

STATE OF COLORADO  
BOARD OF LAND COMMISSIONERS

OIL AND GAS LEASE NO. 2296.12

Containing 640.00 acres, more or less

Trust School

THIS LEASE (the "Lease") dated this 16th day of August, 2012 made and entered into by and between the STATE OF COLORADO, acting by and through the STATE BOARD OF LAND COMMISSIONERS, located at 1127 Sherman Street, Suite 300, Denver, CO 80203 ("Lessor"), and Cascade Petroleum LLC, 1331 17th Street, Suite 400, Denver, CO 80202, ("Lessee"):

WHEREAS, Lessee wants to enter into an oil and gas lease covering the Leased Premises, and has paid a filing fee in the amount of \$20.00, plus a bonus consideration of \$294,400.00 fixed by Lessor as an additional consideration for the granting of this lease, and Lessee agrees to pay an annual rental of \$1,600.00 computed at the rate of \$2.50, per acre or fraction thereof per year.

THEREFORE, In consideration of the agreements herein, on the part of Lessee to be paid, kept and performed, Lessor does lease exclusively to Lessee for the sole and only purpose of drilling for, development of and production of oil and gas, or either of them, thereon and therefrom with the right to own, except as set forth in the METHANE FROM COAL SEAMS paragraph herein, all oil and gas so produced and saved therefrom and not reserved as royalty by Lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone and telegraph lines, tanks and fixtures for producing and caring for such products, and any and all rights and privileges necessary for the exploration and operation of said land for oil and gas, the following described land situated in the County of Lincoln, State of Colorado, and more particularly described as follows:

<u>DESCRIPTION OF LAND</u>	<u>TOWNSHIP</u>	<u>RANGE</u>	<u>SECTION</u>	<u>SURVEY</u>
ALL	12S	54W	36	6th PM

Surface Patents: Partial

The Lessee may only use the Leased Premises for the purposes specified in the Lease. This Lease does not grant Lessee any right to access adjoining property whether owned by the Lessor or the Lessee, except as may be required to access any adjacent lands pooled, communitized or unitized with the Leased Premises in order to conduct operations to produce Oil or Gas allocated to the Leased Premises. If the Leased Premises are used in connection with production within an approved Federal Unit that is later contracted to exclude the Leased Premises from the participating area(s), Lessee's right to use the surface and any existing subsurface facilities, including pipelines or gathering systems shall not terminate, provided Lessor shall have the right to assess a reasonable fee for the continued use of Lessor's surface and subsurface estate consistent with then prevailing rates for rights-of-way and surface use agreements.

TO HAVE AND TO HOLD the Leased Premises, and all the rights and privileges granted hereunder to Lessee for a primary term of five (5) years, ending the 16th day of August, 2017, and so long thereafter as Oil and/or Gas is produced in Paying Quantities from the Leased Premises, subject to Lessee's development obligations set forth in Section 10, "Development". If production of Oil or Gas has not been obtained in Paying Quantities on the Leased Premises during the primary term (or, if granted, the Extension Term) this Lease shall not terminate if drilling, completion, testing or reworking operations are being diligently conducted over the Lease expiration date. Thereafter, this Lease shall remain in full force and effect so long as Oil or Gas is produced in Paying Quantities, or such operations are being conducted, without any lapse in such operations greater than sixty (60) days.

No later than sixty (60) days prior to the expiration of the primary term, Lessee may make written application to Lessor for an extension of this Lease for an additional one year term (the "Extension Term"). Lessor may also charge an extension bonus in an amount to be determined by Lessor, at Lessor's sole discretion, prior to the grant of the Lease extension. Lessor's consent to a Lease extension shall be in writing. Lessor's acceptance of any payment tendered for a Lease extension without Lessor's advance approval of the Lease extension terms shall not be deemed Lessor's consent or agreement to such extension terms. If the parties are not able to agree upon Lease extension terms, any advance extension payment tendered to Lessor shall be returned to the Lessee.

RESERVATIONS TO THE LESSOR - This Lease is subject to any and all existing leases, easements, rights-of-way and other interests, whether or not visible on the ground; and, in addition to its reversion upon termination of this Lease, the Lessor hereby reserves:

- A. All rights, privileges and uses of every kind or nature not specifically granted to Lessee by this Lease. The right to sell, exchange, or otherwise dispose of all or any portion of the Leased Premises during the term of this Lease. The right to dispose of the surface where Lessor is the

surface owner subject to the terms and conditions of this Lease. Lessor shall provide Lessee notice upon the Lessor's decision to initiate a sale or exchange of all or a portion of the Leased Premises.

- B. The right to lease all or any portion of the Leased Premises to other persons for the purposes of initiating and continuing grazing and agricultural uses, developing renewable energy, and exploring for and removing timber, minerals, ores, metals, coal, asphaltum, sand, gravel, clay, quarry products, peat, geothermal resources, and all other naturally occurring resources, together with reasonable and adequate rights of entry and surface rights necessary or convenient to exercise such reserved rights. Any new leases shall be compatible with and subject to the rights and privileges granted to Lessee herein.
- C. Except as provided in the "Produced Water and Water Disposal Wells" section, to the fullest extent permitted by law, Lessor reserves all water, water rights, ditch rights, water stock and/or ditch stock appurtenant to or used in connection with the Leased Premises including wells, rights in ditch, and water in canal organizations or companies. No exploration for, drilling, or establishment of water wells or rights shall be permitted unless Lessee first obtains the written permission of the Lessor and other required state permits. Additional payment may be required for the use of any waters reserved by Lessor.
- D. To the extent Lessor is entitled to convey, the right at any time to grant a right-of-way upon, over, under, through, or across all or any part of the Leased Premises for any ditch, reservoir, railroad, communication system, electric power line, pipeline, schoolhouse, or other lawful purpose. Any new grant shall be compatible with and subject to the rights and privileges granted to Lessee herein. Any new grant of easement or right-of-way upon, over, or across the Leased Premises shall include provisions requiring that any and all damages caused to any structures or Lessee improvements placed upon the surface of the Leased Premises subsequent to the date hereof shall be repaired by and at the expense of the party to whom the easement or right-of-way was granted.
- E. The right to place the Leased Premises into the Stewardship Trust, as set forth in Section 10 (1)(b)(I) of Article IX, of the State Constitution, under conditions that will not unreasonably interfere with the rights and privileges of the Lessee granted herein.

In consideration of the Leased Premises, the parties covenant and agree as follows:

#### I. DEFINITIONS -

- A. "Affiliate" shall mean any corporation, firm, or other entity in which Lessee, or any parent company, subsidiary or affiliate of Lessee, owns an interest of more than ten percent (10%), whether by stock ownership or otherwise, or over which Lessee or any parent company or Affiliate of Lessee exercises any degree of control, directly or indirectly, by ownership, interlocking directorate, or in any other manner; and any corporation, firm, or other entity which owns any interest in Lessee, whether by stock ownership or otherwise, or which exercises any degree of control directly or indirectly, over Lessee, by stock ownership, interlocking directorate, or any other manner. As used herein the term Lessee refers to the original Lessee, and any approved assign or operator acting on behalf of Lessee.
- B. "Commission" shall mean the Colorado Oil and Gas Conservation Commission established pursuant to Colorado Revised Statute § 34-60-101 et seq. , as same may be amended from time to time.
- C. "Gas" shall mean all gases (combustible and noncombustible), including but not limited to Natural Gas Liquids, dry gas, including vented and flared, natural gasoline and other products extracted and saved from the gas produced from the Leased Premises such as, carbon dioxide, helium and other commercial gases.
- D. "Gas Processor" shall mean any entity owning or operating a facility in which raw natural gas from the wellhead is processed to remove or separate elements or compounds to put the gas into marketable condition. Gas Processor does not include an entity performing field mechanical separation, dehydration, or compression.
- E. "Natural Gas Liquids" shall mean liquid hydrocarbon components associated with natural Gas that are recovered from the Gas stream at a processing plant.
- F. "Oil" shall mean liquid hydrocarbons including crude oil (defined as oil in its natural state of composition), and condensate (defined as the hydrocarbon based liquids produced by a gas well)



but excluding Natural Gas Liquids.

- G. "Oil and Gas" shall include all substances produced as by-products therewith, including but not limited to sulfur.
- H. "Paying Quantities" shall mean on an annual basis, revenues attributable to production from this Lease and lands unitized or communitized herewith exceed lease operating expenses.

2. RENTAL - Rentals shall be paid during the life of this Lease, annually, in advance, on or before each anniversary date. The rental rate may be increased by Lessor at the end of the primary term or, if granted, any Extension Term and thereafter if the Lease continues by virtue of production, provided such increase shall be equal to the rental rate on new state leases being issued at that time, but not more than two times the Lease initial annual rental rate. Upon notification of increased rental rate, Lessee may elect to surrender the Lease as provided in the SURRENDER paragraph herein. There shall be no refund of unused rental under any circumstance, including surrender or termination.

3. ROYALTY - Lessee shall account for any and all substances produced on the Leased Premises, and Lessee shall pay to Lessor a royalty on same in addition to the rentals. Lessee, Affiliate of Lessee, operator or affiliate of operator shall place the Oil and Gas, including recoverable Natural Gas Liquids, in a marketable condition and shall market and sell such Oil and Gas at no cost to Lessor, except for the specific deductions allowed herein.

- A. On Oil, Lessee shall pay a royalty equal to 16.67% of the gross sales value of all Oil produced from the Leased Premises based on the price received by the Lessee or Affiliate of Lessee from an independent, non-affiliated, third party purchaser for the product in marketable condition ("Arms Length Contract"), including all bonuses, premiums, allowances or other consideration of any nature received by Lessee for Oil produced or contracted from the Leased Premises. Oil and condensate recovered by mechanical separators at or near the wellhead shall be deemed to be in a marketable condition after the products are separated, treated, dehydrated and placed into a storage tank or other facility, at no cost to Lessor, for delivery to a purchaser or refinery. For any oil that is sold or disposed of other than by an Arm's Length Contract, including any oil sold or transferred by Lessee to itself or an Affiliate of Lessee that is not sold by the Affiliate in an Arms Length Contract, royalties shall be calculated on the basis of no less than the highest market price, including any premium associated therewith, then prevailing on the dates the same is sold or disposed of, in the same field for production of similar grade and gravity (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price). A sale to an Affiliate of Lessee shall not establish a price for royalty payment purposes.
- B. On Gas, Lessee shall pay Lessor a royalty equal to 16.67% of the gross sales value of all Gas produced from the Leased Premises based on the price received by Lessee or Affiliate of Lessee from an independent, non-affiliated, third party purchaser for the product in marketable condition ("Arms Length Contract"), including all bonuses, premiums, allowances or other consideration of any nature received by Lessee for Gas produced or contracted from the Leased Premises. Gas that is not processed in a gas processing plant shall be deemed to be in a marketable condition when it meets the location, quality and pressure specifications for transmission into an interstate pipeline (for sale to an independent, non-affiliated, third party purchaser). If the Gas is delivered to a gas plant for processing, the resulting hydrocarbon residue gas shall be deemed to be in a marketable condition when it meets the location, quality and pressure specifications for transmission by an interstate pipeline. All Natural Gas Liquids recovered from the Gas stream shall be deemed to be in a marketable condition when they have been either (i) recovered at a processing plant and separated and fractionated into discrete products (e.g., ethane, propane, butane, and natural gasoline) and placed into a storage tank or other facility for delivery to a purchaser or (ii) recovered at a processing plant and sold at the tailgate of the plant to an independent, non-affiliated, third party purchaser without further separation and fractionation into discrete products, provided the royalties due and payable thereon to Lessor shall be based upon the gross sales value received for such product, including any credit or payments received by Lessee based on any further downstream processing. In the event the Gas stream contains commercial quantities of non-hydrocarbon Gas, such non-hydrocarbon Gas shall be deemed to be in a marketable condition when it has been recovered, separated, treated, purified and otherwise placed in a form and condition suitable for commercial sale, exchange, and use.

For any Gas or Natural Gas Liquids that are sold or disposed of other than by an Arm's Length Contract, including any Gas or Natural Gas Liquids sold or transferred by Lessee to itself or an Affiliate of Lessee that is not sold by the Affiliate in an Arms Length Contract, royalties shall be calculated on the basis of no less than the highest market price, including any premium associated therewith, then prevailing on the dates the same is sold or disposed of, in the same

field for production of similar quality (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price). A sale to a Gas Processor or an Affiliate of Lessee shall not establish a price for royalty payment purposes.

- C. At the option of Lessor, and with 60 days notice to Lessee, Lessor may take its royalty Oil in kind, in which event Lessee shall deliver such royalty Oil to Lessor on the Leased Premises, free of cost or deduction, into the pipelines or storage tanks designated by Lessor. At the option of Lessor, and with 60 days notice to Lessee, Lessor may take its Gas royalty in kind free of cost or deduction, into the pipelines or to a Gas Processing Plant designated by Lessor. Upon delivery of such royalty Oil or Gas to Lessor, Lessor shall assume title, possession, and all liability for the storage and transportation of such Oil or Gas. The Lessor's acceptance of Oil or Gas in kind shall not constitute a waiver or limit of governmental immunity under C.R.S. Title 24 Article 10. With 60 days' notice to Lessee, Lessor may cease taking Oil or Gas royalty in kind.
- D. Lessee shall place Oil and Gas in marketable condition as defined in paragraphs A and B of this section. In calculating gross sales value for a product in marketable condition, there shall be no deductions from the value of Lessor's royalty for any direct or indirect expense required to make the Oil and Gas marketable. The royalties payable hereunder to Lessor shall be calculated free and clear of all production costs, post-wellhead costs, marketing costs, and other direct or indirect costs, including, without limitation, all costs, charges, expenditures, or fees incurred for gathering, compressing, pressurizing, treating, dehydrating, separating, processing, fractionating, storing, transporting, marketing and other actions to convert the Oil, Gas, and other products produced from the Leased Premises into marketable condition as defined in the preceding paragraphs. Lessee shall pay all such costs. Lessor shall not be charged any such costs, directly or indirectly, and the royalties payable hereunder to Lessor on Oil and Gas sold by Lessee shall not be reduced through any direct or indirect charges or assessments for any such costs. Any and all reductions to the sales price received by Lessee for any post-production services provided by the purchaser or any other party prior to the Oil or Gas being placed into a marketable condition shall be added back to the sales price to determine the gross sales value for royalty payment purposes. Lessor's share of actual, reasonable transportation and reasonable compression costs incurred after obtaining a marketable product, as defined above, may be deducted, provided such costs are not disproportionately allocated to Lessor, and provided that any decrease in royalties is commensurate with a corresponding revenue reduction to Lessee based on Lessee's obligation to bear its proportionate share of such costs.
- E. When any Gas Processor retains a percentage of the sales proceeds, or a volumetric share of producer's gas as compensation for services and returns a percentage of the sales proceeds to Lessee, Lessee will pay royalties on the sales proceeds returned to Lessee plus royalties on the full value of the sales proceeds or volumetric share retained by the Gas Processor. The royalty due to Lessor shall be based upon one hundred percent (100%) of the value of the production at the price received by the producer. This type of arrangement includes, without limitation, percentage-of-proceeds sale contracts under which another person or entity takes title to Gas and Natural Gas Liquids, processes the Gas, sells the resulting residue Gas and Natural Gas Liquids, retains a percentage of the sale proceeds, and pays a percentage of the sale proceeds to Lessee.
- F. When any Gas Processor, gas purchaser, or other party uses or retains Gas, residue Gas or Natural Gas Liquids volumes as part of, or in exchange for post-wellhead services, then Lessee will pay royalties on the sale proceeds returned to Lessee plus royalties on the full value of the Gas and Natural Gas Liquids used, received or retained by the Gas Processor, gas purchaser, or any other party.
- G. Lessee shall pay royalties on the full value of Gas used by the Lessee, Gas Processor, gas purchaser, or any other party as fuel and all other losses of production volumes (whether through the use of Gas or Natural Gas Liquids as fuel, through line loss, avoidable flaring or venting, or through the retention of drips, or whether otherwise avoidably lost or unaccounted for). The following are exempt from royalty: (1) gas unavoidably flared, vented, or otherwise unavoidably lost and (2) recycled gas used for injection and enhanced recovery. Losses shall be considered avoidable in all instances when reasonable repair or replacement of pipelines or other processing facilities would stop the loss from occurring.
- H. If Lessor owns a lesser interest in the Oil and Gas deposits on the Leased Premises than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid to Lessor only in the proportion which its interest bears to the whole and undivided fee. No approval by Lessor of any document provided by Lessee such as a Division Order shall alter the terms of this Lease; including, but not limited to, provisions regarding the payment of royalties, rental and prohibited deductions. It shall not be necessary for Lessor to execute any division or transfer



order in order to be entitled to payment of royalties under this Lease.

- I. If Lessee receives any compensation for any function, process or liability related to production from this Lease, royalty must be computed and paid thereon at the lease royalty rate.

#### 4. OPERATIONS INFORMATION -

- A. Regulatory filings and forms. Lessee shall provide to Lessor with a copy of (a) all Applications for Permit to Drill filed with the Commission for the Leased Premises, or for wells located on lands pooled or communitized therewith, together with copies of the approved permits when issued; (b) copies of all well completion reports filed with Commission, including wells that are plugged and abandoned; (c) notice of any violation or enforcement proceeding before the Commission that relate to or arise out of operations on the Leased Premises or lands pooled or communitized therewith, including without limitation any reports of a failed inspection, all notices of alleged violation (NOAV), stipulated settlements for any alleged Commission violation, findings of violations of Commission rules, regulations or orders and any other citations, fines, response and/or cleanup actions which effect the Leased Premises, including such notices or violations provided to Lessee by any federal, state or local government with jurisdiction over Oil and Gas operations; (d) any comprehensive drilling plans filed with the Commission that include all or a portion of the Leased Premises; (e) advance notice for any local public forum or public issues hearing to be conducted by the Oil and Gas Conservation Commission that covers and includes the Leased Premises; (f) any application to establish well spacing or to increase well densities for the Leased Premises; (g) any application under Commission rule 502(b) seeking a variance from any rule, regulation or order of the Commission (to be provided to Lessor not less than seven days in advance of any Commission hearing on such application) that impacts the Leased Premises; and (h) all notices of suspension or abandonment of any well located on the Leased Premises or lands pooled or communitized therewith. Notice to the Lessor shall be for informational purposes to assist the Lessor in its ongoing duty to manage and preserve State lands, it being understood that the Lessor's participation in any Commission proceedings, including the right to file a protest, shall be governed by the rules and regulations of the Commission then in effect. Nothing contained herein shall preclude the Commission and the Lessor from entering into a mutually acceptable agreement to more efficiently manage the relationship between the Commission and the Lessor for the ongoing management of State Oil and Gas leases.

If the Lessor owns the surface of the land, in addition to the information identified above, Lessee shall also provide to the Lessor (i) advance notice of proposed surface operations on the Leased Premises in accordance with existing Commission rules, regulations and orders; (ii) advance notice of any wildlife mitigation plan proposed for an area that includes all or a portion of the Leased Premises, and (iii) notices of all accidents, spills, releases or discharges filed with the Commission for the Leased Premises or lands spaced, pooled or communitized therewith (such notice to be provided to Lessee within twenty-four (24) hours of the Lessee's notice or report to the Commission). Upon request, Lessee shall also provide Lessor with any information reasonably requested by the Lessor that is filed with or provided to the Commission, or other regulatory agency or governing agency, authority or entity, that the Lessor, in its reasonable discretion, deems relevant to Lessor in its ongoing duty to manage and preserve State lands.

- B. Well logs, geologic information. Lessee shall keep a correct log of each well drilled hereunder, showing by name or description the stratigraphic zones passed through, the producing stratigraphic zones, the depth at which each stratigraphic zone was reached, the number of feet of each size casing set in each well, where set, the total depth of each well drilled, and the location of any buried pipe. Lessee, within nine (9) months after the completion of any well drilled hereunder, shall file with Lessor a complete and correct log of such well together with a copy of the electric log and the radioactivity log of the well when such logs, either of them, are run; and also a copy of all drill stem test results, core records and analyses, record of perforations and initial production tests, if any. If any of the geologic information required by this paragraph B is contained in reports filed with the Commission, the requirements of this paragraph may be satisfied by such filing provided that all such information is immediately available to Lessor.
- C. Surface facilities. Upon request by Lessor when Lessor owns or leases the surface estate, Lessee shall provide Lessor an "as built" survey of the Leased Premises conducted to a standard satisfactory to Lessor within 60 days of the completion of construction or installation of any wells, pipelines, or other facilities, or such other reasonable information deemed acceptable to Lessor to assist in determining the location of surface facilities to assist Lessor in managing the surface estate.

D. Additional operational requirements.

1. No more of the surface of Leased Premises shall be disturbed than is reasonably necessary for the purpose for which this Lease is issued.
2. This Lease is subject to all leases, rights-of-way, and other agreements issued prior to this Lease on the Leased Premises, and the Lessee is to cooperate with, and not to interfere with, nor prevent the operations of any such lessee or permittee. Any leases issued after the date of this Lease shall be subject to this Lease as provided in paragraph B of the Reservations section of this Lease.
3. The terms and conditions of this Lease shall be performed and exercised subject to all applicable federal, state, and local laws, rules, regulations, orders, local ordinances or resolutions applicable to and binding upon the administration of lands owned by the State of Colorado, and to laws, rules and regulations governing Oil and Gas operations in Colorado, including, but not limited to, the rules and regulations of the Commission. Should the Lessee, or an Operator of the Lease, have a good faith dispute with any local government or authority, other than the State, regarding the application of a rule, regulation, ordinance, order or ruling, the Lessor shall not consider the good faith contest or appeal of such rule, regulation, ordinance, order or ruling a violation of this Lease while any appeal or other recognized legal or administrative process is pending to resolve the dispute.
4. If Lessee desires to use the Leased Premises to access or serve off lease premises production of Oil or Gas when Lessor does not share in such production by virtue of a pooling, communitization or unit agreement, prior to entry upon and use of the Leased Premises for such purposes, Lessee must obtain from Lessor a separate right-of-way agreement or easement for access to such off lease premises and for all surface equipment and facilities, including but not limited to pipelines, tanks and tank batteries, heater treaters, separators, dehydrators, compressors and compressor stations, and LACT units.
5. Lessee shall be responsible for adequate site security on all producing properties.
6. Any leasing on Stewardship Trust lands or other lands designated prior to auction by the Board must conform to management plans as developed by the Lessor. Any activity on the Leased Premises must conform to the special stipulations contained herein to avoid and minimize impacts wherever reasonably practicable, and mitigate the effects of unavoidable remaining impacts caused by Oil and Gas operations to waters, native grasses, and wild life, as well as other environmental considerations.

5. SPECIAL STIPULATIONS - Lessee is required to follow the following stipulation(s):

Lease is located in a Colorado Parks and Wildlife (CPW) Sensitive Wildlife Habitat and/or Restricted Surface Occupancy Area and/or contains Colorado Natural Heritage Program (CNHP) critical wildlife habitat. Lessee must comply with Colorado Oil and Gas Conservation Commission (COGCC) rules to minimize adverse impacts to wildlife resources and address CPW and/or CNHP wildlife concerns. Prior to surface occupancy and submittal of the Application for Permit to Drill (APD) to the COGCC, Lessee must consult with the appropriate wildlife habitat expert and consult with and obtain approval from Lessor's District Manager for siting of access, exploration operations, well locations, rig placement and all other facilities. Without excluding other penalties or remedies available under this Lease or as provided by law, Lessor shall impose a fine of up to \$10,000 for any violation of this special stipulation in whole or in part arising directly or indirectly from the use, occupation or control of the Leased Premises by Lessee, Lessee's contractor or operator under this Lease.

6. MEASUREMENTS - All production shall be accurately measured in accordance with the rules and regulations of the Commission and all measuring devices shall be tamperproof as nearly as possible. Oil and Gas royalties due within the terms of this Lease shall be calculated on actual and accurate measurements within Commission standards unless a different means of measurement, subject to Lessor's approval, is provided.

7. PAYMENTS & REPORTS - All payments and reports due hereunder shall be made on or before the day such payments and reports are due. Nothing in this paragraph shall be construed to extend the expiration of the primary term hereof. Oil and Gas royalty payments and supporting documents for all wells shall be submitted on a monthly basis. The payments and supporting documentation for the first production for any producing well located on the Leased Premises, or lands pooled or communitized therewith shall be due no later than six (6)



months after the date first production occurs, provided interest calculated in accordance with Section 21 shall accrue on the payment commencing on the first day of the month occurring ninety (90) days after the date of first sale. Thereafter, the time frame for royalty payments shall be governed by Colorado Rev. Stat. § 34-60-118.5 (2)(a), with interest on all late payments established in accordance with the terms of this Lease. Every payment for first production from wells drilled on the Leased Premises or lands pooled or communitized therewith shall be accompanied by evidence satisfactory to the Lessor confirming the date of first sale and the initial purchaser. All payments shall be made by cash, check, certified check, wire transfer, or money order and shall be accompanied by a royalty report that includes at a minimum all information identified in Colorado Rev. Stat. § 34-60-118.5, 2.3, in a form satisfactory to Lessor. At Lessor's request, Lessee shall provide additional information related to Lessee's production, marketing and sale of Oil and Gas, including without limitation Lessee's calculation of gross sales values, Lessee's calculation of any permitted deductions from the royalty payments deemed necessary in Lessor's discretion to analyze and confirm payment of the royalty obligations contained in this Lease. Payments having restrictions, qualifications, or encumbrances of any kind whatsoever shall not be binding upon Lessor. Interest and penalties for a late payment shall be charged as set forth in the "Penalties" section. Monthly royalty reports shall be submitted for all wells capable of producing in Paying Quantities, including wells that have no sales. However, Lessee may notify Lessor if any well located on the Leased Premises or lands pooled or communitized therewith is shut-in in accordance with the terms of this Lease, and thereafter Lessee shall be relieved of the requirement to file monthly reports until such time well is no longer shut-in. Lessee shall provide to Lessor on an annual basis commencing on the date the well is first shut-in a report of Lessee's proposed operations to put the well into service.

8. **OVERRIDING ROYALTY** - Any and all reservations or assignments of overriding royalties shall not exceed a total of 5 percent without written Lessor approval. A reservation or assignment of an overriding royalty interest shall not relieve Lessee of any of its obligations for payment of royalties to Lessor as provided by the "Royalty" section.

9. **PRODUCTION** - Lessee shall operate all wells on the Leased Premises so as to produce at a rate commensurate with the rate of production of wells on adjoining lands within the same field and within the limits of good engineering practice, except for such times as there exist neither market nor storage therefor, and except for such limitations on or suspensions of production as may be approved in writing by Lessor.

The Lessee may not transfer or assign its interest in the Leased Premises to a third party which will not continue Oil and Gas operations on the Leased Premises without obtaining the prior written consent from Lessor. Lessor may, at its discretion, agree to allow Lessee to transfer its interest in the Leased Premises to a third party which will not continue Oil and Gas operations upon payment of a fee from the purchasing third party that represents the amount of royalties that will be lost by the Lessor due to a cessation of production. If Lessor and Lessee are not able to mutually determine the fee due to Lessor for cessation of production, a professional oil and gas engineer shall be engaged to prepare an independent valuation of the royalties lost due to the third party transfer. Notwithstanding any independent evaluation of the royalty value, the amount paid to the Lessor shall never be less than an amount that represents Lessor's proportionate share, based on Lessor's royalty rate, of the total compensation or fee paid to the Lessee. The cost of any third party engineering evaluation shall be paid by Lessee.

10. **DEVELOPMENT** - Lessee shall at all times be obligated to act as a reasonably prudent operator with a duty to diligently explore for, produce, operate, develop, market, and sell Oil and Gas from the Leased Premises, including the exercise of due diligence in drilling such additional well or wells as may be necessary to fully develop the Leased Premises.

No sooner than the tenth anniversary of the Lease date, Lessor, at its sole discretion, may require by written notice the surrender of the undeveloped acreage, including the deep zones, provided this provision shall not operate to require the release of that portion of the Leased Premises associated with any well that is shut-in pursuant to Section 14 during the approved shut-in period. Lessee shall have ninety (90) days after receipt of the notice to provide to Lessor geologic and other information supporting Lessee's determination the undeveloped acreage or deep zones do not warrant further exploration, or to provide a plan satisfactory to Lessor for the development of such acreage or deep zones.

If the Lease will not be developed under a plan approved by Lessor, this Lease may, at Lessor's sole option, be terminated as to all rights to drill and explore for Oil and Gas as to that portion of the Leased Premises that is not included in a spacing unit duly established in accordance with a Commission Order or regulations, or is not included within an area duly pooled, communitized, or unitized with other lands in accordance with these Lease terms while such agreement remains in force and effect.

If the Lease will not be developed under a plan approved by Lessor, and if the Lease is not subject to a Commission order establishing drilling and spacing units, the Lessor may require the release of the undeveloped portion of the Leased Premises upon which an additional well or wells could be legally located and drilled under then existing Commission rules and regulations. The Lessee shall have the option, but not the obligation, to provide evidence reasonably satisfactory to the Lessor that the producing well or wells on the Leased Premises are sufficient to fulfill the Lessee's obligation to diligently explore for, produce, operate and develop the entire Leased Premises, and that the release should not be required. In determining the appropriate amount of acreage

that the Lessee may continue to hold by production when the Leased Premises are unspaced, the Lessor may consider the size and shape of Commission established drilling units for the same formation in other areas of the same geologic basin, and may consult with and rely upon the advice and expertise of the Commission to evaluate the data provided by the Lessee.

Lessor may also terminate this Lease as to all zones located below the stratigraphic equivalent of 300 feet below the deepest zone of any productive formation penetrated in drilling operations conducted on the Leased Premises, or on lands pooled, communitized or unitized therewith.

If, at any later date, any portion of the Leased Premises ceases to be productive for a continuous period of ninety (90) days without the Lessee's commencement of drilling or reworking operations, Lessor may terminate this Lease as to the non-productive lands and zones in accordance with the terms above, provided Lessor shall not terminate any lands associated with a well shut-in in accordance with Section 14.

Lessor shall not terminate any portion of the Leased Premises under this Section 10 prior to the tenth anniversary of the Lease date. Upon termination of this Lease as to any portion of the Leased Premises, Lessor shall have the right, but not the obligation, to enter into new lease agreements, and in connection therewith to grant to a new lessee the right to explore, develop, produce and market Oil and Gas, together with the rights of ingress and egress to and from the Leased Premises or lands pooled or unitized therewith as may be reasonably necessary to conduct such operations, commensurate with the rights granted to Lessee herein, including the right to penetrate and drill through the shallow formations. All of the rights retained by Lessee and the rights granted to any new lessee shall be exercised in such manner that neither shall unduly interfere with the operations of the other upon the Leased Premises.

11. OTHER DISCOVERY - Should Lessee discover any valuable products other than Oil and Gas, on or within the Leased Premises, Lessee shall report such discovery to Lessor within 7 days. Lessee and Lessor may negotiate an amendment which authorizes production of such discovery conditioned upon payment of royalties to the Lessor. Such discovery may include elevated temperatures suitable for geothermal development.

12. POOLING - UNITIZATION - COMMUNITIZATION - Lessee may pool, communitize or unitize the Leased Premises in accordance with voluntary agreements, drilling and spacing orders, pooling orders, or other applicable laws, rules, and regulations, upon written approval of Lessor. In the event Lessor permits the Leased Premises to be included within a pooling, communitization, or a unitization agreement (whether Federal or State), the terms of this Lease may be deemed to be modified to conform to such agreement. When only a portion of the Leased Premises is included in a pooling, communitization or unitization agreement, Lessor may segregate the land and issue a separate lease to the existing Lessee for each portion not committed; the term of such separate lease shall conform to the original term of this Lease.

13. PRODUCED WATER AND WATER DISPOSAL WELLS - Lessee shall comply with all requirements of law with respect to the production of groundwater in conjunction with oil and gas operations on the Leased Premises. Lessee shall provide Lessor a copy of any filing for a water well permit at the time such permit is filed. Lessee shall provide Lessor with any application to adjudicate a water right or receive court approval for an augmentation plan for water on the Leased Premises thirty (30) days prior to the filing of such application. Lessor may require that Lessor be included as a co-applicant on any water right application. Lessee agrees that prior to termination of any oil and gas operations for which Lessee obtained a water right in conjunction therewith, Lessee shall consult with Lessor before relinquishing any adjudicated interest, and Lessor shall have the right, but not the obligation, to take assignment of the adjudicated right under such terms as are mutually acceptable to the parties at the time of termination. Lessee agrees that Lessee shall have no right to use, sell, assign, transfer or convey any water withdrawn from the Leased Premises for purposes other than those directly related to the production of oil and gas without Lessor's advance written consent, and only under such terms and conditions, including provision for compensation, that are acceptable to the Lessor.

Lessee is not authorized to use the Leased Premises to dispose of produced fluids or other exploration and production waste within the geologic zones underlying the Leased Premises without first obtaining from the Lessor a disposal lease for such operations. A disposal lease may be requested from Lessor for the right to dispose of produced water and waste from the Leased Premises, or to dispose of water produced off the Leased Premises. Additional charges may apply to disposal leases.

14. SHUT-IN WELLS - If Lessee completes a well on the Leased Premises capable of production of Oil or Gas but Lessee is unable to produce such Oil or Gas due to a mechanical condition beyond Lessee's reasonable control, or the lack of suitable market, Lessor shall grant Lessee a suspension of its production obligation until a suitable market for such Oil or Gas is established or the mechanical condition is remedied, provided that Lessee acts with reasonable diligence to remedy the mechanical condition or locate a suitable market. During any such suspension period, it shall be deemed that Oil and/or Gas is being produced in Paying Quantities provided that beginning on the anniversary date immediately after the suspension by reason of a shut-in well, Lessee shall pay to Lessor a shut-in royalty equal to four dollars (\$4.00) per acre of the Leased Premises per annum in addition to the annual rental. The minimum amount of such shut-in royalty payment shall be six hundred and forty dollars (\$640.00) annually. Each year's shut-in royalty shall be forfeited to Lessor except for the shut-in royalty paid for the year during which the well begins production. Lessor may review the status of shut-in wells on an annual



basis, and may raise the shut-in royalty rate or determine that the suspension is no longer warranted. From the date of written notice that the shut-in suspension has been revoked Lessee shall have until the next anniversary date to commence production and establish and continue production from the Leased Premises in Paying Quantities. If the Lease is in its extended term, and Lessee is unable to locate a suitable market or to reestablish production, Lessee may be required to surrender to Lessor any portion of the Leased Premises pursuant to the "Development" section. The tender of any shut-in payment in lieu of royalty payments shall not excuse or otherwise diminish Lessee's obligations to diligently develop the Leased Premises.

15. **OFFSET WELLS, DRAINAGE AND DEVELOPMENT** - Lessee agrees to protect the Leased Premises from potential drainage by wells located on adjoining lands not owned by Lessor and not pooled, communitized or unitized with some or all of the Leased Premises, when such drainage is not compensated for by counter-drainage. It shall be presumed that the production of Oil and Gas from offset wells located in any quarter-quarter section immediately adjacent to the Leased Premises may result in offset drainage unless Lessee demonstrates to Lessor's satisfaction by engineering, geological, or other data that production from such offset well does not result in such drainage, or that the drilling of a well or wells on the Leased Premises would not accomplish the purposes of protecting the deposits under the Leased Premises. Lessor's decision as to the existence of such drainage shall be final, and Lessor shall use the expertise of the Commission or an engineer prior to making a decision. Lessee shall comply with Lessor's order thereon or surrender this Lease as to any such undeveloped acreage as designated by Lessor.

16. **METHANE FROM COAL SEAMS** - Coalbed methane may be produced, saved and/or sold by a coal mining lessee from mineable coal measures and from roofs and floors of mineable coal measures. The gas shall be the property of that lessee provided that the gas is removed only as a mining safety procedure prior to or during mining. Gas that is uneconomical to produce may be vented or flared provided that such venting or flaring complies with all Federal and State requirements. Gas produced by the Oil and Gas Lessee from the mineable coal measures and from roofs and floors of mineable coal measures prior to, during, or after mining shall be the property of the Oil and Gas Lessee under the terms of this Lease. Oil and Gas operations shall not render coal seams unmineable.

17. **EXPLORATION** - Lessor reserves the right to conduct or approve seismic exploration, and to conduct or approve other operations on the Lease Premises to determine the productive potential of the Leased Premises for non-hydrocarbon resources, provided such exploration or operations do not materially interfere with Lessee's operations. Lessor retains the right to grant exploration permits or access rights to third parties to conduct these exploration activities on the Leased Premises.

18. **DAMAGE TO LEASED PREMISES AND BONDS** - All operations of the Lessee shall be conducted in a workmanlike and reasonable manner, and all necessary precautions shall be taken to avoid damage to the Leased Premises. Prior to commencing operations on the Leased Premises, Lessee shall file a good and sufficient bond with Lessor, in an amount to be fixed by Lessor prior to the issuance of the Lease, to secure the payment for damages caused by Lessee's operations on the Leased Premises, and to assure compliance with all the terms and provisions of this Lease. Lessor will accept a bank certificate of deposit, cash, a surety bond, or a bank irrevocable letter of credit. Lessor may agree to accept alternative forms of bonds. Such bond or bonds furnished prior to the development of the lands contained in this Lease may be increased in such reasonable amounts as the Lessor may decide upon commencement of drilling operations and after the discovery of oil or gas. Lessor may require that such bond be held in full force and effect for two years after the termination or expiration of this Lease. In Lessor's discretion, the Lessor may draw upon the bond after Lessee has failed to perform its obligations under the Lease beyond the stated cure periods provided in the Lease.

When the Lessor owns the surface estate, Lessee shall be liable for all damages to the surface of the Leased Premises, native grass, timber, irrigation structures, livestock, growing crops, water wells, reservoirs, or improvements caused by Lessee's operations on the Leased Premises. Lessee shall give or cause to be given to Lessor prompt notice of damage to or destruction of the Leased Premises or its surface, if owned by Lessor, or any part thereof, by any cause, resulting from the Lessee's use. Subject to Lessee's right to make a reasonable use of the surface of the Leased Premises for its operations, and Lessee's obligation to comply with the Commission Rules and Regulations, Lessee shall promptly proceed with due diligence to repair, restore, replace or rebuild so as to make the Leased Premises at least equal in quality to the original condition, restore it as required by the Commission's rules and regulations, and to plans approved in writing by Lessor, if required in the special stipulations of this Lease.

These obligations shall not terminate upon the assignment, termination, surrender or expiration of the Lease, but shall continue until the Leased Premises is returned to at least equal quality to its original condition.

19. **HAZARDOUS MATERIALS** - If any Hazardous Material used on or at the Leased Premises for Lessee's operations and activities by Lessee or Lessee's agents, employees, subcontractors, assignees, or successors, results in damage, destruction or contamination of the Leased Premises, Lessee shall indemnify, defend and hold Lessor harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or

losses (including, without limitation, diminution in value of the Leased Premises, damages for the loss or restriction on use of the Leased Premises, damages arising from any adverse impact on future leasing of the Leased Premises, and sums paid in settlement of claims, attorney fees, consultant fees and expert fees) which arise during or after the lease term as a result of such contamination. This indemnification of Lessor by Lessee includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal, or restoration work required by any federal, state, or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Leased Premises. If the presence of any Hazardous Material on the Leased Premises caused or permitted by Lessee results in any contamination of the Leased Premises, Lessee shall promptly take all actions at Lessee's sole expense as are necessary to return the Leased Premises to the condition existing prior to the introduction of any Hazardous Material to the Leased Premises; provided that Lessor's approval of such actions shall first be obtained. The term "Hazardous Material" means any hazardous or toxic substance, material or waste, which is now regulated or which may become regulated during the Lease term by any local governmental authority, the State of Colorado, including the Commission, or the United States Government.

This provision shall survive termination, cancellation or relinquishment of this Lease and any cause of action by Lessor to enforce it shall not be deemed to accrue until Lessor's actual discovery of said liability, claim, loss, damage, or exposure. At Lessor's discretion, violations of this Section 19 shall result in penalties as provided for by law and as set forth in the "Penalties" section. Lessor has sole discretion to determine that such violation is grounds for termination of this Lease pursuant to the "Default" section. Violations of this Lease may affect the standing of Lessee with respect to the issuance of additional leases.

20. **DEFAULT** - If Lessee fails to keep each and every one of the covenants and conditions herein, and if such default continues for a period of sixty (60) days after service of written notice thereof by certified mail upon Lessee without Lessee taking action calculated to cure the claimed default and prosecuting such action as necessary to fully remedy any such violation or deficiency in performance to the reasonable satisfaction of Lessor, Lessor shall have the right to declare this Lease forfeited, and to enter onto the Leased Premises either with or without process of law, and to expel, remove and put out Lessee or any person occupying the Leased Premises, using such force as may be necessary to do so. In such an event Lessor shall be entitled to recover from Lessee:

- A. The unpaid Bonus, Rent, royalties, penalties and interest which have accrued up until the time of termination together with interest, and,
- B. Any other amount reasonably necessary to compensate the Lessor for the Lessee's failure to perform its obligations under this Lease or which would be likely to result therefrom including, but not limited to, the cost of recovering possession of the Leased Premises; the costs of removal of any facilities or temporary improvements; the costs of compliance with any Commission rules and regulations; the costs to restore the surface to its original condition; reasonable attorneys fees; and any other reasonable costs.

In the event of the termination of the Lease by reason of breach of any covenant herein contained, Lessee shall surrender and peaceably deliver to Lessor the Leased Premises in accordance with and subject to the terms of this Lease, and such Leased Premises shall be in good operating condition. The Lessor's rights and remedies, including those not specifically described, that may be available in law or equity shall be cumulative and Lessor may pursue any or all of such rights and remedies at the same time or separately. Nothing in this paragraph relieves Lessee of any responsibility for the final restoration and reclamation of the Leased Premises.

For purposes of determining a default under the terms of this Lease, Lessor may rely on any finding of violation of a Commission rule, regulation, or order or any stipulated resolution of a claimed violation of a Commission rule, regulation or order including, without limitation, any restrictions, obligations or best management practices imposed in any permit issued by the Commission to the extent the Lessor determines that such violation (i) impacts public health, safety, welfare or the environment, (ii) results in waste of the Oil and Gas resources, (iii) contravenes the Constitutional or statutory obligations of the Lessor, or (iv) demonstrates an intentional disregard for the regulatory process.

21. **PENALTIES - INTEREST** - A penalty may be imposed for, but not limited to, late payments, improper payments, errors on the Oil and Gas royalty reports, failure to comply with any rules and regulations of the Commission, violation of any covenant of this Lease, or false statements made to Lessor. Penalties, taking into account the nature of the claimed deficiency, shall be determined by Lessor and may be in the form of, but not limited to, interest, fees, fines, and/or lease cancellation. Interest shall accrue on any delinquent annual rental, royalty, and other fees due under this Lease from the date the payment becomes due. Interest shall accrue on payments for the first production for any producing well commencing on the first day of the month occurring ninety (90) days after the date of first sale until paid. Interest shall be calculated at the rate of one and one-half percent (1.5%) per month, or any fraction thereof, compounded monthly, until full payment is received by Lessor. In addition, the Lessor may charge penalties as provided in the Lessor's published fee schedules, as they may be amended from time to time. Without excluding other penalties or remedies available under this Lease or as



provided by law, Lessor shall impose a fine, which may be up to \$10,000, for each incident of violation of a Special Stipulation in this Lease.

22. SETTLEMENT - Lessee shall not remove any machinery, equipment or fixtures placed on the Leased Premises, other than drilling equipment, nor draw the casing from any well unless and until all payments and obligations currently due Lessor under the terms of this Lease shall have been paid or satisfied. Any machinery, equipment or fixtures left on the Leased Premises for a period of more than 6 months after the expiration hereof, shall, at Lessor's option and without notice, become the property of Lessor, provided nothing in this paragraph shall relieve the Lessee from its obligations under Commission rules and regulations to remove equipment and restore the surface.

23. SURRENDER - Lessee may at any time surrender this Lease as to all or any portion of the Leased Premises, by paying to Lessor all amounts then due and obtaining written consent of Lessor, which shall not be unreasonably withheld. No partial surrender or cancellation of this Lease shall be for less than contiguous tracts of approximately 40 acres or Governmental lot corresponding to a quarter-quarter section, unless the Lessee's interest in the Lease is less than 40 acres. Lessee shall be relieved of all obligations thereafter accruing as to the acreage so released. Lessor's approval of a surrender shall not release Lessee from any liability for known or unknown waste or damage to the Leased Premises, including environmental damage which arose from, or in connection with Lessee's use or occupancy of the Leased Premises and from any other requirements of this Lease that survive termination of this Lease.

This surrender clause and the option herein reserved to Lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law by Lessee, Lessor or any assignee of either to enforce this Lease, or any of its terms express or implied. In no case shall any surrender be effective until Lessee shall have made provision for the reclamation of the Leased Premises, the conservation of the leased products, and the protection of the Lessor's surface rights on the Leased Premises in accordance with the rules, regulations and orders of the Commission. Surrender of this Lease shall not relieve the Lessee from its obligation to submit reports, documents and information required by Lessor under this Lease, or to other governmental agencies.

24. ASSIGNMENTS - Lessee, with written consent of Lessor, shall have the right to assign the leasehold interest in whole or in part. Any partial assignment must be for contiguous tracts of a minimum of approximately 40 acres or governmental lot corresponding to a quarter-quarter section, unless the Lessee's interest in the Lease is less than 40 acres. Lessor shall require payment of a reasonable assignment fee to cover review and processing expenses in an amount to be determined by Lessor, not to exceed one hundred dollars (\$100.00) per Lease assigned. Any assignment under this provision must comply with the requirements in the "Production" section.

If any assignment of a portion of the Leased Premises shall be approved, a new lease shall be issued to the assignee covering the assigned land, containing the same terms and conditions as this Lease. An assignment shall not extend the term of this Lease. Lessor's approval of an assignment shall not release Lessee from any liability for known or unknown waste or damage to the Leased Premises, including environmental damage which arose from, or in connection with Lessee's use or occupancy of the Leased Premises and from any liability for violations of this Lease or of rules and regulations of the Commission during Lessee's use or occupancy of the Leased Premises.

Lessee shall notify Lessor of all assignments of undivided percentage or other interests including, without limitation, assignments of operating rights. Said interests will not be recognized or approved by Lessor, and the effect of any such assignments will be strictly and only between the parties thereto, and outside the terms of this Lease. No dispute between parties to any such assignment shall operate to relieve Lessee from performance of any terms or conditions or to postpone any time requirements. However, if Lessee assigns 100 percent of said interest in this manner, a leasehold assignment must be received and approved by Lessor to assure that a leasehold interest is maintained by the record lessee. Lessor shall at all times be entitled to look solely to Lessee or his assignee shown on Lessor's books as being the sole owner hereof, and for the sending of all notices required by this Lease and for the performance of all terms and conditions hereof.

25. HOLD HARMLESS - Lessee assumes all liability arising directly or indirectly from Lessee's use, occupation or control of the Leased Premises by Lessee under this Lease. This assumption includes, but is not limited to, liability for all personal injuries (including death) and environmental and property damage and destruction caused by or arising out of Lessee's operations, or caused by or arising out of operations conducted by any party at the direction of Lessee; with the exception of any injuries, damage, or destruction caused by the gross negligence or intentional misconduct of Lessor. Lessee agrees to defend, indemnify and hold harmless Lessor from and against liability, damage, expense, claim and judgment arising under this Lease caused by Lessee, or by any party acting at the direction of Lessee, or Lessee's designated operators, agents, employees or assigns. Lessee further agrees to indemnify Lessor for any costs, including costs of suit and fees for consultants, experts, and attorneys, incurred by Lessor in terminating or canceling, enforcing obligations or defending itself against any

matter arising under this Lease. This provision shall survive termination, cancellation or relinquishment of this Lease and any cause of action by Lessor to enforce it shall not be deemed to accrue until Lessor's actual discovery of said liability, claim, loss, damage, or exposure.

26. CONDEMNATION - If the Leased Premises shall be taken in any condemnation proceeding which prevents development of the mineral estate, this Lease shall automatically terminate as of the date of taking. The award for such condemnation shall be paid to Lessor, except for any specific award(s) paid to Lessee for severed Oil and Gas reserves, in which event a percentage of such specific awards equal to royalty as specified under the "Royalty" section shall be paid to Lessor. Improvements shall be removed by Lessee per terms in the "Settlement" section. If only a portion of the Leased Premises is taken by condemnation, Lessee may, at its option, terminate this Lease or terminate only that portion of the lease so taken.

27. WAIVER OF COVENANTS REGARDING TITLE AND CONDITION OF LAND - Lessee leases the Leased Premises in its "as is" condition with all faults, including the environmental condition of the Leased Premises. Lessor makes, and Lessee affirms that Lessor has made no representations or warranties, express or implied, of any kind whatsoever with regard to the title or condition of the Leased Premises or its fitness or suitability for any particular use. Lessee acknowledges that it is solely responsible for performing its own due diligence and for becoming fully familiar with the title, encumbrances and condition of the Leased Premises and any applicable restrictions, uses, or other conditions that might affect its development or use for a particular purpose. In the event that an oil and gas lease has been previously issued on the Leased Premises and is still in effect, Lessor may, at its sole discretion, terminate this Lease and refund all payments, including bonus and rent. Lessor shall not be liable for any loss or liability caused by the existence of a prior lease.

28. RECORDS - Lessee agrees to keep and to have in possession complete and accurate books and records regarding the Lessee's payment obligations and operations on the Leased Premises, including, but not limited to, contracts and agreements for the sale or exchange, or other disposition of Oil and Gas, and records showing the production, sale, exchange and disposition of any and all substances produced from the Leased Premises, including all pertinent purchaser, transporter and/or pipeline, and processor statements/reports showing the date, volume, price, gravity, BTU, and other such information necessary to determine the royalty value for all substances produced from the Leased Premises, including Oil, Gas, and Natural Gas Liquids. Lessee shall permit Lessor, at all reasonable hours, to audit, examine, or copy such books, accounts, and records, or to furnish copies of same to Lessor within 10 days of request. Any confidential information reviewed during such audit or examination shall be kept confidential by Lessor to the extent allow by law. Lessor will not be unreasonable with requests. All said books, accounts, and records shall be retained by Lessee and made available in Colorado to Lessor for a period of not less than 7 years. Lessor reserves the right to access the Leased Premises at all reasonable times in order to inspect the Leased Premises and to investigate and secure compliance with this Lease at its sole risk and expense, provided if Lessor sustains any injury or damage or destruction occurs as a result of Lessee's failure to comply with the Lease terms, Lessee shall defend, indemnify and hold Lessor harmless from all damage, suits and claims arising out of or related to such noncompliance.

29. INSURANCE - The Lessee, at its sole cost and expense shall, prior to any surface disturbance and continuing during the entire lease term thereafter, procure, pay for and keep or shall ensure that its Operator procures, pays for and keeps in full force and effect the following types of insurance:

- A. Liability Insurance  
A comprehensive policy of liability insurance covering the Leased Premises insuring the Lessee, or the Operator, in the amount and types of insurance required by the Commission, but not less than one million dollars per occurrence.
- B. General Provisions of Insurance Policies
  - i. All policies of insurance carried by the Lessee shall name the Lessee as insured and shall name the Lessor as additional insured on the policy.
  - ii. Lessee shall not cancel or materially alter the policy until thirty (30) days prior written notice is given to the Lessor. Lessee shall notify Lessor if the policy is cancelled or materially altered by the insurance company within 10 days of Lessee receiving notification of such cancellation or alteration.
  - iii. The Lessee shall furnish to Lessor a certificate of insurance at the request of Lessor.
  - iv. Notwithstanding anything to the contrary contained herein, the Lessee's obligation to carry insurance as provided herein may be brought within the coverage of a "blanket" policy or policies of insurance carried and maintained by the Lessee, so long as such policy(s) segregates the amount of coverage applicable to the Leased Premises.
- C. Lessor may accept, in writing, that Lessee's self insurance meets these insurance requirements.

30. TAXES - Lessee shall pay all taxes, or payments in lieu of taxes, lawfully assessed for the Leased Premises or improvements thereon. Taxes shall not be deducted, directly or indirectly from Lessor's royalties.

31. HEIRS AND ASSIGNS - The benefits and obligations of this Lease shall inure to and be binding



upon the heirs, legal representatives, successors or assigns of Lessee. No sublease or assignment hereof, or of any interest herein, shall be binding upon Lessor until the same has been approved by Lessor as explained in the "Assignment" section.

**32. SURVIVAL OF TERMS, CONDITIONS, RESTRICTIONS, RESERVATIONS, AND COVENANTS**

Any term, condition, restriction, reservation or covenant that gives rise to any rights or claims of Lessor against Lessee shall be deemed to survive the termination, relinquishment, surrender or abandonment of this Lease until all claims and issues have been settled or resolved. Upon termination, surrender, or abandonment of this Lease for any reason, provided Lessor does not expressly take-over or assume any of Lessee's obligations hereunder, Lessor shall not be liable or responsible for compliance with any laws, rules, regulations, orders, local ordinances or resolutions applicable to this Lease.

**33. NO WAIVER** - No failure by either party to exercise and no delay in exercising any right, power or privilege hereunder will operate as a waiver hereof, nor will any single or partial exercise of any right or privilege hereunder preclude further exercise of the same right or the exercise of any right hereunder. A waiver on one or more occasions of any of the provisions hereof shall not be deemed a continuing one. Acceptance of payments by Lessor shall not be deemed to effect (a) a ratification, renewal, extension, or amendment of this Lease, or (b) a waiver of any rights granted to Lessor, the obligations imposed upon Lessee, express or implied, or the remedies for Lessee's breach, or (c) an estoppel against Lessor preventing Lessor from enforcing Lessor's rights or Lessee's obligations hereunder, express or implied, or from seeking damages for Lessee's breach thereof. No instrument executed by Lessor shall be effective to constitute ratification, renewal, extension or amendment of this Lease unless the instrument is clearly titled to indicate its purpose and intent.

**34. LIENS AND CLAIMS** - Lessee shall not suffer or permit to be enforced against the Leased Premises, or any part thereof, or any improvements thereon, any liens arising from, or any claim for damage growing out of the work of any construction, repair, restoration, replacement or improvement, or any other claims or demand howsoever the same may arise, but Lessee shall pay or cause to be paid all of said liens, claims, or demands before any action is brought to enforce the same against the Leased Premises or improvements. Lessee agrees to defend, indemnify and hold Lessor and the Leased Premises free and harmless from all liability for any and all such liens, claims, demands, and actions together with reasonable attorney fees and all costs and expenses in connection therewith, as they arise from or relate to any liens or claims described in this section. Lessee shall, upon execution of this Lease at its cost, prepare a Notice, pursuant to C.R.S. 1973, § 38-22-105 and cause the same to be posted for the purpose of protecting Lessor against any liens or encumbrances upon the Leased Premises by reason of work, labor, services or materials contracted for or supplied to Lessee.

Notwithstanding the foregoing, if Lessee contests the validity of any such lien, then the Lessee shall at its sole expense defend itself and the Lessor against the same and shall pay and satisfy any adverse expense or cost or adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Leased Premises, upon the condition that if the Lessor shall require, the Lessee shall furnish a surety bond satisfactory in form and amount to the Lessor. Said bond shall not be less than one hundred twenty percent (120%) of such contested lien indemnifying the Lessor against liability for the same, and holding the Leased Premises free from the effect of such lien.

**35. CONFIDENTIALITY** - The parties acknowledge and understand that Lessor is a State Agency, and therefore, by operation of law, the majority of documents in Lessor's possession are public records for open review by the general public as required by law, including, but not limited to, the Colorado Open Records Act ("CORA"). CORA provides for exemptions that may be applicable to documents submitted by Lessee. Lessee may identify confidential proprietary information as confidential in a clear and distinct manner on the document. However, the fact that a document is marked confidential does not make a document exempt from public inspection. Lessor will notify Lessee of documents that are labeled as confidential are responsive to a CORA request. Lessee may request that the documents not be made available for review pursuant to an exemption provided in CORA. If Lessee objects to disclosure, Lessee shall take full responsibility for any ensuing action by any third party to obtain such records and shall assume all potential liability related to efforts to obtain access to such documents.

For as long as the Commission deems it confidential, the Lessor shall hold and retain any geologic, geophysical or other technical or production data filed with the Commission that the Commission has deemed properly marked "confidential" pursuant to §34-60-106(1)(b) C.R.S., including all down - hole, geophysical electric logs (including directional surveys), any geologic reports, core analysis or drill stem tests, drilling and Completion Report (Commission Form 5), Completed Interval Report (Commission Form 5A), Production Report (Commission Form 7). Such information shall be considered privileged and confidential geological and geophysical information as recognized in § 24-72-204(3)(a)(IV), C.R.S., as same may be amended from time to time.

**36. NOTICE** - Every notice, demand, request, designation, consent, approval, or other document required under the provisions of this Lease shall be in writing, shall be sent by registered or certified United States mail, postage prepaid, return receipt requested. The parties may change their address for notice purposes by

giving the other party at least ten (10) days prior written notice. Notices shall be sent to the Lessee of record.

37. MISCELLANEOUS -

A. False Statements

Any material false certification or statement by the Lessee in the application, public disclosure statement or qualification of financial responsibility statement required to be submitted with the application for the Lease, or in any other document or report required to be submitted under this Lease shall, at the discretion of the Lessor, result in penalties or termination of this Lease and an action for damages.

B. Authority of the Parties

If the Lessee is an entity other than an individual, each individual executing this Lease on behalf of said entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity and that this Lease is binding upon said entity in accordance with its terms. Except to the extent otherwise stated in this Lease, Lessor is the sole owner of the Leased Premises in fee simple and each person or entity signing the Lease on behalf of Lessor has the full and unrestricted authority to execute and deliver this Lease and to grant the easements and rights granted herein.

C. Entire Agreement

This Lease and all documents incorporated herein by reference represent the entire agreement between the parties hereto. No oral agreement shall be held to vary the provisions hereof. Implied covenants in oil and gas leases recognized by Colorado courts shall be incorporated into this Lease.

D. Amendments

This Lease shall not be amended or ratified except by written document executed by the parties hereto.

E. Timeliness and Costs

Time is of the essence in the performance of this Lease. Lessee's failure to perform any of its obligations under this Lease in a timely manner shall be a breach of this Lease. Unless the context clearly implies otherwise, each and every act to be performed or obligation to be fulfilled by the Lessee under this Lease shall be performed or fulfilled at the Lessee's sole cost and expense.

F. Governing Law

This Lease shall be governed by and construed in accordance with the laws of the State of Colorado.

G. Severability

If, for any reason, provisions of this Lease or the application thereof to any person or circumstances shall, to any extent, be deemed invalid or unenforceable, the remainder of this Lease shall not necessarily be affected thereby and each provision of the Lease shall be valid and enforceable to the fullest extent permitted by law.

H. No Joint Venture

Lessor is not and will not be construed to be a partner, joint venturer or associate of Lessee in the conduct of the business of Lessee. Lessor shall not be liable for any debts incurred by Lessee in the conduct of Lessee's business.

I. Force Majeure

If performance of this Lease or of any obligation hereunder is prevented or substantially restricted or interfered with by reason of an event of "Force Majeure" (defined below), the affected party, upon giving notice to and receiving approval from the other party, shall be excused from such performance to the extent of and for the duration of such prevention, restriction or interference, except for the payment of Rent. The affected party shall use its reasonable efforts and due diligence to avoid or remove such causes of nonperformance, and shall continue performance hereunder whenever such causes are removed. "Force Majeure" means flood, drought, earthquake, storm, fire, tornado, lightning, windstorm, unusually inclement weather or other natural catastrophe; acts of God, casualty or accident; war, sabotage, vandalism, civil strife or other violence; strikes or labor disputes; or any law, order, proclamation, regulation, ordinance, action, demand or requirement of any government agency or utility. If the event of Force Majeure lasts an unreasonable amount of time as mutually determined by Lessor and Lessee, Lessee may request that Lessor terminate this Lease. Such determination shall be at Lessor's sole discretion.

J. Archaeology

Lessee may not excavate, appropriate or disturb any historical, prehistorical or archaeological site or resource on any lands administered by Lessor. Discovery or indication of such a site or resource shall be immediately brought to the attention of Lessor and the State Archaeologist. Lessee shall comply with the requirements of C.R.S. 24-80-401 through 411, as amended.

K. Errors

Every effort is made by Lessor to avoid errors in all procedures, including, but not limited to,



auction listings and lease preparation. Lessor shall not be liable for any inconvenience or loss caused by errors. Lessee shall notify Lessor immediately upon discovery of any errors or discrepancies.

L. No Third Party Beneficiary

Nothing in this Lease is intended, nor will be deemed, to confer rights or remedies upon any person or legal entity not a party to this Lease, including other tenants, lessees or permittees of the Lessor or surface owners if any portion of the surface estate is not owned by the Lessor.

IN WITNESS WHEREOF, Lessor has hereunto signed and caused its name to be signed by the STATE BOARD OF LAND COMMISSIONERS, with the seal of the office affixed, and Lessee has signed this agreement, the day and year first above written.

Recommended:

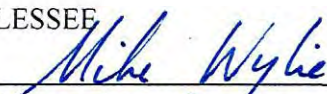
STATE BOARD OF LAND COMMISSIONERS

  
Timothy J. Kelly, Minerals Leasing Manager

  
Pete Milonas, Minerals Director



LESSEE

  
Mike Wylie, President of Cascade Petroleum LLC  
Seal or Authority

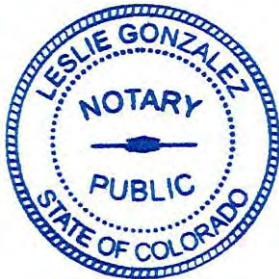
ATTEST [Only completed at request of Lessee]


State of Colorado

County of Denver

The foregoing instrument was acknowledged before me this 13 day of September 2012, by Mike Wylie,  
President of Cascade  
Petroleum LLC as being authorized to execute same.

(SEAL)



Notary Public   
My Commission Expires 3/15/2016