County, Colorado, said Union Pacific Railroad Company conveyed to John P. Klug, said described lands, excepting from said Warranty Deed and reserving to said Union Pacific Railroad Company, its successors and assigns, among other things, the following:

"First: All coal and other minerals within or underlying said lands.

"Second: The exclusive right to prospect in and upon said land for coal and other minerals therein, or which may be supposed to be therein, and to mine for and remove, from said land, all coal and other minerals which may be found thereon by any one.

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"Third: The right of ingress, egress and regress upon said land to prospect for, mine and remove any and all such coal or other minerals, and the right to use so much of said land as may be convenient or necessary for the right-of-way to and from such prospect places or mines, and for the convenient and proper operation of such prospect places, mines, and for roads and approaches thereto or for removal therefrom of coal, mineral, machinery, or other material."

Affiant further deposes and says that the official records of the County of Weld, State of Colorado, were examined on September 16, 1970, and that such examination does not disclose any evidence adversely affecting Union Pacific Railroad Company's title to said minerals and mineral rights.

Further Affiant saith not.

*J. A. Williams*

Subscribed and sworn to before me, a Notary Public in and for the County and State aforesaid, this 2nd day of October, 1970.

My commission expires April 22, 1972.

*J. A. Williams*  
Notary Public