

E 118277 B 0496 P 0717  
REED D HATCH SANPETE COUNTY RECORDER  
2004 SEP 10 10:46am Fee 19.00 NSP  
FOR WESTERN LAND SERVICES INC  
34-19-1E

OIL AND GAS LEASE

Utah Producers 88(DOP)2/00

Prospect: Salina Prospect 4

WLS 7365

AGREEMENT, Made and entered into the 2nd day of July, 2004, by and between\* CHARLES HENRY PETERSON; \*a/k/a Charles H. Peterson

Whose address is: PO BOX 220259, CENTERFIELD, UT 84622

hereinafter called Lessor (whether one or more) and WESTERN LAND SERVICES - UTAH, whose address is 54 West Seymour, Sheridan, WY 82801, hereinafter called Lessee:

WITNESSETH: that Lessor, for and in consideration of ten or more 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 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), gas producible from coal-bearing formations, and any substance, whether similar or dissimilar, produced in a gaseous state, all associated hydrocarbons produced in a liquid or gaseous form, all sulfur, and for injecting water and other fluids, gas, air, and other gaseous substances into subsurface strata, together with the right to construct and maintain pipelines, telephone and electric lines, tanks, powerlines, 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 co-jointly with neighboring land, for the production, saving and taking care of oil and gas and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said being situated in the County of Sanpete, State of Utah, and being described as follows, to-wit:

(See Exhibit "A")

together with all strips, parcels of land and riparian rights adjoining or contiguous to the above described tract of land, and owned or claimed by lessor and containing 62.38 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of Five (5) years from this date and as long hereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a **PAID-UP LEASE**. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered. The consideration paid upon delivery of this lease shall

be deemed as bonus and rental payment in full. Said consideration is hereby allocated: 1/5th of the total being a bonus payment and the remaining 4/5ths allocated as four equal annual rental payments.

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

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal of one-eighth (1/8th) of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8th) of the gross proceeds each year, payable monthly, for the gas from each well where gas only is found, while the same is being used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8th), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8th) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee shall pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. Such payment or tender shall be considered as gas production within the meaning of this lease.

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

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

8. No well shall be drilled nearer than 200 feet to houses, barns, or other facilities, including Lessors water facilities now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. 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.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease/such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder 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. 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.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower

and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

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

16. This lease may, at Lessee's option, be extended as to all or part of the lands covered hereby for an additional primary term of 5 (five) years commencing on the date that the lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor an extension payment of \$10.00 (ten USD) per acre for the land then covered by the extended lease. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous, commencing on the date of the lease and continuing from that date to the end of the extended primary term; said extension payment shall be allocated over the extension term in the same manner as set out in paragraph 2 numbered above. Lessee's option shall expire on the first to occur of the following: (a) the termination or expiration of this lease or (b) the second anniversary of the expiration of the primary term stated in Paragraph numbered 2 above.

**OTHER PROVISIONS:**

17. Lessee and Lessor agree that any access roads, well sites, or pipelines to be constructed under the terms of this lease shall be done in consultation with the Lessor, provided however, the Lessor shall not attempt to prohibit said construction or make unreasonable requests of the Lessee.

18. Lessee agrees that as soon as is reasonably possible, following completion of its operations, Lessee shall restore its well site, as nearly as possible, to its original condition and land contour.

19. Lessee agrees to be a prudent operator and will keep all surface disturbances to the minimum area necessary to conduct its operations.

20. Lessee shall indemnify and hold Lessor harmless from any and all liability, liens, claims and environmental liability arising out of Lessee's operations under the terms of this lease.

21. Pursuant to paragraph #9 of this lease, Lessee agrees that within thirty (30) days of commencement of operations on the herein described lands, Lessee agrees to pay Lessor a one time damage payment of \$500.00 for each acre of actual damage caused to Lessor's property as a direct result of Lessee's operations under the terms of this lease.

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

Charles Henry Peterson  
**CHARLES HENRY PETERSON**  
a/k/a Charles H. Peterson

SS or Tax ID # 529-30-3444

STATE OF UTAH )  
 ) ss. ACKNOWLEDGMENT  
COUNTY OF SANPETE )

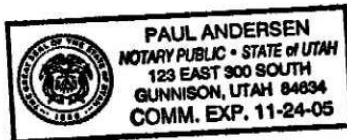
BEFORE ME, the undersigned authority, on this day personally appeared \*CHARLES HENRY PETERSON, known to me to be the person(s) whose name(s) (is)(are) subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

\*a/k/a Charles H. Peterson

GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 2<sup>nd</sup> day of July, 2004

My commission expires: 11-24-05

Paul Andersen  
Notary Public



Sanpete County, Utah,  
Acting in Sanpete County, Utah

Prepared by:  
Roy Moore

After recording, return to:  
Western Land Services - Utah  
54 West Seymour  
Sheridan, WY 82801

EXHIBIT "A"

This Exhibit A is attached to and made a part thereof that certain Oil and Gas Lease dated July 2, 2004, by and between Charles Henry Peterson as Lessor, (whether one or more) and Western Land Services – Utah, of 54 West Seymour, Sheridan, WY 82801, as Lessee.

\*a/k/a Charles H. Peterson

Serial # 10320

- ✓ Beginning at the Southeast Corner of the Southwest Quarter of Section 34, Township 19 South, Range 1 East of the Salt Lake Base and Meridian; thence North 10.00 chains; thence West 14.00 chains, thence Southeast along County Road to the point of beginning, containing 7.00 acres.

Serial # 10324

- ✓ ~~Beginning at the Southwest Quarter of the Southwest~~ <sup>Southeast</sup> Quarter of Section 34, Township 19 South, Range 1 East of the Salt Lake Base and Meridian. Containing 40.00 acres.

Serial # 10801

- ✓ Beginning 132 feet West of the Northeast corner of the Northwest Quarter of the Northeast Quarter of Section 3, Township 20 South, Range 1 East of the Salt Lake Base and Meridian; and running Southwesterly along North side of County Road to a point 66 feet East of the Northwest corner of the Northwest Quarter of the Northeast Quarter of Section 3, thence East 1122 feet to the point of beginning, containing 7.50 acres.

Serial # 10294X3

- ✓ Beginning on the East line of a county road at a point 1320 feet West from the Northeast corner of the Southeast quarter of Section 33, Township 19 South, Range 1 East, Salt Lake Base and Meridian; thence East 1320 feet, thence South 250 feet, thence West 1425 feet, to the East line of the county road, thence Northeasterly along the county road 271 feet, more or less, to the point of beginning. Containing approx. 7.88 acres.