



PRODUCERS 88-PAID UP

AGREEMENT, Made and entered into the 18th day of January, 2003, by and between Morgan Ranch, Limited Liability Partnership, Lee Morgan General Partner Wilma L. Morgan, General Partner Michael L. Morgan, Limited Partner Matthew E. Morgan, Limited Partner whose post office

address is 1205 WALK AVENUE, GLENWOOD SPRING, COLORADO 81601-3252, hereinafter called Lessor (whether one or more) and

Young Enterprises, whose post office address is 612 Nico Way, Grand Junction, CO 81508, hereinafter called Lessee;

WITNESSETH, That the Lessor, for and in consideration of TEN AND MORE DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land and premises described, with the exclusive right for the purpose of drilling, mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, specifically including helium, carbon dioxide, and coalbed methane and any and all substances produced in association therewith from coal-bearing formations, caving of coalbed methane with ingress and egress for rights of way and easements for roads, laying pipe lines, water wells, disposal wells, injection wells, pits, electric and telephone lines and erection of structures and other facilities thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Garfield, State of Colorado, described as follows, to-wit:

**Township 6 South, Range 90 West, 6<sup>th</sup> P.M.,  
Section 32: 8E $\frac{1}{2}$ N $\frac{1}{2}$   
Section 33: 8N $\frac{1}{2}$ W $\frac{1}{2}$ , N $\frac{1}{2}$ NW $\frac{1}{2}$ , N $\frac{1}{2}$ SW $\frac{1}{2}$**

together with any reversionary rights therein, and together with all riparian rights and strips or parcels of land, (not, however, to include parcels comprising a regular 40-acre legal subdivision or lot of approximately corresponding size) adjoining or contiguous to the above described land and owned or claimed by Lessor, and containing 240.00 acres, more or less ("Leased Premises").

It is agreed that this lease shall remain in force for a term of Ten (10) years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced in paying quantities from the leased premises, communitized or unitized therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the Leased Premises or on acreage pooled, communitized or unitized therewith but Lessee is then engaged in drilling, re-working, or dewatering operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the Leased Premises or on acreage pooled, communitized or unitized therewith, and operations shall be considered to be continuously prosecuted if not more than one hundred (100) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If, after one hundred (100) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well, then the lease shall terminate if no discovery of oil or gas on the Leased Premises or on acreage pooled, communitized or unitized therewith, or drilling, re-working or dewatering operations within one hundred and twenty (120) days after the primary term, this lease shall not terminate if, prior to or from the date of completion of a well, if oil or gas shall be discovered and produced as a result of such operations or if drilling, re-working or dewatering operations are continued at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced or dewatering operations are continued from the Leased Premises or on acreage pooled, communitized or unitized therewith.

In the event a well or wells is drilled and completed on the Lessor Premises, or on the lands pooled, communitized or unitized therewith, for the purpose of developing coalbed gas, the words "operations" and "capable of producing gas" shall mean, in addition to those matters covered in the preceding paragraph: (1) operations of said wells to remove water or other substances from the coalbed, or to dispose of such water or other substances, even though such operations do not result in the production of hydrocarbons in paying quantities, or (2) shutting-in or otherwise discontinuing production from said wells to allow for surface or underground mining affecting the drilling or wellbore.

THIS IS A PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of the Lessor's Premises and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing to the acreage surrendered.

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

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

1<sup>st</sup> To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on the Leased Premises, the equal one-eighth (1/8) part of all oil produced and saved from the Leased Premises.

7<sup>th</sup> To pay Lesser on gas and casinghead gas produced from the Leased Premises (1) when sold by Lessee, one-eighth (1/8) of the net proceeds realized by Lessee from such sale or (2) when used by Lessee off the Leased Premises or in the manufacture of gasoline or other products, the market value, at the wellhead, of one-eighth (1/8) of such gas and casinghead gas, Lessee's interest, in either case, to bear one-eighth of the cost of compressing, dehydrating and otherwise treating such gas or casinghead gas to render it marketable or usable and one-eighth (1/8) of the cost of gathering and transporting such gas and casinghead gas from the wellhead to the point of sale or use.

3<sup>rd</sup> To pay Lessors for gas produced from any oil well and used off the Leased Premises or in the manufacture of gasoline or any other product, a royalty of one-eighth (1/8) of the proceeds, at the wellhead, payable monthly at the prevailing market rate.

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5. If said Lessor owns a less interest in the Leased Premises, then the entire and undivided fee simple estate therein, then the royalties (including any shut-in royalties) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessor shall have the right to use, frack or prod. gas, oil and water produced on the Leased Premises for Lessor's operations thereon.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on the 1/4

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth. Lessee shall be drilled no more than 300 feet to the house or barn near on the Leased Premises without a written consent of Lessor.

B. No well shall be drilled nearer than 200 feet to the house or barn now on the Leased Premises without written consent of the lessor. The lessor shall be held harmless by Lessee's operations to growing crops on the Leased Premises.

9. Lessee shall only pay for damages caused by Lessee's operations to growing crops on the Leased Premises.  
10. Lessee shall have the right at any time to remove all machinery and fixtures placed on the Leased Premises, including the right to draw and remove casing.  
11. The rights of Lessee and Lessee hereunder may be assigned in whole or part, by area and/or depth or zone and the rights and obligations of the parties shall survive the termination or expiration of this agreement.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or in part, by any lawful agent of Lessor and Lessee, and the rights of Lessor hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in ownership of Lessor's interest (by assignment or otherwise) shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until sixty (60) days after the date of the change in ownership. Lessor hereby agrees to execute and deliver to Lessee, at Lessee's request, all documents and other information necessary to establish the validity of this lease and to perfect the rights of Lessee hereunder.

complete chain of record title from Lessor to the satisfaction of Lessee, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall have the effect of establishing a right in Lessee to demand or receive copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor to the satisfaction of Lessee, and then only with respect to payments thereafter made. No other kind of notice, whether actual or

reconstructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of this Leasehold premises shall operate to modify the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. In the event of death of any person entitled to a share in royalties hereunder, Lessee may pay or tender such share in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to a share in royalties hereunder, Lessee may pay or tender such share in royalties to the credit of one or more of them, and the payment or tender to any one of them shall constitute payment or tender to all of them.

to that the royalties hereunder, Lessee may pay or tender such sum in royalties to one or more of the following:

that the royalties hereunder, Lessee may pay or tender such sum in royalties to such persons either jointly, or separately in proportion to the interest which each owns in the property hereunder, Lessee may transfer or assign its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and the transferee shall assume the obligations of Lessee with respect to any interest not so transferred.

failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the Lease Premises, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

12. Lessee, at its option is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Leased Premises and as to any one or more of the formations hereunder, to pool, communitize or unitize the leasehold estate and the mineral estate covered by this lease with other leasehold estates and mineral estates owned or controlled by Lessee or other persons, and to execute and deliver such instruments as may be necessary to carry out the foregoing, and to take such other action as may be necessary to carry out the foregoing, and to take such other action as may be necessary to carry out the foregoing, and to take such other action as may be necessary to carry out the foregoing.

any part of the Leasehold premises shall not be used for the production of oil and gas, or separately for the production of either, within Lessee's judgment in this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed (including formations, subsurface areas, or any one or more) may be reformed to exclude such non-reforming formations. The forming or reforming of any unit, pooled area or

to include formations not producing oil or gas, may be referred to exclude such non-producing formations. The term or referring to any unit, pooled area or communitized area shall be accomplished by Lessee executing and filing of record a declaration of such unitization, pooling or communitization or reformation, which declaration shall describe the unit, pooled area or communitized area. Any unit, pooled area or communitized area may include land upon which a well has theretofore been drilled.

completed or upon which operations for drilling have therefore been commenced. Production, drilling, dewatering or reworking operations at a well shut-in for want of market anywhere on a unit, pooled area or communitized area which includes all or a part of this lease shall be treated as if it were production, drilling, dewatering or reworking operations at a well shut-in for want of market anywhere on a unit, pooled area or communitized area which includes all or a part of this lease. The term of the revulsion of operations herein provided, including shut-in and operations, shall be the term of the lease.

reworking operations or a well shut-in for work of a market under this lease. In lieu of the royalties otherwise herein specified, including shut-in gas royalties, Lessee shall receive on production from the unit, pooled area or communitized area, royalties only on the portion of such production allocated to this lease; such allocation shall be the proportion of the unit, pooled area or communitized area production that the total number of surface acres covered by this lease and included in the unit, pooled area or communitized area bears to the total number of surface acres covered by all leases and included in the unit, pooled area or communitized area.

proportion of the unit, pooled area or communalized area production that the total number of surface acres covered by such state are included in the same proportion in the total number of surface acres in such unit, pooled area or communalized area or as prescribed in such unit, pooling or communalization agreement. In addition to the foregoing, Lessee shall have the right to utilize, communitize, pool, or combine all or any part of the Leased Premises as to one or more of the following: (a) production of oil, gas, or other hydrocarbon substances; (b) production of geothermal energy; (c) production of any other mineral substances; or (d) production of any other substances, whether or not mineral in nature, which are subject to taxation as oil and gas under the laws of the State of Texas.

formations throughout with other lands in the same general area by entering into a cooperative or unit 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 such event, the terms, conditions and provisions of this lease shall, deemed modified in conformity with the terms, conditions and provisions of such approved cooperative or unit plan of development or operation and, particularly, shall

Leases shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan or development or operation as such plan or development or operation may from time to time be amended, altered, changed, revised, or otherwise modified. The drilling and development requirements of this lease, express or implied, shall be construed 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. In the event that the Lessee Premises or any part thereof, shall hereafter be sold, conveyed, transferred, assigned, or otherwise disposed of, the rights and obligations of the parties hereto shall survive and bind their heirs, assigns, personal representatives, legal representatives, successors, and assigns.

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produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any pooled area, communitized area, cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

operation adopted by Lessee and approved by any governmental agency by executing the assignment together with Lessee.

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13. Anything in this lease to the contrary notwithstanding, Lessee's obligations under this lease shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas or other substance covered hereby. When drilling, reworking, production or other operations or obligations under this lease are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, curfew or restriction, or by inability to obtain a satisfactory market for production, or failure of purchaser or carrier to take or transport such production, or by any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within control of Lessee, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provision or implied covenants of this lease when drilling, production, or other operations are so prevented or delayed.

14. No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such time period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

15. Lessor hereby warrants and agrees to defend the title to the Leased Premises, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgage, loan or other lien on the Leased Premises, in the event of default of payment by Lessor and to subrogate to the rights of the holder thereof, and the undersigned Lessor, for themselves and their heirs, successors and assigns, hereby surrender and release all rights of dower and homestead in the Leased Premises described herein, insofar as said right of dower and homestead may in any way affect the purpose for which this lease is made, as recited herein. If Lessee redeems any such lien, Lessee may recover any amount expended out of Lessor royalties or shut-in royalties.

16. Should any one or more of the parties hereabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

17. If Lessor, during the primary term of this lease, receives a bona fide offer from a third party to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the Leased Premises, with such lease to become effective upon expiration of this lease, which Lessor is willing to accept from the offering party, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen (15) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein covered by the offer at the price and on the terms and conditions in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this paragraph. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail, telex, or telegram prior to expiration of said fifteen (15) day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution by Lessor along with Lessee's right draft (or check) payable to Lessor in payment of the specified amount as consideration for the new lease, such draft, if applicable, being subject to approval of title according to the terms thereof. Upon receipt thereof, Lessor shall promptly execute said lease and return same along with the draft to Lessor's back of record for payment.

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

X Lee Morgan  
Lee Morgan, General Partner  
SS# 524-28-4617

X Wilma L. Morgan  
Wilma L. Morgan, General Partner  
SS#

X Michael L. Morgan  
Michael L. Morgan, Limited Partner  
SS#

X Matthew E. Morgan  
Matthew E. Morgan, Limited Partner  
SS#

#### ACKNOWLEDGMENT--INDIVIDUAL

STATE OF Colorado  
COUNTY OF Garfield

The foregoing instrument was acknowledged before me this 21st day of January, 2003, by Lee Morgan General Partner and Wilma L. Morgan, General Partner of Morgan Ranch Limited Liability Partnership

Witness my hand an official seal,

My Commission Expires 7-11-2005



My Commission Expires 7-11-2005

STATE OF Colorado  
COUNTY OF Garfield

The foregoing instrument was acknowledged before me this 21st day of January, 2003, by Michael L. Morgan, Limited Partner and Matthew E. Morgan, Limited Partner of Morgan Ranch Limited Liability Partnership

Witness my hand an official seal,

My Commission Expires 7-11-2005



STATE OF Colorado  
COUNTY OF Garfield

#### ACKNOWLEDGMENT--INDIVIDUAL



The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_

Witness my hand an official seal,

My Commission Expires \_\_\_\_\_

Notary Public

Return To:

ROBERT P. KIRGAN  
112 1/2 REDDING LN  
GRAND JUNCTION, CO 81504