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Vada Wood Recorder, Dolores Co. Colorado, 78

P 374

OIL AND GAS LEASE

THIS AGREEMENT made and entered into this 5th day of September 1975 by and between

William E. Smart and Virginia P. Smart R/A

hereinafter called the lessor (whether one or more), whose Post Office address is Calhoun, Colorado 81320

and MOUNTAIN FUEL SUPPLY COMPANY, a Utah corporation at 180 East 1st South, Salt Lake City, Utah 84111 hereinafter called the lessee:

WITNESSETH

1. That the lessor, for and in consideration of the sum of Two and No More Dollars in hand paid by the lessee, the receipt and sufficiency of which is hereby acknowledged, and of the covenants and agreements herein contained on the part of the lessee to be paid, kept and performed by the lessee, does grant, demise, lease and let exclusively unto the lessee, its successors and assigns, for the purpose of investigating, exploring, prospecting, drilling, mining, and otherwise for and producing oil, liquid hydrocarbons, all gases (including natural gas, propane, butane, and their respective constituent products, including gas, water, other fluids, and air into subsurface strata and conducting secondary recovery operations, laying pipelines, storing oil, building tanks, power stations, roads, telephone lines, and other structures and things thereon to produce, save, take care of, treat, manufacture, process, store and transport said oil, liquid hydrocarbons, gases, and their respective constituent products and other products manufactured therefrom, and all other rights and privileges necessary, incident or convenient for the economical operation of said lands, alone or jointly with neighboring lands, the following described premises, situate in Township 40 North Range 18 West County of Dolores State of Colorado to wit:

Section 14: S2, S3, S4

Section 23: NE1, E1, SE1

containing 320.00 acres, more or less, hereby releasing all rights under and by virtue of the Homestead Exemption of said state.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of ten (10) years from this date (called "primary term"), and as long thereafter as oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, is or can be produced from said lands or land with which said land is pooled by the lessee.

3. The royalties to be paid by lessee are: (a) on oil, and other than liquid hydrocarbons saved at the well, one-eighth (1/8) of that produced and saved from said land, same to be delivered at the well or to the credit lessor in the pipeline to which the wells may be connected, or lessee, at its option, may pay to lessor for each one-eighth (1/8) royalty, the market price at the well for oil of like grade and gravity prevailing at the time of production; (b) on gas, including casinghead gas and all gaseous substances 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 mouth of the well of one-eighth (1/8) of the gas so sold or used, provided that on gas sold at the well the royalty shall be one-eighth (1/8) of the amount realized from such sale; and (c) at any time, either before or after the expiration of the primary term of this lease, if there is a gas well or wells on the above land (and for the purposes of this clause (c) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and all classified as gas wells by any government authority) and such well or wells are shut in before or after production therefrom, lessee and any assignee hereunder may pay or tender an advance annual royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and if such payment or tender is made, it shall be considered under all provisions of this lease that gas is being produced from the leased premises in paying quantities for one (1) year from the date such payment or tender is made, and in like manner subsequent advance annual royalty payments may be made or tendered and it will be considered under all provisions of this lease that gas is being produced from the leased premises in paying quantities during any annual period for which royalty is paid or tendered. Such advance royalty may be paid or tendered in the same manner as provided herein for the payment or tender of delay rentals. Royalty accruing to the owners thereof on any production from the leased premises during any annual period for which advance royalty is paid may be credited against such advance payment. When there is a shut-in gas well or wells on the leased premises, if this lease is not continued in force under some other provision hereof, it shall nevertheless continue in force for a period of ninety (90) days from the last date on which a gas well located on the leased premises is shut in, or for ninety (90) days following the date to which this lease is continued in force by some other provision hereof, as the case may be, within which ninety-day period lessee or any assignee hereunder may commence or resume the payment or tender of the advance royalty as herein provided.

4. If operations for the drilling of a well are not commenced on said lands on or before one (1) year from the date hereof this lease shall terminate as the lease shall, on or before one (1) year from the date hereof, pay or tender to the lessor or for the lessor's credit in the

Bank at First National Bank Calhoun, Colorado or its successors, which bank, or its successors, shall be the lessor's agent and shall continue as the depository of any and all sums payable under this lease, notwithstanding of payments in said lands or in the oil and gas or in the rentals to become thereunder, the sum of _____ Dollars (1/1000) which shall operate as rental and cover the privilege of drilling the commencement of drilling operations for the further period of one (1) year. In like manner and upon like payment or tenders, the commencement of drilling operations may be further deferred for the periods successively. All payments or tenders may be made by check of lessee, or any assignee thereof, mailed to the post office address of the lessor, or hereinafter set forth or delivered on or before the rental payment period. Provided, however, the lessee shall be granted a thirty (30) day grace period within which to make payments and this lease shall not be forfeited if such payments are made within said thirty (30) day grace period after the time for payment as provided in this paragraph. If at any time more than six persons shall be entitled to participate in the rentals or royalties hereunder, lessee at its option may pay all rentals and royalties therefor accruing to the credit of this lease in the depository bank last designated by lessee, as herein provided, or lessee may withhold payment unless and until such persons shall designate, in a recordable instrument to be filed with the lessee, a common agent or trustee to receive all payments hereunder, and to execute and deliver rental receipts, division orders and/or transfer orders on behalf of said persons and their respective successors in interest.

5. If prior to discovery of oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, on said land or on land pooled therewith, lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, the production therefrom should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter, or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the initial payment date next ensuing after the expiration of three (3) months from date of completion and abandonment of said dry hole or holes or the cessation of production, if at the expiration of the primary term, oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, is not being produced on said land or land pooled therewith but lessee is then engaged in operations for drilling or reworking of any well or wells thereon, this lease shall remain in force so long as such operations or additional operations are commenced and prosecuted (whether on the same or successive wells) with no cessation of more than sixty (60) consecutive days, and, if they result in production, so long thereafter as oil, liquid hydrocarbons, gas or their respective constituent products, or any of them, is produced from said land or land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three hundred thirty (330) feet of and draining the leased premises, lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

6. Lessee may use oil, gas or water found on said lands free of cost for operating purposes, but not water from lessor's wells; lessor to have free gas for domestic and indoor heating in the principal dwelling house on said land from any well thereon producing gas only, by making his own connection therewith, the use of such gas to be at the sole risk and expense of the lessor. Gas, including casinghead gas and residue gas, produced from any oil or gas well unaccounted for by lessee or his assigns may be used by the lessee in any process for recovering oil or other liquid hydrocarbons from the leased premises, or returned to the ground (whether through wells or not) on the leased premises or elsewhere, shall not be deemed to have been sold or used off the premises within the meaning, intended or implied of any clause of this lease. When requested by lessor, the lessee shall bury its pipeline below ordinary plow depth, and also pay damages caused by its operations to cultivated agricultural crops on said land. No well shall be drilled within two hundred (200) feet of any residence or barn now on said premises, without the consent of the lessor. Lessee shall have the right at any time during or within a reasonable time after the expiration, or other termination of this lease, to remove all machinery, fixtures, houses, buildings, and any and all structures, placed on said premises, including the right to draw and remove all casing.

7. The lease of either party hereunder may be assigned in whole or part, 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 such change or division in the ownership of the land,

rentals or royalties shall be binding upon lessee for any purpose until sixty (60) days after such person acquiring any interest has furnished lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original lessor. In the event of an assignment of this lease as to a designated portion of said land, the rentals payable hereunder shall be apportioned as between 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. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligation hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall make payment of said rentals.

8. When drilling or other operations are delayed or interrupted as a result of any cause whatsoever beyond the control of the lessee, the time of such delay or interruption shall not be counted against lessee, anything in this lease to the contrary notwithstanding. 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.

9. Lessee shall have the right to utilize, pool or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit agreement setting forth a 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 any such events, 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 agreement or 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 except as may be otherwise provided in said agreement. In the event the above described lands, or any part thereof, shall hereafter be operated under any such cooperative or unit agreement or plan of development or operation whereby the production thereunder is allocated in different portions of the land covered by said agreement or 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 from any other tract of land; and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Nothing herein contained shall authorize or affect any transfer of any title to any leasehold, royalty or other interest unfiled, pooled or combined. Lessee's execution of such cooperative or unit agreement or plan of development or operation shall be binding as to both lessor and lessee and their respective interests. Lessee, following such execution, shall furnish lessor with a copy of such unit agreement by mail at lessor's last known address as shown by lessee's records and shall give lessor written notice of approval of the same in the manner within a reasonable time after lessee is notified of such approval.

10. Lessor hereby warrants and agrees to defend the title to the lands herein described and agrees that the lessee, at its option, may pay and discharge any judgments, taxes, mortgages, or other liens on or against the above-described lands, and may also redeem said lands, for and on behalf of the lessor or lessee, and in the event lessee exercises such option, it shall be subordinated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such judgment, tax, mortgage, or other lien, any royalty or rentals accruing hereunder. The lessee may become purchaser at any and all tax or foreclosure sales of the above lands. Lessor agrees to pay one-eighth (1/8) of all taxes of whatsoever kind or character now or hereafter levied by any duly constituted taxing authority and upon the oil, gas, and other hydrocarbons produced from the premises hereinabove described, but the lessee shall have the right to pay such tax and to deduct the lessor's proportionate share thereof from any royalty payments accruing hereunder. In case the lessor owns a less interest in the above-described premises than the entire undivided fee simple mineral estate therein, then the royalties and rentals in this lease provided for shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided mineral fee.

11. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises, nevertheless, shall be developed and operated as one lease and the royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each such separate owner bears to the entire leased acreage. There shall be no obligation on the part of the lessee to effect wells on separate tracts into which the land covered by this lease is now or may hereafter be divided by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks.

12. This lease shall not be terminated, forfeited or cancelled for failure by lessee to perform in whole or in part any of its implied covenants, conditions, or stipulations until it shall have been first finally and judicially determined that such failure or default exists, and thereupon lessee shall be given a reasonable time thereafter to correct any default so determined, or at lessee's election, it may surrender the lease with option of reserving under the terms of this lease each producing well and ten (10) acres surrounding it as selected by lessee, together with the right of ingress and egress thereto. Lessor shall not be liable in damages for breach of any implied covenant or obligation.

13. Lessee may at any time surrender this lease as to all or any part of the lands or minerals covered hereby, by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county; and if surrendered only as to a part of said lands, any delay rentals or acreage payments which may thereafter be payable hereunder shall be reduced proportionately. All lands leased shall remain subject to easement for right-of-way necessary or convenient for lessee's operations on land retained by it.

14. The provisions of this lease shall be construed as covenants running with the land, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, executors, administrators, successors, and assigns.

IN WITNESS WHEREOF, this lease, which may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document, is executed as of the day and year first hereinabove written.

Witness:

William E. Smart
William E. Smart

Virginia P. Smart
Virginia P. Smart

UTAH ACKNOWLEDGEMENT

STATE OF _____ ss.
County of _____
On this _____ day of _____, 19____, personally appeared before me _____ the
signer _____ of the above instrument, who acknowledged to me that _____ executed the same.
Given under my hand and seal this _____ day of _____, 19____.
My Commission Expires: _____

Notary Public

COLORADO-WYOMING ACKNOWLEDGEMENT

STATE OF COLORADO ss.
County of DOLORES
The foregoing instrument was acknowledged before me by William E. and Virginia P. Smart H/W
this _____ day of _____, 19____.
Witness my Hand and Official Seal.
My Commission Expires: _____

Notary Public

