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OIL & GAS LEASE

THIS AGREEMENT made this 17th day of July 1981, between

Sallie Hutchinson, a widow; Floyd L. Hutchinson, a married man, dealing herein with his sole and separate property

29 South Madison Avenue of Cortez, Colorado 81321 (Post Office Address)

STEVEN'S OIL COMPANY, P.O. Box 2203, Roswell, New Mexico 88201

herein called lessor (whether one or more) and STEVEN'S OIL COMPANY, P.O. Box 2203, Roswell, New Mexico 88201, lessee:  
1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, including gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport, said minerals, the following described land in Montezuma, Colorado, \*Including Carbon Dioxide Gas

following described land in Montezuma, Colorado, to-wit:  
TOWNSHIP 36 NORTH, RANGE 17 WEST  
Sec. 18: W $\frac{1}{2}$ NE $\frac{1}{4}$ ; E $\frac{1}{2}$ NW $\frac{1}{4}$ ; W $\frac{1}{2}$ SE $\frac{1}{4}$ ; Lot 4 & SE $\frac{1}{4}$ SW $\frac{1}{4}$   
TOWNSHIP 37 NORTH, RANGE 17 WEST  
Sec. 28: N $\frac{1}{2}$ NW $\frac{1}{4}$

The Lessors agree that all of the bonus and delay rentals are to be paid to Sallie Hutchinson, a widow. SH SH FLH

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 400.82 acres, whether it actually comprises more or less.  
2. Subject to the other provisions herein contained, this lease shall remain in force for a term of 5 years from this date (called "primary term"), and as long thereafter as oil or gas, is produced from said land or land with which said land is pooled.  
3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 14.5% of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gasous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other paying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport, said minerals, the same to be delivered at the well or to the credit of lessor in the pipe line to which the wells may be connected; (c) on gas sold or used, provided that on gas sold at the well the royalty shall be 14.5% of the amount realized from such sale; (d) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.  
4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ [redacted] which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the First National Bank

at P.O. Drawer A, Cortez, Colorado 81321, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessee shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, or to the credit of the lessor in the depository bank. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.  
5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or portion thereof with any other land, lease, leases, mineral estates or parts thereof, for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by paragraph 13 herein or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.  
6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.  
7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.  
8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.  
9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessor's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.  
10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessor's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.  
11. Lessee, its heirs, successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

12. The term "oil and/or gas" as used herein shall also include CO<sub>2</sub>.  
13. This instrument is subject to paragraph 13 contained on the reverse side hereof.

Executed the day and year first above written.  
Floyd L. Hutchinson Sallie Hutchinson

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SHL+BHL+  
Drill Through to  
GP-27 BHL 3  
Lateral

13. Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit 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 be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not 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. By Lessor's execution hereof, Lessor consents to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency and it shall not be necessary for Lessor to execute any further instruments.

STATE OF ~~NEW MEXICO~~ COLORADOCounty of ~~Montezuma~~ La Plata

## INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 2nd day of August 19 83 by Sallie Hutchinson and Floyd L. Hutchinson

My Commission expires MY COMMISSION EXPIRES 10-16-85

Notary Public

STATE OF ~~Colorado~~County of ~~La Plata~~

## INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 2nd day of August 19 83 by

My Commission expires , 19 

Notary Public

By Elva C. de la Pl. Deputy.  
Jean DeBarr County Clerk.  
 I hereby certify that this instrument was filed for record on the 16 day of AUG 16 1983 at 10:16 o'clock A.m, and was duly recorded in Book 554 at Page 236 of the Records of said County.

Term   
 STATE OF ~~NEW MEXICO~~ Colorado  
 COUNTY OF Montezuma  
 No. of Acres  County, New Mexico

Date , 19   
 Section , Township , Range

FROM Floyd L. Hutchinson  
Sallie Hutchinson  
 TO Sturges Oil Co.

FROM Floyd L. Hutchinson  
Sallie Hutchinson  
 TO Sturges Oil Co.

FROM

Oil AND GAS LEASE  
 NEW MEXICO.

No. 367747

STATE OF NEW MEXICO

County of 

## CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this  day of , 19  by  President of  corporation on behalf of said corporation.  
 My Commission Expires:  Notary Public

STATE OF County of 

## CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this  day of , 19  by  President of  corporation on behalf of said corporation.  
 My Commission Expires:  Notary Public

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THIS AGREEMENT

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