

PRODUCERS 68-PAID UP  
Rocky Mtn

## PAID-UP OIL AND GAS LEASE

AGREEMENT, Made and entered into the 2nd day of February, 201 2, by and between  
The Charles Morton Share Trust, J.R. Holder, Johnny C. Jones, Darrell Kline, Ray Dean Linder,  
and Heritage Trust Company- B. Michael Carroll as Co-Trustees whose address is  
c/o Heritage Trust, P.O. BOX 21708 Oklahoma City, OK 73158, hereinafter called Lessor (whether one or more) and  
G. H. LAND CO., INC. whose address is 4216 N PORTLAND AVE, SUITE 104, OKLAHOMA CITY, OK 73112  
hereinafter called Lessee:

WITNESSETH: that Lessor, for and in consideration of Ten and 00/100 DOLLARS (\$10.00) in hand paid, receipt of which is hereby acknowledged, and of the agreements of Lessee hereinafter set forth, hereby grants, demises, leases and lets exclusively unto said Lessee the lands hereinafter described, together with any reverentory rights therein, for the purpose of prospecting, exploring by geophysical and other methods, drilling, mining, operating for and producing oil or gas, or both, including, but not as a limitation, casinghead gas, casinghead gasoline, gas-condensate (distillate), coal-bed methane gas and any substance, whether similar or dissimilar, produced in a gaseous state, together with the right of ingress and egress and the right to conduct operations including, but not limited, to construct and maintain pipe lines, telephone and electric lines, tanks, powers, ponds, roadways, plants, equipment, and structures thereon to produce, save and take care of said oil and gas, and the exclusive right to inject air, gas, water, brine and other fluids from any source into the subsurface strata and any and all other rights and privileges necessary, incident to, or convenient for the economical operation of said land, alone or jointly with neighboring land, for the production, saving and taking care of oil and gas, including the dewatering of coal-bed gas wells and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said lands being situated in CHEYENNE County, COLORADO, described as follows, to-wit:

All

Township 15 South, Range 46 West  
Section 32

and containing for all purposes of this lease, said lands shall be deemed to contain 640.00 acres, more or less, together with all strips or parcels of land.

In addition to the above-described lands, this lease also covers any lakes, streams, rivers, roads, easements and rights-of-way which traverse or adjoin said lands, including any accretions, and any strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the lands described herein, including without limitation, all strips or parcels resulting from changes in the boundaries or center line of any lake, stream or river and all riparian lands adjacent thereto. In consideration of the cash bonus paid to Lessor by Lessee for execution of this lease, Lessor agrees to execute, at Lessee's request, any additional or supplemental instruments for a more complete or accurate description of the land so covered.

Subject to the other provisions herein contained, this lease shall remain in force for a term of Three (3) years from the date hereof (herein called "primary term") and as long thereafter as oil or gas, or either of them, is produced from the above described land or from lands pooled therewith or drilling operations are continuously prosecuted as hereinafter provided or this lease is otherwise maintained in effect pursuant to the provisions hereof. "Drilling operations" includes operations for the drilling of a new well, the reworking, deepening or plugging back of a well or hole or other operations conducted in an effort to obtain or re-establish production of oil or gas, including the dewatering of coal-bed gas wells. Drilling operations shall be considered to be "continuously prosecuted" so long as any one or more of such operations are prosecuted with no cessation of more than 120 consecutive days. If, at the expiration of the primary term of this lease, oil or gas is not being produced from the above described land but Lessee is then engaged in drilling operations, this lease shall continue in force so long as drilling operations are continuously prosecuted; and if production of oil or gas results from any such drilling operations, this lease shall continue in force so long as oil or gas shall be produced. If, after the expiration of the primary term of this lease, production from the above described land should cease, this lease shall not terminate if Lessee is then prosecuting drilling operations, or within 120 days after each such cessation of production commences additional drilling operations, and this lease shall remain in force so long as such operations are continuously prosecuted, and if production results therefrom, then as long thereafter as oil or gas is produced from the above described land. This lease shall also remain in force if not more than 120 consecutive days elapse between the completion or abandonment of one well or hole and the commencement of drilling operations on another well or hole.

Lessee is hereby giving the option of extending the primary term of this lease for an additional term of Two (2) years from the expiration of the original primary term. This option may be exercised in relation to all or part of the land covered by this lease by Lessee, its successors or assigns, on or before the expiration of the primary term, by tendering an amount equal to the original bonus paid to Lessor, its successors or assigns.

In consideration of the premises, it is hereby mutually agreed as follows:

1. Lessee shall deliver, to Lessor at the wells, or to the credit of Lessor in the pipeline to which the wells may be connected, the equal part of all oil and other liquid hydrocarbons produced and saved from the leased premises, or, at Lessee's option, pay to Lessor for such royalty the market price at the well for such oil and other liquid hydrocarbons of like grade and gravity prevailing on the day such oil and other liquid hydrocarbons are run from the lease stock tanks.

2. On gas, gas condensate, gas distillate, casinghead gas and all other gases, including their constituent parts, produced from said land and sold or produced from said land and used off the leased premises or in the manufacture of gasoline or other products, Lessee shall pay to Lessor a sum equal to of the net proceeds received from the sale of such produced substances where the same is sold at the mouth of the well or, if not sold at the mouth of the well, then of the market value thereof at the mouth of the well, but in no event more than of the actual amount received by Lessee for the sale thereof. Without limiting the foregoing, it is expressly agreed that Lessee shall at all times have the right to deduct from Lessor's royalty on any gas produced hereunder the royalty share of the costs, if any, of compression for delivery, transportation and gathering to the point of delivery to the purchaser of such production and all applicable production, severance, and other taxes.

3. If a well is awaiting hydraulic fracture stimulation or is capable of producing oil, gas or gas and gas condensate in paying quantities and is located on the leased premises (or on acreage pooled or consolidated with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut-in and no oil, gas or gas condensate therefrom is sold or used off the premises or for the manufacture of gasoline or other products, such shut-in well shall be deemed to be a well on the leased premises producing oil or gas in paying quantities and this lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessee shall use reasonable diligence to market oil, gas or gas and gas condensate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in Lessee's judgment exercised in good faith, are unsatisfactory. Lessee may pay or tender to Lessor on or before the expiration of the primary term or anniversary date of this lease next ensuing after the expiration of one hundred twenty (120) days from the date such well is shut-in and thereafter on or before the succeeding anniversary dates of this lease during the period or periods such well is shut-in, as royalty, the sum of One dollar per net mineral acre (\$1.00); provided that, if oil, gas or gas condensate from such well is sold or used as aforesaid prior to any such anniversary date of this lease, or if at any such anniversary date, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, Lessee shall not be obligated to pay or tender, on or before that particular anniversary date, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered direct to Lessor at the address shown above or at the last known address as shown by Lessee's records. All payments or tenders may be made by cash, check or draft, mailed or delivered on or before the payment date, and the depositing of such cash, check or draft in any post office, addressed to the Lessor on or before the payment date, shall be deemed payment or tender as herein provided. Notwithstanding

the death of Lessor, payment or tender of shut-in royalty to such deceased or to his credit in the manner provided herein shall be binding on the heirs, devisees, executors, administrators and personal representatives of Lessor and his successors in interest. Royalty ownership as of the date of payment as shown by Lessee's records shall govern the determination of the party or parties entitled to receive such payment. In consideration of the obligation so to pay, it shall within the meaning of all terms of this lease, including the Habendum clause, be conclusively deemed that gas is being produced from the premises during the time such gas or gas condensate is not sold or used. A well in which coal-bed gas dewatering operations are being conducted shall be deemed a shut-in well under the terms of this paragraph. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due but shall not operate to terminate this lease.

4. THIS IS A PAID-UP LEASE. In consideration of the down payment, Lessor agrees that Lessee shall not be obligated to commence or continue any drilling operations during the primary term hereof or to make any rental payments during such primary term.

5. Should Lessor hereafter acquire any additional right, title or interest in and to the said land it shall be subject to the provisions hereof to the same extent as if owned by Lessor at the date hereof.

6. If Lessor owns a less interest in the land covered by this lease than the entire undivided fee simple mineral estate therein, then whether or not such less interest is referred to or described herein, all shut-in royalties and royalties herein provided shall be paid Lessor only in the proportion which his interest bears to the whole and undivided mineral fee. However, any such shut-in royalty shall be increased at the next succeeding anniversary date after any reversion occurs to cover the interest so acquired provided that notice of said reversion is provided to Lessee under the terms of this lease.

7. The privilege of assigning or subletting this lease in whole or in part is expressly allowed. If the estate of either party hereto is assigned or sublet, the express and implied covenants hereof shall extend to the sub Lessees, successors and assigns of the parties; and in the event of an assignment or subletting by Lessee, Lessee shall be relieved and discharged as to the leasehold rights so assigned or sublet from any liability to Lessor thereafter accruing upon any of the covenants or conditions of this lease, either express or implied. No change in the ownership of the land or royalties however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or require separate measuring or installation of separate tanks by Lessee. Notwithstanding any actual or constructive knowledge of or notice to Lessee, no change in the ownership of said land or of the right to receive shut-in royalties or other royalties hereunder, or of any interest therein, whether by reason of death, conveyance or any other matter, shall be binding on Lessee (except at Lessee's option in any particular case) until 90 days after Lessee has been furnished written notice thereof, and the supporting information hereinafter referred to, by the party claiming as a result of such change in ownership or interest. Such notice shall be supported by original or certified copies of all documents and other instruments or proceedings necessary in Lessee's opinion to establish the ownership of the claiming party. If at any time there be as many as six parties (or more) entitled to receive royalties under this lease, Lessee may withhold payment thereof unless and until all parties designate in writing in a recordable instrument to be filed with the Lessee, the trustee or agent to receive all royalty payment due hereunder and to execute division and transfer orders on behalf of said parties and their respective successors in title.

8. Lessee may, at any time, execute and deliver to Lessor or place of record a release covering all or any part of the acreage embraced in the leased premises or covering any one or more zones, formations or depths underlying all or any part of such acreage, and thereupon shall be relieved of all obligations thereafter to accrue with respect to the acreage, zones, formations or depths covered by such release. In the event of a release of this lease as to all rights in only a part of the acreage embraced in the leased premises, thereafter the shut-in royalties hereinabove provided for shall be reduced proportionately on an acreage basis. In the event of a partial release of acreage covered by this lease, Lessee may retain such easements over, through and under the released acreage as are necessary for its operations on other lands retained hereunder.

9. Lessee is granted the right, from time to time while this lease is in force, whether before or after the commencement of drilling operations, to pool into a separate operating unit or units, all or any part of the land covered by this lease with other land, lease or leases, or interests therein (whether such other interests are pooled by a voluntary agreement on the part of the owners thereof or by the exercise of a right to pool by the Lessee(s) thereof), when in Lessee's judgment it is necessary or advisable in order to promote conservation, to properly develop or operate the land and interests to be pooled, or to obtain a multiple production allowable from any governmental agency having control over such matters. Any pooling hereunder may cover all oil and gas, or any one or more of the substances covered by this lease, and may cover one or more or all zones or formations underlying all or any portion or portions of the leased premises. Any unit formed by such pooling shall be of abutting or cornering tracts and shall not exceed 640 acres (plus a tolerance of 10%) for gas or gas condensate and shall not exceed 40 acres (plus a tolerance of 10%) for any other substance covered by this lease; provided that if any governmental regulation or order shall prescribe a spacing pattern for the development of a field wherein the above described land, or a portion thereof, is located, or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be permitted in such allocation of allowable. The area pooled and the zones or formations and substances pooled shall be set forth by Lessee in a "declaration of pooling" filed for record in the county or counties in which the pooled area is located. Such pooling shall be effective on the date such declaration is filed unless an earlier or later effective date is specified in such declaration. In lieu of the royalties elsewhere herein specified, except shut-in gas well royalties, Lessor shall receive on production from an area so pooled only such portion of the royalties which, in the absence of such pooling, would be payable hereunder to Lessor on production from the land covered by this lease which is placed in the pooled area as the amount of the surface acreage in the land covered by this lease which is placed in the pooled area bears to the amount of the surface acreage of the entire pooled area. Nothing herein contained shall authorize or effect any transfer of any title to any leasehold, royalty or other interest pooled pursuant hereto. The commencement of a well, the conduct of other drilling operations, the completion of a well or of a dry hole, or the operation of a producing well on the pooled area, shall be considered for all purposes (except for royalty purposes) the same as if said well were located on, or such drilling operations were conducted upon, the lands covered by this lease whether or not such well is located upon, or such drilling operations are conducted upon, said lands. Lessee shall also have the right, but not the obligation, from time to time, while this lease is in force, to modify or terminate any prior declaration of pooling by either increasing or decreasing the size of the pooled unit, such right to be exercised by the recording of an instrument evidencing such modification or termination; provided, however, that this right may be exercised only to the extent that such modification or termination will result in pooled units of a size equal to any spacing pattern established by governmental regulation or order for the lands involved. Notwithstanding the limitations on termination of pooled units contained in the preceding sentence, Lessee may also terminate any pooling effected pursuant hereto at any time the pooled unit is not producing and no drilling operations are being conducted thereon by executing and filing of record in the county or counties in which the pooled area is located a written declaration of the termination of such pooling, provided that the pooling of all interests not covered by this lease which comprise a part of such pooled unit be also terminated in some effective manner.

10. In addition to and not in limitation of the rights granted in paragraph 9 hereof, Lessee shall have the right to utilize, pool or combine all or any part of the above-described lands or other lands in the same general area, including the commitment of all or any portion of said lands to a federal unit by executing a Reaffirmation and Joinder to such a unit, or 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 federal unit, 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 federal unit, 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 federal unit, plan or agreement, and this lease shall not terminate or expire during the life of such federal unit, plan or agreement. In the event that said lands or any part thereof shall hereafter be operated under any such federal unit, cooperative or unit plan of development or operation whereby the production therefrom is allocated to different interests other than the land covered by said federal unit or cooperative unit 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 a 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 federal unit, cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing a Reaffirmation and Joinder to such federal unit, or by executing the cooperative or unit plan upon request of Lessee, but such consent shall not be deemed necessary to bind the interest of Lessor to such federal unit or cooperative or unit plan of development or operation.

11. Lessee shall have the right to use, free of cost, oil, gas and water produced on said land for its operations thereon except water from wells of Lessor. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing. No part of the surface of the leased premises shall, without the written consent of Lessee, be let, granted or licensed by Lessor to any other party for the location, construction or maintenance of structures, tanks, pits, reservoirs, equipment, or machinery to be used for the purpose of exploring, developing or operating adjacent lands for oil, gas or other minerals. In addition, and not by way of limitation, Lessee shall have the right for one year after the expiration of the terms of this lease to enter the leased premises and remove any machinery or fixtures placed on the premises as well as the right to draw and remove casing during said period of time.

12. Lessee shall bury below plow depth its pipe lines on the leased premises when requested by a Lessor owning an interest in the surface. No well shall be drilled nearer than 200 feet to any house or barn now on said premises without the written consent of the owner of the surface on which such house or barn is located. Lessee shall pay for damages to growing crops caused by its operations on said lands.

13. Lessor hereby warrants and agrees to defend the title to the lands herein described, but if the interest of Lessor covered by this lease is expressly stated to be less than the entire fee or mineral estate, Lessor's warranty shall be limited to the interest so stated. Lessee may purchase or lease the rights of any party claiming any interest in said land and exercise such rights as may be obtained thereby but Lessee shall not suffer any forfeiture nor incur any liability or responsibility for reason thereof. Lessee shall have the right at any time to pay for Lessor, any mortgage, taxes or other lien on said lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and any such payments made by Lessee for Lessor may be deducted from any amounts of money which may become due Lessor under this lease. In the event the leased lands are encumbered by a mortgage, then prior to the payment of any royalties due hereunder, Lessor agrees to obtain a subordination of mortgage, at Lessor's expense, in a form acceptable to Lessee. Furthermore, if any claim is asserted or any action or proceeding instituted by Lessor, or any third party claiming title to the leased land or any part thereof or any interest therein or any production therefrom adverse to Lessor or adverse to the rights claimed in good faith by Lessee under this lease, then during the pendency of such controversy and until 90 days after determination thereof, Lessee may defer or discontinue payment of any sums due hereunder and all operations on the leased land or, if it operates wells, it may deposit royalties accruing hereunder in respect to the production therefrom in any bank in the state in which the leased premises are located to abide the final determination of such controversy.

14. All express provisions and implied covenants of this lease shall be subject to all applicable laws, governmental orders, rules and regulations. This lease shall not be terminated in whole or in part, nor Lessee hold liable in damages, because of a temporary cessation or delay of production or of drilling operations due to breakdown of equipment or due to the repairing of a well or wells or because of an inability to obtain necessary permits, equipment, services, material, water electricity, fuel, access or easements, or because of failure to comply with any of the express provisions or implied covenants of this lease if such failure, whether or not foreseeable, is the result of the exercise of governmental authority, war, armed hostilities, terrorism, lack of market, act of God, strike, civil disturbance, fire, explosion, flood or any other cause reasonably beyond the control of Lessee.

15. It is agreed that this lease shall never be forfeited or canceled for failure to perform in whole or in part any of its implied covenants, conditions or stipulations until it shall have first been finally judicially determined that such failure exists, and after such final determination, Lessee is given a reasonable time therefrom (but in no event less than 90 days) to comply with any such covenants, conditions or stipulations.

16. In the event that this Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered, and all other pertinent terms and conditions of the offer. Lessee, for a period fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

17. This lease and all provisions thereof shall be applicable to and binding upon the parties and their respective successors and assigns. Reference herein to Lessor and Lessee shall include reference to their respective successors and assigns. Should any one or more of the parties named above as Lessors not execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

18. The Lessors for themselves and their heirs, successors and assigns, hereby expressly release and waive any and all rights of homestead, dower, curtesy and augmented estate rights.

19. Lessor shall not take any actions with respect to surface development, subsequent to the execution of this lease, that impair, or are otherwise inconsistent with the rights granted to lessee herein, including, but not limited to, the right of lessee to unimpeded ingress and access to the leased lands, and the right of lessee to use so much of the surface, and at such locations, as may be necessary or convenient for lessee's oil and gas operations. Lessor expressly acknowledges its obligations pursuant to C.R.S. 24-95.5-101 et seq. to provide notice to lessee prior to the first public hearing on any plan for surface development, and to provide in such plan, or related surface use agreement, for oil and gas operations pursuant to this lease.


20. Notwithstanding anything to the contrary contained in this Lease, for the same consideration, Lessor does hereby grant to Lessee, its successors and/or assigns, the option, but not the obligation to extend the primary term of this Lease and all rights hereunder for an additional Two (2) years. Lessee shall exercise this option, by tendering to Lessor, considerations of the same per net mineral acre covered by this Lease. This additional bonus payment shall be considered tendered by Lessee when deposited with the U.S. Postal Service for delivery to the Lessor by certified mail at the address above on or prior to the expiration date of the initial primary term of this Lease. Upon tender the primary term of this lease will be amended from Three (3) years to Five (5) years.

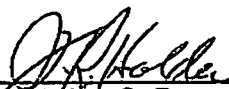
**DISCLAIMER OF REPRESENTATIONS:** Lessor acknowledges that oil and gas lease payments, in the form of rental, bonus and royalty, are market sensitive and may vary depending on multiple factors and that this Lease is the product of good faith negotiations. Lessor understands that these lease payments and terms are final and that Lessor entered into this lease without duress or undue influence. Lessor recognizes that lease values could go up or down depending on market conditions. Lessor acknowledges that no representations or assurances were made in the negotiation of this lease that Lessor would get the highest price or different terms depending on future market conditions. Neither party to this lease will seek to alter the terms of this transaction based upon any differing terms which Lessee has or may negotiate with any other lessors/oil and gas owners.

**SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF**

IN WITNESS WHEREOF, this lease is executed as of the day and year first above written.

**Charles Morton Share Trust**

  
Johnny C. Jones, Co-Trustee

  
J.R. Holder, Co-Trustee

**HERITAGE TRUST COMPANY**

  
By: B. Michael Carroll, President/CEO

  
Darrell Kline, Co-Trustee

  
Ray Dean Linder, Co-Trustee

ACKNOWLEDGEMENTS


STATE OF OKLAHOMA

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COUNTY OF WOODS

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This instrument was acknowledged before me on the 2nd day of February, 2010 by J.R. Holder, Co-Trustee of the Charles Morton Share Trust, on behalf of said trust.

  
Notary Public, State of Oklahoma  
My Commission Expires:

STATE OF OKLAHOMA

§

COUNTY OF WOODS

§

This instrument was acknowledged before me on the 2nd day of February, 2010 by Johnny C. Jones, Co-Trustee of the Charles Morton Share Trust, on behalf of said trust.

  
Notary Public, State of Oklahoma  
My Commission Expires:

STATE OF OKLAHOMA

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COUNTY OF OKLAHOMA

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This instrument was acknowledged before me on the 2nd day of February, 2010 by B. Michael Carroll, President/CEO of Heritage Trust Company, an Oklahoma Corporation, as Co-Trustee of the Charles Morton Share Trust, on behalf of said trust.

  
Notary Public, State of Oklahoma  
My Commission Expires:

STATE OF OKLAHOMA

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COUNTY OF WOODS

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This instrument was acknowledged before me on the 2nd day of February, 2010 by Darrell Kline, Co-Trustee of the Charles Morton Share Trust, on behalf of said trust.

  
Notary Public, State of Oklahoma  
My Commission Expires:

STATE OF OKLAHOMA

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COUNTY OF WOODS

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This instrument was acknowledged before me on the 2nd day of February, 2010 by Ray Dean Linder, Co-Trustee of the Charles Morton Share Trust, on behalf of said trust.

  
Notary Public, State of Oklahoma  
My Commission Expires:

## EXHIBIT "A"

Attached hereto and made a part of that certain Oil and Gas Lease dated February 2, 2012, by and between Heritage Trust Company, J. R. Holder, Darrell Kline, Ray Dean Linder and Johnny C. Jones, Co-Trustees of the Charles Morton Share Trust, as Lessor, and G. H. Land Co., Inc. as Lessee, covering lands in Cheyenne County, State of Colorado.

The following provisions are part of this Oil and Gas Lease and if there is a conflict between the Exhibit "A" provisions and any of the Oil and Gas Lease provisions, then the Exhibit "A" provision(s) shall apply and take precedence:

**COMMENCEMENT:** Commencement of a well according to the terms of this lease will require that a drilling rig capable of drilling to total depth be on location and drilling on or before expiration of the primary term, and that the drilling of said well be continued with due diligence until completion. Construction of a well location without actual drilling as detailed above will not be deemed commencement of a well.

**DEPTH CLAUSE:** In the event this lease is extended by production in paying quantities beyond its primary term, then on such date this lease shall terminate one hundred feet below the base of the deepest producing formation in the well or wells located on the leased premises, or land unitized therewith. If Lessee is in the process of drilling or completing a well at the end of the primary term of this lease this clause shall become effective upon conclusion of such operations.

**PUGH CLAUSE:** Notwithstanding anything to the contrary in this lease, all portions of this lease not included in a unit created by the Colorado Oil and Gas Conservation Commission and not producing or upon which drilling operations have not commenced, shall be released at the expiration of the primary term of this lease. Should the unit as established by the Commission be changed after the expiration of the primary term, all portions of this lease not included in the newly prescribed Commission unit will be released.

### USE OF SURFACE:

- (A) Lessee shall be liable and agrees to pay for all damages caused by its operations to the leased premises, including without limitation, damage to all personal property, improvements, livestock, crops, grasses and trees on the leased premises. Lessee agrees to pay [REDACTED] for the first well location and access road as damages for all surface areas physically contacted by Lessee's operations on the leased premises, payable to the surface owner prior to spudding the first well, and [REDACTED] per rod for any pipeline or electrical crossing damages. In the event Lessee uses existing roads of surface owner, Lessee shall maintain such roads in a caliche, rut free condition. Upon Lessor's request, Lessee shall fence the well site to exclude livestock.
- (B) All pipelines shall be buried and maintained below four feet of depth so farming and ranching operations, including irrigation, terracing and subsoil tillage, may be safely performed.
- (C) In the event of production, Lessee shall restrict the production site to as small a dimension as is reasonably necessary for prudent operations.
- (D) Lessee shall consult with surface owner upon the placement of any tanks, pipelines, and lease roads and cattle guards necessitated by its operations on the property, and shall utilize its best efforts to minimize interference with surface owner's farming and ranching operations.

- (E) Cattle guards a minimum of 20 feet wide and of adequate strength with steel gates will be constructed at all places where lease roads enter the property or go through existing fences. After completion, Lessee shall use its best efforts to keep gates padlocked at all times, except when opened for passage of traffic. Said cattle guards and gates shall become the property of surface owner upon expiration of the lease. Existing fences shall be H-Braced before cutting to install gates, utilizing posts with minimum 8 inch tops.
- (F) Lessee shall maintain production site in a clean and uncluttered condition.
- (G) It is agreed that no salt water, waste drilling fluids, waste material or other deleterious substances will be injected in any well that may be drilled on the property covered by this lease without surface owner's prior written consent.
- (H) No well shall be located closer than 200 feet to existing dwellings, barns and outbuildings on the leased premises.
- (I) Lessee may not use fresh water obtained from or under the leased premises without the express written consent of the surface owner. Said water may be purchased by Lessee at a price to be negotiated between the Lessee and the Surface Owner.
- (J) Lessee expressly reserves from this lease all existing well bores.
- (K) Lessee shall plug any well drilled on the leased premises within six (6) months after abandonment, and shall return the well site and road site to its original condition as nearly as reasonably possible, including the removal of concrete pads and large rocks, the replacement of top soil, and re-establishing native grass.

**ROYALTY:** Lessee hereby agrees to deliver or cause to be delivered to Lessor, without cost into pipelines, a royalty of [REDACTED] part of the oil or gas produced from the leased premises and a [REDACTED] part of all casinghead or drip gas or gasoline or other hydrocarbon substances produced from any well or wells on said premises, or in lieu thereof, pay to Lessor without cost into pipelines the gross proceeds thereof, as the Lessor may elect.

**NO DEDUCTIONS:** It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction, directly or indirectly, for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form; however, any such costs which result in enhancing the value of the marketable oil, gas or other products to receive a better price may be deducted from Lessor's share of production so long as they are based on Lessee's actual cost of such enhancements.

**SEPARATION OF LIQUIDS:** Lessee agrees that before any gas produced from the land hereby leased, containing liquid hydrocarbons, recoverable in commercial quantities by separator on the lease, is sold, used or processed in a plant, it will be run through an adequate oil and gas separator of conventional type or other equipment at least as efficient.

**GROSS VALUE OF PRODUCTION:** In the event any gas is processed for the extraction of liquefiable hydrocarbons or other marketable substances, by or for Lessee or Lessee receives any consideration for allowing the gas to be processed, the value of the extracted products and the remaining residue gas attributable thereto shall be considered the gross value of the gas sold for the calculation of royalties due; provided however, for royalty calculations, gross value shall not be less than the value of the gas if such gas had not been processed, however, in no event shall Lessor receive an amount more or less than the price received by Lessee. Lessee shall also refer to any subsidiary or affiliate of Lessee.

**BEST PRICE AVAILABLE:** In selling any gas produced from the leased premises, or any lands with which the leased premises may be unitized, the Lessee shall exercise good faith and use due diligence and prudence to market such gas at the best price and upon the most favorable terms that may be obtainable by Lessee at the time or times such gas is contracted for sale, but in no event less than the price obtained by the operator of the well, or the operator's subsidiary, or any of its affiliates.

**OTHER CONSIDERATION RECEIVED:** Notwithstanding anything to the contrary contained herein, Lessor shall be entitled to receive the stated royalty percentage of all moneys received by Lessee which are in any way related to the interest herein leased, including, but certainly not limited to: take-or-pay settlements; contract negotiation bonuses; contract buy downs; and contract buy outs. This royalty shall be due within thirty (30) days after Lessee's receipt thereof.

**WASTE:** Lessee agrees to use diligence to prevent the underground or above ground waste of oil or gas and to avoid the physical waste of gas produced from the leased premises.

**CESSATION, DRILLING AND REWORKING:** In the event production in paying quantities of oil or gas on the leased premises, after once obtained, shall cease for any cause within ninety (90) days before the expiration of the primary term of this lease or at any time or times thereafter, this lease shall not terminate if the Lessee commences additional drilling or reworking operations within ninety (90) days after such cessation, and this lease shall remain in full force and effect so long as such operations continue in a good faith and workmanlike manner without interruptions totaling more than ninety (90) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas in paying quantities, this lease shall remain in full force and effect so long as oil or gas is produced in paying quantities or payment of shut-in gas well royalties are made as hereinbefore provided in the lease.

**NOTICE OF CESSATION:** Lessee shall give Lessor written notice within ninety (90) days after cessation of production.

**SHUT-IN ROYALTY:** Notwithstanding anything to the contrary herein, it is understood and agreed that this lease may not be maintained in force for any one continuous period of time longer than two (2) years after the expiration of the primary term hereof solely by the provisions of the shut-in royalty clause.

**WELL INFORMATION:** Lessee agrees to furnish Lessor promptly, on receipt of a written request, a true copy of all of the following information pertaining to the leased premises or land unitized therewith, to wit: all gas purchase contracts, supplemental agreements or amendments thereto which govern the sale of hydrocarbons produced under the terms of this lease; full, complete and correct records showing volumes produced and values received on gross production; gas balancing statements; gas purchaser statements; daily drilling and operations reports; core analysis, drill stem test,

well completion, pressure survey and production analysis reports; all well logs of whatever kind; and copies of any filings made to the Colorado Oil and Gas Conservation Commission. Lessee agrees to keep all such information strictly confidential.

**INDEMNIFICATION:** Lessee agrees to indemnify Lessor against all claims, suits, costs, losses, and expenses that may in any manner result from or arise out of the operations conducted pursuant to this instrument.

**ASSIGNMENT:** The rights of Lessor and Lessee hereunder may be assigned in whole or in part. Lessee shall provide Lessor with copies of all assignments, mortgages and other encumbrances against the leasehold within a reasonable time period, together with mailing addresses for all assignees. In the event that this lease is assigned in fractional parts to more than one assignee, all assignees shall be jointly and severally liable for the proper payment of royalties and interest set forth herein.

**RELEASE:** Upon termination, expiration or surrender of this lease in whole or in part, Lessee shall within ninety (90) days file an appropriate release of lease in the County Records and provide Lessor with a certified copy of same.


**WARRANTY:** This lease is expressly made without warranty of title.

**INTEREST:** Unless stated otherwise herein or if state statutes provide for a shorter period to make proper payments, all payments due to Lessor for royalties herein shall be delivered to him within one hundred eighty (180) days after the last day of the month for which said royalties were due. In the event that said payments are not received within that 180 day time period, 5% compounded annual interest, calculated from the last day of the month for which said royalties were due, shall be paid to Lessor by Lessee. At Lessor's option, all payments received shall be applied first to any outstanding interest due on prior late paid royalties, then to any prior outstanding unpaid royalties and then to any current royalties due. No notations on the remittance statements or provisions in any division order shall amend this provision.

**FULL PAYMENT:** Lessee or its assigns shall be responsible for the full and proper payment of Lessor's royalty from the date of first production until final depletion or abandonment.

**FAVORED NATION CLAUSE:** In the event Lessee pays a bonus amount greater than the amount paid to Lessor, for an oil and gas lease, and/or pooling action, in this section within six (6) months from the date hereof, Lessee agrees to pay the difference between the bonus amount already paid per acre, and the amount per acre of the greater bonus paid, to Lessor.

End of Exhibit "A"

 2/2/12