

## OIL AND GAS LEASE

THIS AGREEMENT, made this 14<sup>th</sup> day of October 2011, between  
Magnolia Minerals Trust, LLC

1616 Seventeenth St., Suite 572, Denver, CO 80202

Lessor (whether one or more), and Diamond Resources Co., P.O. Box 1938, Williston, ND 58802-1938, Lessee.

## WITNESSETH:

1. Lessor, in consideration of ten and more Dollars (\$\$10.00+), in hand paid, the receipt and sufficiency of which is hereby acknowledged, of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for, producing, and marketing oil and gas (including, but not limited to, gas producible from coal-bearing formations) and all substances produced in association therewith, to produce, save, take care of, treat, transport, market and own said products, including dewatering of coalbed gas wells, the following described land (hereinafter called "said land"), in Lincoln County, Colorado to wit:

Township 6 South, Range 53 West of the 6th P.M.

Section 6: Lots 3, 4, 5, SE $\frac{1}{4}$ NW $\frac{1}{4}$

Township 6 South, Range 54 West of the 6th P.M.

Section 1: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$

Section 2: Lots 3, 4, SW $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$

Township 10 South, Range 53 West of the 6th P.M.

Section 5: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$

Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$

Section 8: NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$

Township 11 South, Range 52 West of the 6th P.M.

Section 22: W $\frac{1}{2}$

Township 13 South, Range 54 West of the 6th P.M.

Section 3: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$ , SE $\frac{1}{4}$

Township 14 South, Range 54 West of the 6th P.M.

Section 9: All

Township 15 South, Range 52 West of the 6th P.M.

Section 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , E $\frac{1}{2}$

Township 16 South, Range 52 West of the 6th P.M.

Section 19: Lots 1, 2, E $\frac{1}{2}$ NW $\frac{1}{4}$

Section 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ , E $\frac{1}{2}$ W $\frac{1}{2}$

Section 33: All

Township 16 South, Range 53 West of the 6th P.M.

Section 9: All

Section 10: S $\frac{1}{2}$

Section 11: All

Section 12: All

Section 13: All

Section 14: NE $\frac{1}{4}$

Section 15: All

Section 21: All

Section 22: N $\frac{1}{2}$ , SW $\frac{1}{4}$

Section 23: All

Section 27: All

Section 29: All

Section 33: All

Section 34: N $\frac{1}{2}$ NE $\frac{1}{4}$

Section 35: All

Township 16 South, Range 56 West of the 6th P.M.

Section 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Section 18: NW $\frac{1}{4}$ NE $\frac{1}{4}$

Township 17 South, Range 52 West of the 6th P.M.

Section 4: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$

Section 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ , S $\frac{1}{2}$

Section 6: Lots 6, 7, E $\frac{1}{2}$ SW $\frac{1}{4}$

Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ W $\frac{1}{2}$ , SE $\frac{1}{4}$

Section 9: All

Section 15: N $\frac{1}{2}$

Section 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ , E $\frac{1}{2}$

Township 17 South, Range 53 West of the 6th P.M.

Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ , S $\frac{1}{2}$

Section 12: S $\frac{1}{2}$

Section 13: NW $\frac{1}{4}$ , N $\frac{1}{2}$ SW $\frac{1}{4}$

Section 14: E $\frac{1}{2}$ NE $\frac{1}{4}$

Notwithstanding the provisions of this lease to the contrary, this lease shall terminate at the end of the primary term as to all of the leased lands except those within a producing or spacing unit prescribed by law or administrative authority on which is located a well producing or capable of producing oil and/or gas or on which lessee is engaged in drilling or reworking operations. However, this lease shall not terminate as to any of the leased lands so long as drilling or reworking operations are being continuously prosecuted per the provisions of paragraph "5", below.

Anything to the contrary notwithstanding, the shut-in gas clause set out herein shall not extend this lease for more than three (3) consecutive years beyond the primary term or three years beyond the initial shut-in date, whichever is later.

Said land shall be deemed to contain 18,400.49 acres, whether it actually comprises more or less. The rights granted to Lessee hereunder shall include the right of ingress and egress on the leased premises or lands pooled or unitized therewith, along with such rights as may be reasonably necessary to conduct operations for exploring, developing, producing and marketing oil and gas, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to explore, discover, produce, store, treat and/or transport oil and gas and water produced from the leased premises or other lands that share central facilities and are jointly operated with the leased premises for gathering, treating, compression and water disposal. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises, notwithstanding any partial release or other partial



termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled or unitized therewith.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, and/or to the discovery development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a primary term of five (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 hereunder, or drilling or reworking operations are conducted thereon. Absent the foregoing production or continuing operations, and subject to the provisions and requirements of paragraph "14", below, this lease shall be a 35 year lease upon performances and agreements set out in that paragraph.

3. For all oil and gas that is physically produced from the leased premises, of lands pooled, unitized or communitized therewith, and sold, Lessor shall receive as its' royalty, fifteen percent (15%) of the sales proceeds actually received by Lessee or, if applicable, its' affiliate as a result of the first sale of the affected production to an unaffiliated party, less this same percentage share of all production, severance, and ad valorem taxes. All property subject to this lease is located in the State of Colorado. Allocation of post production costs to the royalty share shall be consistent with the laws of the State of Colorado. For royalty calculation purposes, Lessee shall never be required to adjust the sales proceeds to account for the purchaser's costs charged downstream of the point of sale.

If Lessee uses the oil and/or gas (other than as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the leased premises. Such comparable arm's-length sales price shall be less any Post Production Costs applicable to the specific arm's-length transaction that is utilized.

4. If a well capable of producing gas and/or oil, in paying quantities, is located on said land or land pooled or unitized therewith and is shut-in, before production commences, or at any time thereafter, this lease shall continue in effect for a period of one year from the date such well is shut-in. Lessee may thereafter, pay or tender to Lessor as royalty, on or before one year from the date such well is shut-in, an amount of \$100.00 per well, per year, and, if such payment or tender is made, such well shall continue this lease in effect for a further period of one year. In like manner and upon like payments or tenders annually made on or before each anniversary of the shut-in date of such well, such well shall continue this lease in effect for successive periods of twelve (12) months each. Notwithstanding any other provision to the contrary, this lease shall not terminate because of a failure to properly or timely make shut-in well payments unless Lessor shall have given Lessee written notice of such failure to properly or timely make such shut-in well payment and Lessee shall have failed for a period of thirty (30) days after receipt of such notice to tender such payment in the proper amount, together with a late or improper payment penalty of \$100.00.

5. If at the expiration of the primary term Lessee is conducting operations for drilling or reworking on said land or land pooled or unitized therewith or shall have completed a dry hole thereon within one hundred eighty (180) days prior to the end of the primary term, or, if, after the expiration of the primary term, production on said land shall cease, from any cause, this lease nevertheless shall continue in full force so long as operations for drilling or reworking on any existing or succeeding well are being conducted with no cessation of more than one hundred eighty (180) consecutive days and, if such operations result in production, so long thereafter as oil or gas is produced from said land. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. As used herein, the term "operations" shall mean any activity conducted on or off the leased premises that is reasonably calculated to obtain or restore production, including without limitation, (i) drilling or any act preparatory to drilling (such as obtaining permits, surveying a drill site, staking a drill site, building roads, clearing a drill site, or hauling equipment or supplies); (ii) reworking, plugging back, deepening, treating, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; (iii) constructing facilities related to the production, treatment, transportation and marketing of substances produced from the lease premises; (iv) contracting for marketing services and sale of oil and/or gas; and (v) construction of water disposal facilities and the physical movement of water produced from the leased premises.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of drilling or production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The creation of a unit by such pooling shall be based on the following criteria (hereinafter called "pooling criteria"): A unit for an oil well (other than a horizontal completion) shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means a well in which the horizontal component of the completion interval in the reservoir exceeds the vertical component in such interval. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit or the location thereon of a well as a shut-in well, which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises or as if such shut-in well were on said premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. In the event a unit is formed hereunder before the unit well is drilled and completed, so that the applicable pooling criteria are not yet known, the unit shall be based on the pooling criteria Lessee expects in good faith to apply upon completion of the well; provided that within a reasonable time after completion of the well, the unit shall be revised if necessary to conform to the pooling criteria that actually exist. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. To revise a unit hereunder, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly.

7. Lessee also shall have the right to unitize, pool, or combine all or any part of said land 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 land or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operations 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. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of said land and be relieved of all obligation as to the acreage surrendered. Lessee shall have the right within a reasonable time 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 pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the heirs, successors and assigns of the parties hereto, but no change or division of ownership of said land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of said land, or any interest therein, shall be binding on Lessee until Lessee shall be furnished with a certified copy of all recorded instruments, all court proceedings and all other necessary evidence of any transfer, inheritance, or sale of said rights. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

10. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.



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

12. 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, either in whole or in part, and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Lessee shall pay all taxes based on the production from said land, and shall deduct such taxes attributable to Lessor's interest from royalty due hereunder. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately.

13. Lessor hereby releases and waives all right of dower and right of homestead under the laws of this state in and to said land to the extent of the rights granted by this lease.

14. Should a well have been drilled on the described lands, or lands pooled or spaced therewith, at some point during the primary term of this lease, Lessee has the right and option to extend this lease for an additional four (4) year beyond expiration of the primary term by remitting to the Lessor on or before the expiration of the primary term, an amount equal to \$25.00 per net mineral acre owned by Lessor in and under such lands as Lessee elects to exercise under its option. Prior to the end of the primary term of this lease, whether or not extended by the four year option as set out above, parties may mutually agree to extend the term of this lease in three year increments up to the total of said 35 year term. Said three year renewals shall be made through mutual written and recordable agreement. Said renewals shall require written agreement by both Lessor and Lessee as to the amount of the renewal payment on or before expiration of the previous renewed term. Time is of the essence herein, and failure to agree and to renew the lease in three year increments as set out above, and specifically in the time frames set out above, shall terminate the lease. As to all renewals or extensions of the lease term, all other terms and conditions of this Lease shall remain unchanged. In the event of lease termination for failure to renew, or for failure to hold property by production, or by conducting continuous drilling operations, Lessee shall, within thirty days, deliver to Lessor an executed notice of lease termination, notarized and suitable for recording in the deed records of Lincoln County, Colorado. Similarly, in event of lease termination for failure to renew for three year increments, Lessee may record its own notice of termination of lease in the Deed records of Lincoln County, Colorado.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their heirs, administrators, successors and assigns.

This agreement shall be binding on each of the above named parties who sign the same, regardless of whether it is signed by any of the other parties.

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

MAGNOLIA MINERALS TRUST, LLC

By: James C. Williams

Its: Manager



STATE OF Colorado )  
COUNTY OF Denver )ss.

#### ACKNOWLEDGMENT, CORPORATION

Before me, the undersigned, a Notary Public, in and for said County and State, on this 17 day of October, 2011, personally appeared James C. Williams to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as its Manager and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth. Given under my hand and seal of office the day and year last above written.

My Commission expires: 4-13-13

Emilia A. Deo  
Notary Public