



658694 08/25/2004 04:17P B1617 P44 M ALSDORF  
1 of 29 R 146.00 D 0.00 GARFIELD COUNTY CO

Trade No. 1030794

**OIL AND GAS LEASE**

**STATE OF COLORADO**

**COUNTY OF GARFIELD**

This lease is made effective as of the 10 day of AUGUST, of 2004.

**LESSOR:** Exxon Mobil Corporation, a New Jersey corporation  
P.O. Box 4610  
Houston, Texas 77210-4610

**LESSEE:** Williams Production RMT Company  
Tower 3, Suite 1000  
1515 Arapahoe Street  
Denver, Colorado 80202

**Exxon Mobil Corporation**, hereinafter called "Lessor" for TEN DOLLARS (\$10) and other valuable consideration paid by Williams Production RMT Company, hereinafter called "Lessee", does grant, lease and let unto Lessee its interest in the following described property for purposes of investigating, exploring, prospecting, drilling and mining for, and producing oil and gas from the following described land hereinafter referred to as the "Leased Premises."

**PROPERTY DESCRIPTION**

308.00 gross acres, more or less, being part of the NW/4 and the S/2 of Section 6, Township 7, South, Range 95 West, 6<sup>th</sup> P.M., Garfield County, Colorado, more particularly described on the attached Exhibit "A".  
Limited from the surface to the base of the Mesa Verde formation, but not to exceed 7,990'.

**NO SURFACE OCCUPANCY** by Lessee permitted on Tract 6 described on the attached Exhibits "A" and "A-1".

**I. TERM**

**A. PRIMARY TERM:** Subject to the other provisions herein, this Lease shall be for a term of two (2) years from the effective date hereof ("primary term") and as long thereafter as oil and gas, or either of them is produced from the Leased Premises.

**B. CONTINUOUS OPERATIONS:** Notwithstanding anything herein to the contrary, in the event this Lease is maintained in effect past the expiration of the

**Please return to:**  
Ms. Annette Apperson  
Williams Production RMT Company  
1515 Arapahoe St., Twr 3, Suite 1000  
Denver, CO 80202

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1451  
(29)

primary term, then on the later of (a) one hundred eighty (180) days following the end of the primary term; and (b) such date as Lessee is no longer conducting a "continuous development program" on the Leased Premises, this Lease shall terminate:

- 1) as to all lands which have not been included in a proration, spacing unit, or pooled unit in which a well was drilled and completed as a well capable of producing oil and gas in paying quantities pursuant to this Lease; and
- 2) as to all depths in each unit retained by lessee hereunder (with such termination at Lessor's sole option) one hundred (100) feet below the deepest producing perforation depth or below the base of the deepest productive formation of any such unit, whichever is shallower, in the well drilled in such unit.

It is further agreed that this Lease shall terminate as to all lands retained hereunder in which the well or wells are no longer capable of producing oil and/or gas in paying quantities, unless Lessee commences operations for drilling or reworking operations on said well or any additional well with no cessation of more than sixty (60) consecutive days until a well is completed which produces, or is capable of producing, oil and/or gas in paying quantities.

A "continuous development program" for purposes of this provision B shall consist of a period during which Lessee conducts operations for the drilling of a well on the Leased Premises, or lands pooled therewith, with no lapse of more than sixty (60) days between the completion or plugging and abandoning of one well and commencement of operations on the next succeeding well, and with operations for drilling on each well being conducted with no cessation of more than sixty (60) consecutive days. For the purposes of this paragraph, "completion" of a well shall be deemed the date on which the applicable completion form is filed by Lessee in conformance with the requirements of the rules and regulations of the regulatory agency for the state in which the well is located.

Within sixty (60) days after any portion of this Lease has terminated, Lessee shall provide Lessor a release of such acreage in a form recordable in the appropriate records. In the event Lessee fails to provide such a release within such period, Lessee shall pay to Lessor the sum of one hundred dollars (\$100) per each day that elapses until such release has been granted, it being understood that such sum has been agreed upon as liquidated damages for the inconvenience such delay causes to Lessor and not as a penalty, and that the parties have agreed upon such sum as an attempt to make a reasonable forecast of Lessor's probable loss because of the difficulty of estimating with exactness the damages that will result.



C. **SAVINGS CLAUSE:** If, at the expiration of the primary term, oil or gas is not being produced on the Leased Premises, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, this Lease shall remain in force so long as operations on said well, or for the drilling or reworking of any additional well, are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the Leased Premises.

II. **ROYALTIES**

A. **AMOUNT:** Lessee shall pay Lessor the following royalties:

- 1) On oil, **twenty-five percent of eight-eighths (25% of 8/8ths)** of all that is produced and saved from the Leased Premises, delivery of such oil to be made free of all costs and expenses in developing and operating the Leased Premises and free of all costs of production, to Lessor's credit into the pipelines or tanks to which the wells may be connected or otherwise as Lessor may from time to time direct. Should Lessor elect not to take its overriding oil in kind, then Lessor's part of such oil shall be paid at the market value at the well, free of all costs of developing and operating the Leased Premises and free of all costs of production.
- 2) On gas, including casinghead gas or other gaseous substances and liquid constituents of said gas, produced from and sold (on or off the Leased Premises) or used off the Leased Premises, or for the extraction of gasoline or other products therefrom, the market value at the well of **twenty five percent of eight-eighths (25% of 8/8ths)** of the gas so produced, sold or utilized, free of all costs of developing and operating the Leased Premises and free of all costs of production.

B. **PROPORTIONATE REDUCTION.** Said royalty payments shall be decreased proportionately if the Leased Premises covers less than the entire and undivided fee interest in the described lands and/or the unit assigned to the applicable well.

C. **GOVERNMENT REGULATION OF PRICE.** Notwithstanding any provision in this Lease to the contrary, if the price of any substance upon which royalty is payable hereunder is regulated by any governmental agency, the market value of such substance for the purpose of computing the overriding royalty hereunder shall not be in excess of the price which Lessee may lawfully receive.

D. **TAXES.** Said royalty payments shall be paid to Lessor free of all taxes except applicable gross production and severance taxes.

**E. PAYMENT.** Payment by Lessee of the overriding royalties or payments out of production herein reserved and of all royalties, overriding royalties and other burdens attributable to the Leased Premises, must be made from the date of first production and at all times thereafter on the basis of 100% of the oil and gas produced and sold (on or off the premises) or used off the Leased Premises (reduced to that percentage of such production that is attributable to the Leased Premises). Such payments must be made regardless of whether Lessee is selling all or any part of Lessee's share of production and regardless of the identity of the purchaser or purchasers of such production. Such payments shall be made on or before the twentieth (20th) day of the second calendar month after the month in which the royalties accrued. Lessee agrees to send all division orders covering the royalty retained hereunder to:

Ownership Organization  
Exxon Mobil Corporation  
P. O. Box 2305  
Houston, Texas 77252-2305

or to such other address as Lessor may, from time to time, designate in writing.

**F. RIGHT TO TAKE GAS IN KIND.** Notwithstanding anything in this Lease to the contrary, Lessor shall have the right and option at any time and from time to time to take Lessor's royalty share of the gas produced from or allocated to the Leased Premises in kind. Said right and option may be exercised upon giving Lessee thirty (30) days written notice of such election. If Lessee elects to take such royalties in kind, such taking in kind shall be subject to the "Gas Balancing Agreement" attached as **Exhibit "B"**.

**G. FREE FUEL:** To the extent it has the authority to do so, Lessor grants to Lessee free use of oil, gas, fuel and water from the Leased Premises, except water from Lessor's wells, for all operations hereunder and the royalty on oil and gas shall be computed after deducting any so used.

### **III. RIGHTS RESERVED BY LESSOR**

**A. INGRESS AND EGRESS:** Lessor shall have the right of ingress to and egress from the Leased Premises for the purposes for the enjoyment for any rights reserved or retained by Lessor hereunder. In addition to such rights, Lessor reserves the right to have access to the Leased Premises to conduct seismic, geophysical, and other investigations to obtain information regarding the Leased Premises.

**B. ACCESS TO WELL(s):** Lessor's representatives shall at all times have free access to the well and derrick floor of any well drilled hereunder.

**C. PREFERENTIAL RIGHTS TO PURCHASE OIL AND GAS:**

**1) Preferential Right to Purchase Oil:**

a) **Nature of Right.** For so long as any of the interests created by this instrument remain extant, Lessor reserves and shall have the right to purchase from time to time all or any portion of the oil, distillate, condensate, drip gasoline, or other liquid hydrocarbons (hereinafter referred to as "oil") which may be produced and saved from or allocated to the Leased Premises hereunder, except for that oil which is used for operations upon, and for the sole benefit of, the Leased Premises.

b) **Notice and Election.** Whenever it appears that Lessee will complete a well capable of producing oil in paying quantities and all or a portion of such well's production will be from or allocated to the Leased Premises, and at any time thereafter within thirty days of having been requested by Lessor to do so, the number and frequency of such requests to be at Lessor's sole discretion, Lessee will notify Lessor in writing of the production status of the interests covered hereby, which writing shall be sent, postage prepaid and addressed to Lessor's **Oil Purchase Notice Recipient, ExxonMobil Refining & Supply Company, Lease Crude Activities, 3225 Gallows Road, Room 4B0127, Fairfax, Virginia 22037.**

i) Lessor shall have thirty days after receipt of such notice from Lessee in which to notify Lessee if Lessor elects to purchase all or part of such oil. Failure to respond shall be deemed declination and an affirmative election shall be effective thirty days from its mailing. If Lessor elects to purchase all or part of such oil, Lessee agrees to execute a division order, on the standard form of division order in use by Lessor at the time of such election. Lessor shall also give notice of termination of such purchases at least 30 days in advance.

ii) Should Lessor on any one or more occasions elect not to purchase, such election shall not constitute a waiver of its right to do so at any later time and from time to time. Anything to the contrary notwithstanding, except to the extent of any election by Lessor hereunder to purchase, Lessor shall have no obligation to purchase or to furnish a market for the whole or any part of such production.

**c) Purchase Price.**

i) For all purchases made by Lessor hereunder during the twenty-one (21) year period commencing on the date of this Lease, the purchase price

shall be the price posted by Lessor (ExxonMobil), as determined by Lessor, applicable to such oil in effect at the time of delivery of the oil to Lessor, less allowances for grade, quality and location differentials. If there is no such posting by ExxonMobil, then any such purchase shall be at the market value price as determined by ExxonMobil, at the well, after deduction of all costs of gathering, storing, dehydrating, treating, processing, and transporting said oil. Notwithstanding the above, Lessee may elect to provide Lessor with any bona fide term purchase offer(s) for such oil to be used in future market value determinations for the applicable time period of the oil delivery and Lessor will consider any such offer(s) in determining the market value price.

- ii) For all purchases made by Lessor after the twenty-one year period mentioned above, the last applicable purchase price shall remain in effect until Lessor receives notice from Lessee of the terms of any third party bona fide purchase offer for such oil that Lessee desires to accept and notice of the production status. Should Lessor elect to purchase or continue purchasing such oil, or any portion of it, the purchase price shall be the price stipulated in such bona fide offer and shall remain at such price until Lessor's notice of termination of such purchases becomes effective pursuant to Subsection (b) above or until Lessee notifies Lessor of a new such bona fide offer, whichever occurs first; provided that should Lessee so notify Lessor, Lessor shall have the right to elect to purchase such oil, or any portion of it, at such new price by notifying Lessee within the thirty day period described in Subsection (b) above and the price of said oil shall remain unchanged until the effective date of any new election.

## **2) Preferential Right to Purchase Gas**

**a) Nature of Right.** Lessor shall have the continuing right and option for a period of 21 years from the date of this Lease, to purchase all gas which may be produced from or allocated to the Leased Premises; except that no such right or option shall be applicable to gas used for operating purposes or gas subject to existing gas contracts (including only those renewals or extensions Lessee is required to grant under the terms of said contracts) for so long as said gas may be subject to such existing gas contracts.

i) "Spot Sales Contract" shall mean a contract to sell gas if:

- The contract provides for a monthly renegotiation of the sales price and the duration of the contract (including extensions) is limited to no more than one year; or

- the primary term of the contract is for one month or less, but may be extended for up to a total of one year.

ii) "Long Term Contract" shall mean:

- any contract to purchase all or a part of any gas production if said contract is not a Spot Sales Contract.

**b) Third Party Offers and Notice Requirements.** If Lessee elects to produce such gas and receives a bona fide third party offer acceptable to Lessee for the purchase of all or part of its gas production, Lessee shall promptly furnish Lessor written notice (unless the applicable preferential purchase right has been waived) of such offer, with a copy of all data on the subject wells, flow rates, and reserves which Lessee furnished to the prospective purchaser. Such notice shall be sent to Lessor's **Gas Purchase Notice Recipient, ExxonMobil Gas Marketing Company, P.O. Box 2180, Houston, Texas 77252-2180, Attention: Gas Purchase Group**, who shall have thirty (30) days after receipt of such notice and data to elect to enter into a contract with Lessee to purchase such gas on the same terms and conditions as were contained in the third party offer. If Lessor fails to notify Lessee within such thirty day period that Lessor wishes to exercise its right to such gas production, and Lessee accepts such third party offer, then Lessor shall have no right to purchase such gas during the original term of the contract with the third party (or any renewals or extensions which occur and which Lessee is required to grant under the terms of such contract).

**c) Waiver Applicable to Spot Sales Contracts.** Until further notice in writing from Lessor to Lessee, Lessor waives its preferential right to purchase gas under Spot Sales Contracts which waiver may be freely revoked by Lessor at any time. Should Lessor revoke said waiver by notice in writing to Lessee, then Lessee shall promptly provide Lessor with written notice of Lessee's intent to enter into a Spot Sales Contract, as provided above. Lessor's preferential right to purchase gas under Long-Term Contracts is not subject to any such waiver.

**d) Sale of Lessors's Royalty Gas.** Notwithstanding anything herein to the contrary, any sale by Lessee of gas produced or allocable to the Leased Premises, without regard to Lessor's exercise or non-exercise of its right and option hereunder to purchase Lessee's gas production, shall be made subject to Lessor's reserved right and election to take its reserved royalties in kind and any such royalties taken in kind shall be owned and controlled by Lessor free and clear of any commitment to or obligation under such sale.



**D. RIGHT TO TAKE OVER WELL(s):** Lessee shall not plug and abandon any well drilled hereunder without giving Lessor written notice thereof at least thirty (30) days before the intended plugging date (or immediate notice if a rig is on location and such plugging was not anticipated), and Lessor shall have fifteen (15) days from receipt of such notice (or 48 hours if a rig is on location) to notify Lessee in writing of its election to take over the well. Upon giving such notice, Lessor shall thereupon own Lessee's interest in the well and the equipment related thereto, along with any and all interest Lessee owns in the unit for said well. As soon as practicable thereafter, Lessee shall execute a recordable release of the applicable portion of this lease and a conveyance of well equipment to Lessor, and thereafter Lessor shall assume all responsibility for such well, including the responsibility for plugging and abandoning such well, provided that Lessee shall remain liable for any claims, damages, or causes of action that arose prior to such release and conveyance.

**IV. LESSEE'S OBLIGATIONS**

**A. WELL NAMES AND PRESS RELEASES:** Lessee agrees that the names of wells drilled hereunder shall not contain the ExxonMobil name in any form. Lessee also agrees that Lessee shall not use the ExxonMobil name in any form in any press release or release of information to the public regarding the operations hereunder, without the express prior written consent of ExxonMobil, except in cases in which such use is expressly required by applicable law.

**B. POOLING AND UNITIZATION:** Lessee agrees that Lessor's consent shall be required for the formation of any units including the Leased Premises

**C. COMPLIANCE WITH LAWS AND REGULATIONS:** Lessee shall comply with all valid laws, rules and regulations of the state regulatory body and all other governmental agencies having jurisdiction. **Lessee agrees that Lessee shall not apply for any exception to the applicable spacing or density regulations without first obtaining the written consent of Lessor.**

**D. PROVISION OF INFORMATION:**

1) Lessee shall furnish Lessor with copies of any title opinions and curative materials acquired on the Leased Premises as soon as possible after they become available.

2) As to each well drilled under this Lease (and for each well drilled within one (1) mile of the Leased Premises or lands pooled therewith), at any time during the period that this Lease is in effect, Lessee shall provide copies of all forms and reports filed with any governmental agency, and shall at its sole cost and



expense (except as agreed to by the parties) timely furnish to Lessor all samples, cores, cuttings, depths, logs and other data specified in **Exhibit "C"** attached, as well as any other information obtained from said well or wells, whether or not specifically set forth herein.

- 3) Lessee shall comply the Geological Requirements set forth in **Exhibit "C"** attached.

**E. REMOVAL OF EQUIPMENT; RESTRICTIONS ON SURFACE USE:** To the extent that it has the authority to do so, Lessor grants to Lessee the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on the Leased Premises including the right to draw and remove casing. When required by Lessor or surface owner, Lessee will bury all pipelines below ordinary plow depth and no well shall be drilled within two hundred feet (200') of any residence, barn or other structure now on the Leased Premises without Lessor's or Surface Owner's written consent.

**F. WASTE DISPOSAL AND REMEDIATION RESPONSIBILITY:** Lessee shall dispose of or discharge any waste from the Leased Premises (including, but not limited to, produced water, drilling fluids, and other associated wastes) in accordance with applicable local, state and federal laws and regulations. To the extent required by applicable laws or by prudent oilfield practice, Lessee shall keep records of the types, amounts, and locations of wastes which are disposed of onsite and offsite. At all times during Lessee's operations on the Leased Premises and upon completion of such operations, Lessee shall take whatever remedial action on the Leased Premises necessary to meet any local, state, or federal requirements directed at protecting human health and the environment in effect at that time. Such requirements shall also included, without limitation, the proper plugging and abandonment of any wells on the Leased Premises that need to be plugged and abandoned.

**G. COMPLIANCE WITH LAWS, RELEASE AND INDEMNITY**

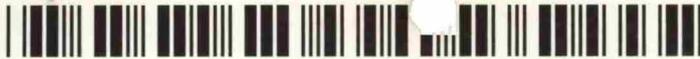
- 1) **LESSEE SHALL COMPLY WITH ALL VALID LOCAL, STATE AND FEDERAL LAWS, RULES AND REGULATIONS, INCLUDING BUT NOT LIMITED TO THOSE DIRECTED AT PROTECTING HUMAN HEALTH AND THE ENVIRONMENT, SUCH AS (BY WAY OF EXAMPLE AND NOT LIMITATION AND INCLUDING ALL AMENDMENTS) THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT OF 1980, THE RESOURCE CONSERVATION AND RECOVERY ACT OF 1976, THE CLEAN WATER ACT, THE SAFE DRINKING WATER ACT, THE HAZARDOUS MATERIALS TRANSPORTATION ACT, THE TOXIC SUBSTANCES CONTROL ACT, AND THE CLEAN AIR ACT.**

- 2) LESSEE ACKNOWLEDGES THAT THE LEASED PREMISES HAVE BEEN USED FOR OIL AND GAS OPERATIONS IN THE PAST. LESSEE AGREES THAT ANY LEASE OF INTERESTS HEREUNDER SHALL BE ON AN "AS IS" BASIS.
  
- 3) LESSEE SHALL RELEASE, DEFEND, INDEMNIFY AND HOLD LESSOR HARMLESS FROM ANY AND ALL DAMAGES, EXPENSES (INCLUDING COURT COSTS AND ATTORNEY'S FEES), CIVIL FINES, PENALTIES AND OTHER COSTS AND LIABILITIES (HEREINAFTER COLLECTIVELY REFERRED TO AS "CLAIMS") ARISING, ASSERTED, COMMENCED OR MADE ON OR AFTER THE EFFECTIVE DATE OF THIS LEASE THAT RESULT FROM LESSEE'S ACTS OR OMISSIONS (OR THOSE OF OTHER PARTIES ON LESSEE'S BEHALF) IN CARRYING OUT OPERATIONS UNDER THIS LEASE, OR ON THE LEASED PREMISES. THE ABOVE CLAIMS SHALL INCLUDE, BUT NOT BE LIMITED TO, THOSE ASSERTED OR BROUGHT BY ANY PARTY (INCLUDING, WITHOUT LIMITATION, LESSEE'S OR LESSOR'S EMPLOYEES, CONTRACTORS, ANY LANDOWNERS OR INDIVIDUALS, LOCAL, STATE OR FEDERAL GOVERNMENTAL BODY OR AGENCY) FOR DEATH, PERSONAL INJURY, DAMAGE TO PROPERTY OR NATURAL RESOURCES, AND/OR FAILURE TO COMPLY WITH THE EXPRESS OR IMPLIED TERMS OF THIS LEASE. SUCH CLAIMS SHALL ALSO INCLUDE ANY THAT ARISE OUT OF THE PLUGGING AND ABANDONING OF ANY WELLS OR THE FAILURE TO PLUG AND ABANDON ANY WELLS ON THE LEASED PREMISES (WHETHER PLUGGED AND ABANDONED PRIOR TO OR AFTER THE EFFECTIVE DATE OF THIS LEASE) OR ARISING OUT OF THE REMOVAL OF ANY PIPELINE OR OTHER FACILITIES, OR ON ACCOUNT OF THE PRESENCE OF, DISPOSAL, RELEASE OF ANY MATERIAL OF ANY KIND IN, ON OR UNDER THE LEASED PREMISES (WHETHER OR NOT SUCH MATERIAL WAS PRESENT PRIOR TO THE EFFECTIVE DATE OF THIS LEASE).

THE TERMS OF THIS PROVISION OF THIS PROVISION "3" SHALL APPLY NOTWITHSTANDING THE STRICT LIABILITY, JOINT NEGLIGENCE OR FAULT OF LESSOR OR ANY PARTY OR PARTIES. THE PROVISIONS SET FORTH IN THIS ARTICLE IV(G)(1,2, & 3) SHALL SURVIVE TERMINATION OF THIS LEASE.

#### H. MINIMUM INSURANCE REQUIREMENTS

Lessee shall carry and maintain in force the following insurance covering Lessee's liability hereunder, and furnish Lessor, upon request, with certificates evidencing such coverage to the **Insurance Notice Recipient, ExxonMobil Risk Management, Inc. 5959 Las Colinas Blvd., Irving, Texas 75039-2298, Attention: Trade Insurance Group.**



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**1) Workers' Compensation and Employers' Liability**

For all Lessee's employees, workers' compensation and employers' liability insurance or similar social insurance in accordance with law which may be applicable to those employees.

**2) Comprehensive General Liability**

Comprehensive general liability insurance coverage and policy limits or at least \$1,000,000.00, whichever is greater, providing coverage for injury, death, or property damage resulting from each occurrence.

**3) Automobile Liability**

Automobile liability insurance coverage and policy limits covering owned, non-owned and rented automotive equipment providing at least \$1,000,000.00 coverage for injury, death, or property damage resulting from each accident.

**The minimum insurance requirements as set forth above shall not limit or diminish in any way the respective rights and obligations of the parties under this Lease.**

**V. MISCELLANEOUS**

**A. TAXES:** Lessee shall pay all production, severance, and ad valorem taxes assessed against the Leased Premises. Ad valorem taxes shall be prorated between Lessor and Lessee for the year in which the Lease becomes effective.

**B. NO WARRANTY OR REPRESENTATION: THIS LEASE IS MADE WITHOUT ANY REPRESENTATION OR WARRANTY OF TITLE, OR ANY OTHER TYPE OF REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED. IT IS EXPRESSLY UNDERSTOOD THAT LESSOR HAS NOT UNDERTAKEN TO MAKE ANY REVIEW OF ITS RECORDS OR ANY OTHER RECORDS TO CONFIRM ITS OWNERSHIP OF THE LEASED PREMISES, AND THAT LESSEE HAS ASSUMED FULL RESPONSIBILITY FOR, AND REPRESENTS THAT IT HAS CONDUCTED, SUCH TITLE RESEARCH AS IS NECESSARY TO CONFIRM SUCH OWNERSHIP.**

**C. SUBJECT TO AGREEMENTS: This lease is subject to all of the terms and provisions of any matters of record as of the effective date of this Lease, and to the following agreements and/or instruments insofar as they relate to the Leased Premises:**

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#### D. SUCCESSORS AND ASSIGNS AND APPROVAL OF ASSIGNMENTS

- 1) The terms and provisions of this Lease shall extend to and be binding upon the parties, their respective heirs, successors, legal representatives and third-party assigns; provided, however, that no assignment by Lessee of any of the rights or obligations hereunder shall be made without Lessor's prior written consent.
  
- 2) Lessor specifically reserves the right to withhold consent to any such proposed assignment by Lessee if Lessor determines, in good faith, that adequate protections do not exist to guarantee the proper and timely performance of all of the obligations hereunder. Upon request, Lessor shall be provided with such information sufficient to permit evaluation of the financial responsibility of any proposed assignee. Any such assignment shall provide that the assignee will assume the proper and timely performance of all of the obligations hereunder. Any assignment which is not in compliance with the terms of this paragraph shall be null and void. Consent by Lessor to any such assignment shall not relieve Lessee nor any assignee from the rights and obligations as to any future assignment or from the timely and proper performance of any of obligations hereunder. In the event Lessee contemplates an assignment of rights to another party or parties, Lessee shall give prompt written notice to Lessor, addressed to **Assignment Notice Recipient, ExxonMobil Production Company, Attn. Land Supervisor, P.O. Box 4697, 396 West Greens Road, Houston, TX 77210-4697.** If Lessor consents to such assignment, it shall not be effective until Lessor has received an instrument or letter executed by Lessee and its assignee evidencing that such assignment has occurred and that such assignee has assumed all the obligations hereunder.
  
- 3) Notwithstanding anything in this Lease to the contrary, Lessor shall have the right, in its sole discretion, to assign to any affiliate or subsidiary or to any third party, from time to time and in whole or in part, its rights hereunder, including, but not limited to, the right and option to purchase the oil or gas as aforesaid. No assignment shall affect the price at which oil may be purchased hereunder and such price shall continue to be governed by the provisions of this Lease.

#### E. NOTICE:

Except as specifically provided herein, all notices relating to this Lease, shall be delivered to the following addresses:

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Lessor: Exxon Mobil Corporation  
Attn: Land Supervisor  
P. O. Box 4610  
Houston, TX 77210-4610

Lessee: Williams Production RMT Company  
Tower 3, Suite 1000  
1515 Arapahoe Street  
Denver, Colorado 80202

or to such other address as a party may from time to time designate.

**F. HEADINGS:** Headings are intended as an aid to the reader only and shall not be construed to amend or restrict the meaning of the terms and provisions in this Lease and its exhibits in any way.

**G. NO WAIVER OF RIGHTS:** The failure of either party to exercise any right granted hereunder shall not be deemed as a waiver of such party's privilege to exercise such right at any time or times.

**H. SEVERABILITY:** It is the intent of the parties that the provisions contained in this Lease are severable. Should the whole or any portion of the provisions be held void or invalid, as a matter of law, such holding shall not affect other portions of the provisions or of this Lease, which shall be given effect without the invalid or void portion.

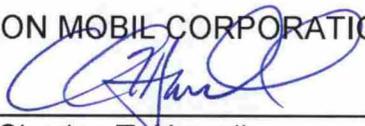
**I. SETOFF:** For the purpose of this provision only, ExxonMobil, as Lessor, and Williams Production RMT Company, as Lessee, shall be deemed to include their respective subsidiaries and affiliates. ExxonMobil may offset any amount owed to ExxonMobil by Lessee against any amount owed to Lessee by ExxonMobil, whether under this Lease or any other agreement or arrangement between or among any of them. If any amount owed is unliquidated or unascertainable, ExxonMobil may setoff an amount estimated by it in good faith to be the amount owed.

This Lease is executed in duplicate originals on the dates indicated below but effective on the date first set forth above.



LESSOR:

EXXON MOBIL CORPORATION

By:   
Charles T. Howell  
Agent and Attorney-in-Fact

Date: August 10, 2004

LESSEE:

WILLIAMS PRODUCTION RMT  
COMPANY

By:   
Name: \_\_\_\_\_  
**Joseph P. Barrett**  
Title: **Attorney-in-Fact**

Date: August 17, 2004 ala

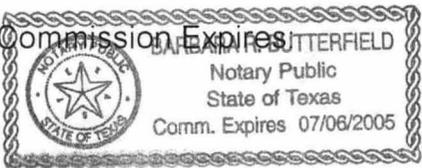


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Trade No. 1030794

THE STATE OF TEXAS           §  
  §  
COUNTY OF HARRIS           §

The foregoing instrument was acknowledged before me on this 10 day of August, 2004, by Charles T. Howell, Agent and Attorney in Fact for EXXON MOBIL CORPORATION, a New Jersey corporation, on behalf of said corporation.

My Commission Expires: 

Barbara R. Butterfield  
Notary Public, State of Texas

THE STATE OF COLORADO §  
CITY &                           §  
COUNTY OF   DENVER       §

The foregoing instrument was acknowledged before me on this 17th day of August, 2004, by Joseph P. Barrett, Attorney-in-Fact, for Williams Production RMT Company, on behalf of said corporation.

My Commission Expires:  
5/21/2007

Patti E. Rives  
Notary Public,  
Patti E. Rives



EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease between Exxon Mobil Corporation and Williams Production RMT Company. ExxonMobil Trade No. 1030794

**EXXON MINERAL OWNERSHIP  
CERTIFIED TO MARCH 8, 2004 AT 8:00 A.M.**

DESCRIPTION:

TOWNSHIP 7 SOUTH, RANGE 95 WEST, 6<sup>th</sup> P.M.  
SECTION 6: NW/4, S/2

TRACT 1:

Township 7 South, Range 95 West, 6th P.M.  
Section 6: Lot 3(40.00), SE/4NW/4

Gross Acres: 80.00  
Interest: 16.66667%  
Net Acres: 13.33334  
Leasehold: OPEN

TRACT 2:

Township 7 South, Range 95 West, 6th P.M.  
Section 6: Lot 5(38.06) and that part of Lots 6 and 10 lying Northwesterly of the Wilcox Canal as constructed, statement and map on file in the office of the Clerk and Recorder of Garfield County, Colorado as Document No. 24452.

Gross Acres: 76.18 (Assessed)  
Interest: 50.00%  
Net Acres: 38.09  
Leasehold: OPEN

TRACT 3:

Township 7 South, Range 95 West, 6th P.M.  
Section 6: Lots 6 and 10 lying Southeasterly of the Wilcox Canal as constructed, statement and map on file in the office of the Clerk and Recorder of Garfield County, Colorado as Document No. 24452 (38.18 acres, more or less, Assessor assessed acreage);

and the SE/4SW/4 and NW/4SE/4 lying Northwesterly of Highway 6 & 24 and lying Northwesterly of the Northwesterly right-of-way line of the Denver and Rio Grande Western Railroad (55.47 acres, more or less);

**Except** 9.63 acres, more or less, located in the SE/4SW/4 and NW/4SE/4, which is part of a 10.46 acre parcel located in Lot 9, the SE/4SW/4 and NW/4SE/4 of Section 6, said 10.46 acre parcel more particularly described in Quit Claim Deed recorded in Book 875, Page 608, Garfield County records; and

**Except** 0.20 acres, more or less, located in the SE/4SW/4 of Section 6, which is part of a 12.79 acre parcel located in the SE/4SW/4 of Section 6 and in Lots 2, 3, and 4 of Section 7, said 12.79 acre parcel more particularly described in Quit Claim Deed recorded in Book 875, Page 606, Garfield County records.

Gross Acres: 83.82  
Interest: 100.00%  
Net Acres: 83.82  
Leasehold: OPEN

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**TRACT 4:**

Township 7 South, Range 95 West, 6th P.M.  
Section 6: NE/4SW/4

Gross Acres: 40.00  
Interest: 50.00%  
Net Acres: 20.00  
Leasehold: OPEN

**TRACT 5:**

Township 7 South, Range 95 West, 6th P.M.

Section 6: **That portion of the following described parcel of land that lies within the SE/4SW/4 of Section 6, containing 1.53 acres, more or less:**

Township 7 South, Range 95 West, 6th P.M.

Section 6 and 7: A parcel of land situated in Lot 9 and the SE/4SW/4 of Section 6 and in Lot 2 of Section 7 and within the meander lines of the Colorado River in Section 7, all in Township 7 South, Range 95 West of the 6th P.M., lying Southeasterly of the Southeasterly right of way line of the Denver and Rio Grande Western Railroad and Northwesterly of the centerline of the Colorado River described as follows: Beginning at a point on the Southeasterly Right of Way line of said railroad whence the Quarter Corner common to Sections 6 and 7 in said Township and Range bears S. 15°29'18" E. 405.41 feet; thence S. 49°46'00" E. 1105.38 feet to a point in the center of said river; thence S. 36°10'00" W. 169.14 feet along the center of said river; thence S. 49°00'00" W. 707.28 feet along the center of said river; thence S. 19°00'03" W. 393.97 feet along the center of said river; thence S. 78°50'00" W. 453.72 feet along the center of said river; thence N. 18°55'00" E. 226.67 feet; thence N. 75°30'00" W. 875.68 feet to a point on the Southeasterly right of way line of said railroad; thence N. 40°18'00" E. 1758.59 feet along the Southeasterly right of way line of said railroad to the point of beginning, containing 38.16 acres, more or less.

**Except** a parcel of land situated in Lot 9 and the SE/4SW/4 of Section 6 and in Lot 2 and the N/2 of Section 7, all in Township 7 South, Range 95 West of the 6th P.M., lying Northwesterly of a sub-channel of the Colorado River, said parcel of land being described as follows: Beginning at a point whence the Quarter Corner common to said Sections 6 and 7 bears S. 01°13'08" W. 293.87 feet; thence S. 49°46'00" E. 955.38 feet to a point in the center of said river; thence S. 36°10'00" W. 169.14 feet along the center of said river; thence S. 49°00'00" W. 475.00 feet along the center of said river; thence N. 49°46'00" W. 895.72 feet; thence N. 40°18'00" E. 638.17 feet to the point of beginning; containing 13.76 acres, more or less.

**Except** a parcel of land located within Lot 2 of Section 7, Township 7 South, Range 95 West, 6th P.M., Garfield County, Colorado, and more particularly described as follows: Beginning at a point on the north line of Parcel 1 and the left bank of an irrigation ditch from whence the W¼ corner of said Section 7 bears S. 46°12'29" W. 2351.67 feet; thence along said bank with the following courses: N. 21°00'18" E. 145.12 feet; thence N. 71°16'53" E. 158.08 feet; thence S. 54°03'07" E. 111.80 feet; thence S. 13°41'43" E. 56.39 feet; thence S. 08°33'11" W. 140.96 feet to a point on the north line of said Parcel 1; thence N. 75°30' W. along said north line 294.00 feet to the point of beginning; containing 1.22 acres, more or less.



**TRACT 5: (con't)**

Gross Acres: 1.53  
Interest: 100.00%  
Net Acres: 1.53  
Leasehold: OPEN

**TRACT 6:**

Township 7 South, Range 95 West, 6th P.M.

Section 6: A parcel of land in Lots 8, 9 and the NW/4SE/4 lying Northwesterly of the centerline of the Colorado River and Southeasterly of the Southeasterly right-of-way line of the Denver and Rio Grande Western Railroad (containing 25.06 acres), described as follows:

Beginning at a point on the Southeasterly right-of-way line of said railroad whence the Quarter Corner common to Sections 6 and 7 in said township and range bears: S.19°36'53"W. 949.13 feet; thence N.40°18'00"E. 821.83 feet along the Southeasterly right-of-way line of said railroad; thence 592.74 feet along the arc of a curve to the right, having a radius of 3083.62 feet, the chord of which bears: N.45°48'25"E. 591.82 feet to a point on the Easterly line of said NW¼SE¼; thence S.01°23'06"E. along the Easterly line of said NW¼SE¼, 691.33 feet to the Southeast Corner of said NW¼SE¼ being the same as the Northwest Corner of said Lot 8; thence S.87°59'20"E. along the Northerly line of said Lot 8, 687.62 feet to a point in the center of said river; thence S.57°24'00"W. 57.17 feet along the center of said river; thence S.52°06'00"W. 462.00 feet along the center of said river; thence S.40°28'00"W. 398.99 feet along the center of said river; thence S.29°37'13"W. 420.94 feet along the center of said river; thence N.49°46'00"W. 1021.82 feet to a point on the Southeasterly right-of-way line of said railroad, the point of beginning, **Except** 0.06 acres as described in Boundary Line Agreement recorded in Book 654, Page 830, Garfield County records.

Gross Acres: 25.00  
Interest: 100.00%  
Net Acres: 25.00  
Leasehold: OPEN

**TRACT 7:**

Township 7 South, Range 95 West, 6th P.M.

Section 6: That part of Lot 7 lying Northerly of Highway 6 & 24 and lying Northerly of the Northerly right-of-way line of the Denver and Rio Grande Western Railroad.

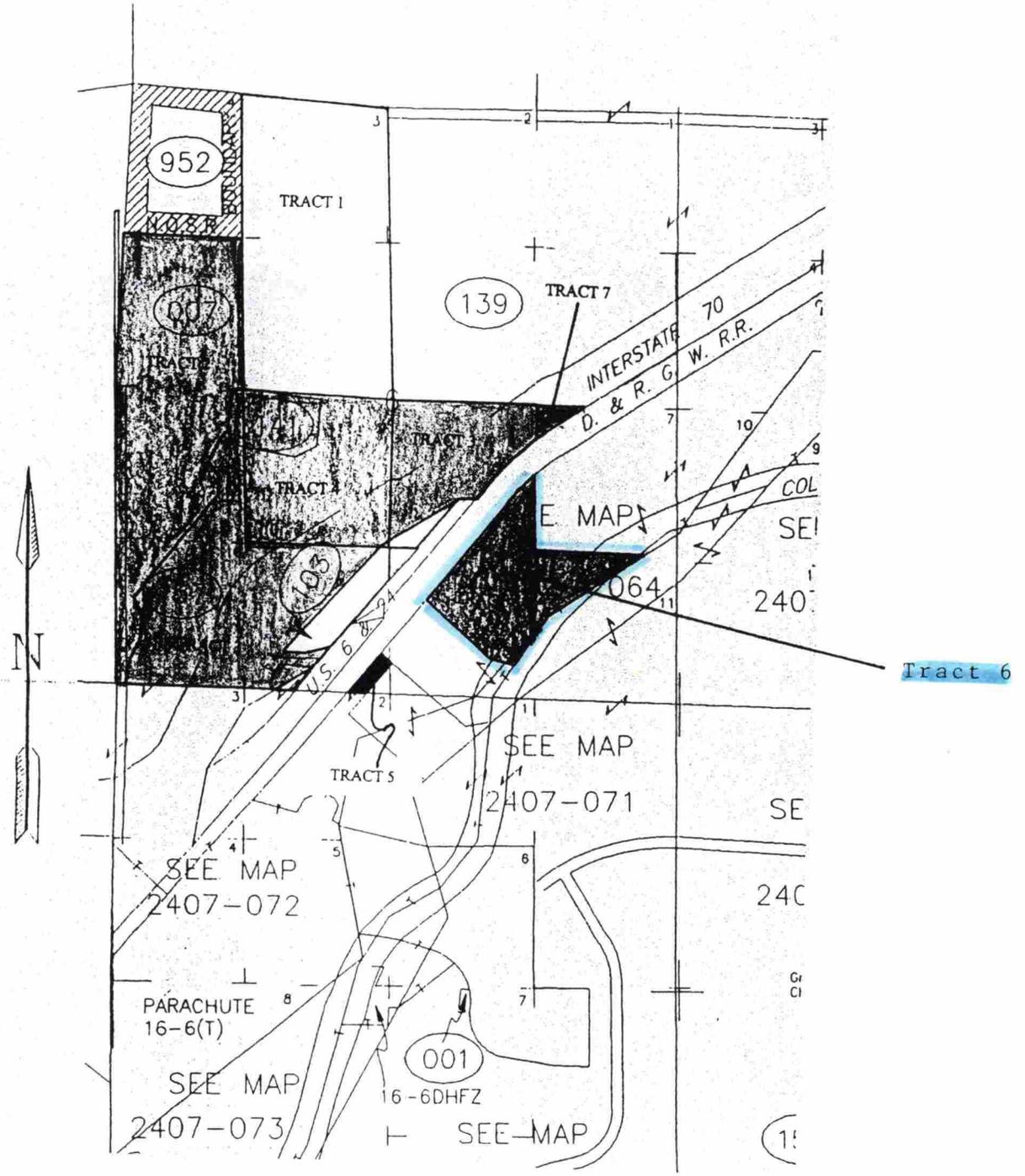
Gross Acres: 1.47  
Interest: 16.66667%  
Net Acres: 0.245  
Leasehold: OPEN

File No.: 1009

EXXON MINERAL OWNERSHIP

Certified to March 8, 2004

TOWNSHIP 7 SOUTH, RANGE 95 WEST, 6<sup>TH</sup> P.M.  
SECTION 6: NW/4, S/2



**EXHIBIT "B"** Oil and Gas Lease  
Attached to and made a part of that certain ~~Term Assignment~~ between Exxon Mobil Corporation and Williams Production RMT Company. ExxonMobil Trade 1030794.

EXHIBIT "E"  
GAS BALANCING AGREEMENT ("AGREEMENT")  
ATTACHED TO AND MADE PART OF THAT CERTAIN  
OPERATING AGREEMENT DATED \_\_\_\_\_  
BY AND BETWEEN \_\_\_\_\_  
AND \_\_\_\_\_ ("OPERATING AGREEMENT")  
RELATING TO THE \_\_\_\_\_ AREA  
\_\_\_\_\_ COUNTY/PARISH, STATE OF \_\_\_\_\_

1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.02 "Balancing Area" shall mean (select one):

each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

all of the acreage and depths subject to the Operating Agreement.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.

1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its

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Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.16  (Optional) "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January and February in the succeeding calendar year.

2. **BALANCING AREA**

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in (Alternative 1)  Mcfs or (Alternative 2)  MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

3. **RIGHT OF PARTIES TO TAKE GAS**

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement. See Article 14.a)

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party. See Article 14.b)

4. **IN-KIND BALANCING**

4.1 Effective the first day of any calendar month following at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying twenty-five percent (25%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than twenty-five percent (25%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced

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Party to begin taking Makeup Gas.

~~4.2  (Optional Seasonal Limitation on Makeup Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the \_\_\_\_\_ (\_\_\_\_\_) months immediately preceding the Winter Period.~~

4.2  (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than ten percent (10 %) of its Full Share of Current Production for Makeup Gas during the Winter Period.

~~4.3  (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to \_\_\_\_\_ percent (\_\_\_\_\_) of such Overproduced Party's Full Share of Current Production.~~

## 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

## 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

6.2  (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

~~6.2.1  (Optional For use only with Section 6.2 Alternative 1 Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5.~~

~~6.2  (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account.~~

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

## 7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

7.3  (Alternative I - Direct Party-to-Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash



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1 contributed to the accrual of the interest.

2 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party  
3 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the  
4 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be  
5 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by  
6 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an  
7 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties  
8 fail to reach agreement on an in-kind settlement.

9 7.9 ■ (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an  
10 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or  
11 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such  
12 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced  
13 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental  
14 authority.

15 7.10 ■ (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party  
16 may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas  
17 imbalance, provided that such settlements must be <sup>offered to</sup> ~~made with~~ all Underproduced Parties proportionately based on the relative  
18 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once  
19 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash  
20 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)  
21 days after the settlement is made.

## 22 8. TESTING

23 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to  
24 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)  
25 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to  
26 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only  
27 after thirty ( 30 ) days' prior written notice to the Operator and shall last no longer than  
28 seventy-two ( 72 ) hours.

## 29 9. OPERATING COSTS

30 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and  
31 liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating  
32 Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in  
33 proportion to its Percentage Interest in the Balancing Area.

## 34 10. LIQUIDS

35 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated  
36 for the joint account in accordance with their Percentage Interests in the Balancing Area.

## 37 11. AUDIT RIGHTS

38 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further  
39 notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar  
40 year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit  
41 the records of any other Party regarding quantity, including but not limited to information regarding Btu-content.  
42 Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any  
43 cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning  
44 values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such  
45 audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable  
46 notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to  
47 maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations,  
48 along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this  
49 Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

## 50 12. MISCELLANEOUS

51 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of  
52 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the  
53 Operating Agreement, the provisions of this Agreement shall govern.

54 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for  
55 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such  
56 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under  
57 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages



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1 sustained and costs incurred in connection therewith.

2 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this  
3 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in  
4 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or  
5 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other  
6 than Operator) to pay any amounts owed pursuant to the terms hereof.

7 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and  
8 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to  
9 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives  
10 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of  
11 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of  
12 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

13 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the  
14 singular, and the neuter gender includes the masculine and the feminine.

15 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a  
16 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be  
17 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not  
18 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result  
19 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative  
20 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected;  
21 and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the  
22 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to  
23 include an associated Optional provision.

24 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed  
25 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any  
26 such person or entity.

27 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party  
28 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and  
29 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such  
30 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request  
31 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the  
32 Balancing Area.

33 ~~12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all  
34 Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one)  as if such Party were  
35 taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same  
36 relate to entitlement method tax computations; or  based on the quantity of Gas taken for its account in accordance with  
37 such regulations, insofar as same relate to sales method tax computations. See Article 14.d)~~

38 **13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

39 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement  
40 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its  
41 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other  
42 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the  
43 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any  
44 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall  
45 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other  
46 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall  
47 cause its assignee or other transferee to assume its obligations hereunder.

48 13.2 **■ (Optional - Cash Settlement Upon Assignment)** Notwithstanding anything in this Agreement (including but not  
49 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions  
50 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its  
51 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are  
52 Parties hereto in such Balancing Area of such fact at least sixty (60) days prior to closing the  
53 transaction. See Article 14.e) Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within  
54 thirty (30) days after receipt of the Overproduced Party's notice, a cash settlement of its  
55 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement  
56 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash  
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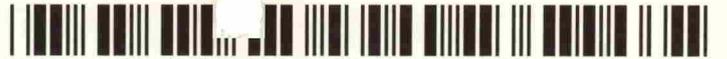


1 settlement pursuant to this Section 13 shall be paid by the Overproduced Party ~~on or before the earlier to occur (i) of sixty (60)~~  
 2 ~~days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced~~  
 3 ~~Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in~~  
 4 ~~Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days~~  
 5 ~~after the closing of~~  
 6 ~~the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not~~  
 7 ~~paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the~~  
 8 ~~Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the~~  
 9 ~~Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance~~  
 10 ~~with the provisions of Section 13.1 hereof. See Article 14.f)~~

11 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its  
 12 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to  
 13 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

14 **14. OTHER PROVISIONS (See Attachment)**

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15. COUNTERPARTS

This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater than a \_\_\_\_\_ percent ( \_\_\_\_\_ %) therein fail(s) to execute this Agreement on or before \_\_\_\_\_, this Agreement shall not be binding upon any Party and shall be of no further force and effect.

IN WITNESS WHEREOF, this Agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

ATTEST OR WITNESS:

OPERATOR

BY: \_\_\_\_\_

Type or print name \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

NON-OPERATORS

BY: \_\_\_\_\_

Type or print name \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

BY: \_\_\_\_\_

Type or print name \_\_\_\_\_

Title \_\_\_\_\_

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Tax ID or S.S. No. \_\_\_\_\_

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ACKNOWLEDGMENTS

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of \_\_\_\_\_ )

) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_

\_\_\_\_\_ by \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires: \_\_\_\_\_

Acknowledgment in representative capacity:

State of \_\_\_\_\_ )

) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_

\_\_\_\_\_ by \_\_\_\_\_ as

\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires: \_\_\_\_\_

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**EXHIBIT "C"**  
**SHORT FORM**  
**GEOLOGICAL REQUIREMENTS**

Attached to Trade No. 1030794 between Exxon Mobil Corporation and Williams Production RMT Company.

**ADDRESSES AND CONTACTS:**

- |   |   |
|---|---|
| a. <u>Geological Representative:</u><br>ExxonMobil Production Company<br>P.O. Box 4697<br>Houston, TX 77210-4697<br><br>Attention: Marky Dewhirst<br>396 W. Greens Road, Room 304<br>Houston, TX 77002<br><br>Bus. Phone: 713-431-1716<br>Fax: 713-431-1518 | b. <u>Land Representative:</u><br>ExxonMobil Production Company<br>P.O. Box 4610<br>Houston, TX 77210-4610<br><br>Attention: C. H. Dunbar<br>515 W. Greens Road, Room 636<br>Houston, TX 77067<br><br>Bus. Phone: 713-431-1249<br>Fax: 713-431-1475 |
|---|---|

**NOTIFICATION PRIOR TO COMMENCEMENT OF ANY OPERATIONS:**

You shall forward to Exxon's Land Representative all forms required by any governmental regulatory agency, which shall include but not be limited to those pertaining to the permit for drilling, deepening or plugging back, completion or recompletion, potentials or plugging on all wells drilled or operated hereunder.

You shall forward to Exxon's Land Representative a plat of the location of each well required or permitted hereunder. The plat shall be prepared with the service of a licensed practicing surveyor.

You shall give Exxon's Geologic Representative at least twenty-four (24) hours notice prior to commencement for drilling.

**DURING THE PROCESS OF DRILLING, YOU SHALL:**

Give Exxon's authorized representatives access at all times to the derrick floor, wellsite grounds, to all cores, cuttings, depths, logs and other information of whatever nature obtained in the drilling of any well hereunder, including but not limited to such as hereinafter specifically set forth.

Drill, sample and test in a good faith effort to ensure adequate evaluation of all oil and gas shows encountered.

**WITHIN THREE WORKING DAYS OF COMPLETING DRILLING OPERATIONS OF ANY WELL, YOU SHALL:**

Cause to be made and furnish Exxon's Geologic Representative two final prints of any and all logs and surveys run (including 8mm digital tapes, LIS format), oil and/or show information and formation and drillstem testing information.

- a. One (1) Field Mudlogger report and two (2) final Mudlogger reports, if used;
- b. Two (2) copies of any fluid (hydrocarbon or water) analyses;
- c. Two (2) copies of any core analyses (PC diskette, ASCII format, if available);
- d. Two (2) copies of any drillstem test data and any service company analyses; and
- e. Compilation of daily drilling reports from spud date to final report from well.

**IF PRODUCTION IS OBTAINED, YOU SHALL FURNISH EXXON'S GEOLOGICAL REPRESENTATIVE:**

An accurate monthly report as soon as available after the end of each month, showing the production of oil, water, and gas, the shipments of oil and sales of gas and the number of days (or hours) produced, throughout one year following completion.

Regardless of whether the well is completed as a producer or plugged and abandoned, you shall forward to Exxon's Land Representative a copy of the completion report filed with the governmental regulatory agency and the API number assigned to the well(s) drilled under the trade agreement.

