COUNTY OF LARIMER STATE OF COLORADO

OIL AND GAS LEASE

THIS AGREEMENT, entered into this 18th day of December, 1981, but effective for all purposes as of the 18th day of August, 1981, between JOHN H. CARLSON, a single man, and MARIAN CARLSON, by John H. Carlson, Attorney-in-Fact, [redacted], Zeta 7 [illegible] Loveland, Colorado 80537, hereinafter called "Lessor", whether one or more, and PHOENIX EXPLORATION CORP., whose address is 7200 [illegible] Denver, Colorado 80237, hereinafter called "Lessee".

1. Lessor, for and in consideration of the sum of Ten Dollars ($10.00) in hand paid and of the covenants and agreements hereinafter contained to be performed by the Lessee, has this day granted, leased and let and by these presents does grant, lease and let exclusively unto the Lessee the following described lands for the purpose of exploring, by geological, geophysical and other exploratory work, including seismic [illegible], the drilling, mining and operating for producing and marketing oil or gas oil, gas, casinghead gas, casinghead gasoline and all other gases and their respective constituent vapors, in accordance with the provisions of paragraph 11 hereof, for [illegible] roads, laying pipe lines, building tanks, storing [illegible] power stations, telephone lines and other structures thereon necessary for the operation of said land, to produce and take care of all of such substances, said tract of land with reversionary rights thereon being situated in the County of Larimer, State of Colorado, and described as follows:

Township 3 North, Range 68 West, 6th P.M.
Section 16: N½NW¼

and containing 80 gross acres more or less.

2. It is agreed that this lease shall remain in full force for a term of one year from this date and as long thereafter as oil and gas, or either or them, is produced from said lands in paying quantities or the premises are being developed or operated as hereinafter provided.

3. In consideration of the premises the said Lessee covenants and agrees:

a. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect its wells, the equal sixteen per cent (16%) part of all oil produced and saved from the leased premises.

b. The Lessee shall monthly pay lessor as royalty on gas marketed from the [illegible] gas only is found, sixteen per cent (16%) of the gross proceeds. The Lessee shall pay the Lessor: (i) sixteen per cent (16%) of the gross proceeds received by the lessee from the sale of casinghead gas produced from any oil well, (16) sixteen per cent (16%) of the value, at the point of use including the value of any liquids extracted) computed at the prevailing market price, of the casinghead gas produced from any oil well and used by Lessee off the leased premises for any purpose or used on the leased premises by the Lessee for purposes other than the development and operation thereof. In no event shall Lessee bear any cost of transportation or marketing with respect to Lessor's royalty share of oil, gas and liquids. Lessor shall have the privilege, at his own risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling located on the leased premises by making his own connections thereto. The taking and use of said gas to be at the Lessor's sole risk and expense at all times. The word "operations" as used herein shall be held to mean any work or actual operations under taken or contemplated in

good faith for the purpose of carrying out any of the rights, privileges or duties of the Lessee under this lease, pursued diligently and in due course by the construction of a derrick and other necessary structures for the drilling of an oil or gas well and by the actual operation of drilling on the ground.

[illegible] Where gas from a well on said land, capable of producing gas only, is not sold or used, with reasonable diligence, Lessee shall pay or tender as advance royalty the sum of [illegible] Dollars ($[illegible]) commencing on the first day of the month next succeeding the date of such well and continuing during each [illegible] thereafter as such gas is not sold or used, PROVIDED that any such payment or tender by Lessee to Lessor shall be considered as advance royalty to be repaid to Lessee from any royalties which thereafter become payable to Lessor hereunder, and Lessee is authorized to deduct the same from royalties so accruing due and payable. While said advance royalty is so paid or tendered during such time as gas is not sold or used, this lease shall be held as a producing property under paragraph number 2 hereof; provided, however, this lease shall not be so held beyond December 31, 1984.

4. If operations for the drilling of a well for oil or gas are not commenced on said land on or before the 11th day of February, 1984, this lease shall terminate as to both parties, unless the Lessee shall on or before said date pay or tender to the Lessor or for the Lessor's credit in the First National Bank of Loveland, at Loveland, Colorado 80537, or its successors, which bank and its successors are the Lessor's agent and shall continue as the depository of any and all sums payable under this lease regardless of changes of ownership in said land or in the oil and gas or in the rentals to accrue hereunder, the sum of Six Thousand Dollars ($6,000.00), which shall operate as a rental and cover the privilege of deferring the commencement of operations for drilling for a period of six months. All payments or tenders may be made by check or draft of Lessee or any assignee thereof, delivered on or before the rental paying date, either direct to Lessor or assigns or to said depository bank and it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable as aforesaid, but also the Lessee's option of extending that period as aforesaid and any and all other rights conferred.

5. If said Lessor owns a less interest in the above-described land than the entire undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the Lessor only in the proportion which his interest bears to the whole and undivided fee.

6. The Lessee shall have the right to use, free of cost, gas and oil found on said land for the operations thereon. When required by Lessor, the Lessee shall bury its pipe lines below plow depth. No well shall be drilled near than 200 feet the house or barn now on said premises without written consent of the Lessor. Lessee shall have the right at any time within 90 days after the expiration of this lease to remove all machinery, fixtures, houses, buildings and other structures placed on said premises, including the right to draw and remove all casing. Lessee agrees, upon the completion of any producing well, to restore the premises to their original condition and contour as near and as practicable and to remove all installations within a reasonable time.

7. The rights of Lessee may not be assigned unless prior written consent of Lessor is obtained in each instance. In the event the Lessor assigns its interest in this lease, Lessee shall not be bound to tender rentals to any other place until Lessee

has received 30 days' advance written notice of a certified change of ownership.

8. It is hereby agreed that in the event this lease shall be assigned as to a part or as to parts of the above described land and the holder or owner of any such part or parts shall make default in the payment of the proportionate part of the rent or advance royalty due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part of said land upon which the Lessee or any assignee hereof shall have made payment of said rentals or advance royalty.

9. Lessor hereby agrees that the Lessee, at its option, may pay and discharge in whole or part any taxes, mortgages, or other liens inclusive, levied, or assessed on or against the above described land and, in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

10. Notwithstanding anything in this lease contained to the contrary, it is expressly agreed that if Lessee shall commence operations for drilling at any time while this lease is in force, this lease shall remain in force, and its terms shall continue ~~[illegible]~~ so long as such operations are prosecuted and, if production results therefrom, then so long as production continues.

11. It is understood by and between the parties hereto that the surface of the leased premises contains a system of irrigation ditches, which system is sensitive to and easily damaged by the presence of operations which require the use of vehicles, machinery and other heavy equipment. Therefore, Lessee shall conduct its operations upon the leased premises in such a manner as to minimize the damage to the surface of the ground and to prevent damage to said irrigation system. It is further agreed that Lessee, prior to entry upon the land, shall consult with Lessor and his tenant, if any, concerning access to the drillsite so as to reach a mutually acceptable agreement with respect to minimizing the amount of acreage to be used by Lessee in its operations hereunder, it being intended that so far as possible such access shall be limited to existing roadways on the premises and if new roadways need to be constructed, same shall so far as practicable be located close to the exterior boundaries of the leased premises so as to limit interference with cultivatable acreage. ~~Any and all~~ Damages which may occur to the irrigation system, growing crops, including pasture grass, timber, livestock, fences and other improvements, and surface of the leased premises by reason of Lessee's operations thereon shall be paid for by Lessee to Lessor and his tenant as their respective interests shall appear. All damage so inflicted shall be paid for by Lessee but in no event shall such payments total less than $7,500 for each well location. Further, Lessee shall promptly restore the irrigation system and surface of the land to its original condition and contour as near as practicable, after damage thereto, if any.

12. In the event paying quantities of oil or gas, or both, are found on said premises, Lessee agrees to produce the same. The term "paying quantities of oil and/or gas" shall mean production of oil and/or gas in sufficient quantities to yield a reasonable profit over and above the cost of operating the well from which the oil and/or gas is produced.

13. This lease and all its terms, conditions and stipulations shall extend to and be binding on each of the parties who signs this lease, regardless of whether such Lessor is named above and

[illegible] warrants and agrees to [illegible] and herein described. In the event Lessee is made aware of [illegible] with Lessor's title, Lessee may suspend [illegible] royalties and shut-in royalties [illegible] been furnished satisfactory evidence that [illegible] has been resolved in Lessor's favor.

16. If laws of Colorado require that the mineral interests leased hereunder be pooled, Lessee shall have the right but not the obligation to pool or unitize all or any part of the leased premises or interest therein with any other lands or interest therein with any other lands or interest to any or all depths and as to oil or gas or both. Production, drilling or reworking operations anywhere on a unit which includes all or part of the leased premises shall be treated as if there were production, drilling or reworking operations on the leased premises.

17. Operations shall commence on a second well six (6) months from date of completion of the first well. If Lessee fails to commence drilling within said time, Lessee shall pay until Lessor the sum of One Thousand and no/100 Dollars ($1,000.00) per month for each month, or part thereof, which passes after completion of the first well but during which drilling on the second well has not commenced. Said payments shall continue until drilling on the second well commences or until this lease is terminated, whichever shall first occur.

18. For all purposes herein, this lease shall have an effective date of the 10th day of August, 1983.

IN WITNESS WHEREOF, the undersigned parties have executed this lease the day and year first above written to be binding on each party executing it and such heirs, devisees, successors and assigns, whether or not it is executed by all parties hereinabove named.

LESSOR:

John H. Chilson

Marian Chilson

Marian Chilson
by John H. Chilson, Attorney
in Fact
(Power of Attorney attached)

GRANTEE:

PHOENIX PETROLEUM CORP.

By [illegible]

Its

STATE OF COLORADO)

) ss.

COUNTY OF [illegible])

The foregoing instrument was acknowledged and signed before me this [illegible] day of December, 1983, by John H. Chilson, individually and as Attorney-in-Fact for Marian Chilson.

My Commission Expires [illegible] 12, 1986

Eileen K. [illegible]

Notary Public