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LESSEE'S PART DULY ATTENDED TO
CALLED TO SECTION 19 OF THIS LEASE

MINERAL LEASE NUMBER

34625

MINERAL LEASE APPLICATION NO. 34625

16870

GRANT: SCH

OIL, GAS AND HYDROCARBON LEASE

THIS INDENTURE OF LEASE entered into this 8th day of August, 19 77, by and between the Division of State Lands, Room 105, State Capitol Building, Salt Lake City, Utah 84114, acting in behalf of the State of Utah, hereinafter called the LESSOR, and

D.H. Willson
240 Denver Club Building
Denver, CO
80202

OLTS- 4301301
File 4301301

hereinafter called the LESSEE, whether one or more.

WITNESSETH:

Section 1. RIGHTS OF LESSEE - That Lessor, in consideration of the rents and royalties to be paid and the covenants and agreements hereinafter contained and to be performed by Lessee, does hereby grant and lease to Lessee the following described tract of land in the County of Utah, State of Utah, to-wit:

Northwest Quarter (NW $\frac{1}{4}$) of Section Twenty-one (21), Township Seven (7) South, Range Two (2) West, Salt Lake Meridian.

containing 160.00 acres, more or less for the purposes and with the exclusive right of prospecting for, of mining for, of excavating, quarrying, or stripmining for and/or drilling for oil, natural gas, elaterite, ozocerite, other hydrocarbons (whether the same be found in solid, semi-solid, liquid, vaporous or any other form) including tar, bitument, asphaltum, and maltha, other gases (whether combustible or non-combustible), sulphur, (except the metallic sulphide such as pyrite, marcasite and chalcopyrite) and associated substances of whatever kind or nature and whether or not similar to those hereinabove mentioned but excluding coal and oil shale (the hydrocarbons and other materials granted hereby being hereinafter collectively called "said substances") and producing, taking, and removing such substances from the above described lands, the Lessee to have the rights to construct and maintain on said lands all works, buildings, plants, waterways, road, communication lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary to the full enjoyment thereof, subject however, to the conditions hereinafter set forth.

Section 2. TERM OF LEASE - This lease unless terminated at an earlier date as herein-after provided, shall be for a primary term of ten years from and after the first day of the month next succeeding the date of issuance hereof and for so long thereafter as any of said substances is produced in commercial quantities from the leased premises.

If operations are being diligently prosecuted on the leased premises at the end of the primary term, this lease shall be automatically extended while such operations are in progress and if production in commercial quantities shall result therefrom this lease shall be extended for so long as any of said substances is produced in commercial quantities.

In respect to the duration of the term of this lease, gas shall be deemed to be produced in paying quantities from any shut-in gas well on the leased lands which is capable of producing gas in paying quantities whenever and at such times as such gas cannot be reasonably marketed at a reasonable price by reason of existing marketing or transportation conditions: Provided, however, that Lessee shall pay to the State an additional rental equal to the annual rental payable by such Lessee under the terms of the lease, said rental to be paid on or before the annual rental paying date next ensuing after the date said well was shut-in, on or before said rental date thereafter. Upon the commencement or marketing of gas from said well or wells, the royalty paid for the lease year in which the gas is first marketed shall be credited upon the rental payable as provided hereunder to the State for such year.

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The phrase "produced in paying quantities" as used in this lease shall mean the production of said substances from the above described lands in an amount which is sufficient during each lease year to yield a minimum royalty payment to Lessor equal to \$1.50 per acre for all acres of land held by Lessee under this lease.

Section 3. ANNUAL RENTAL - Lessee agrees to pay to Lessor annually in advance as rental the sum of one dollar (1.00) per acre, or fractional part thereof, per annum. Any such rental paid hereunder shall be credited against the royalties, if any, which may accrue on production during the lease year for which such rental is paid.

Section 4. ROYALTIES

(a) Oil - Lessee agrees to pay to Lessor a royalty of twelve and one-half percent (12½) of the oil produced, saved and sold from the leased premises; or at the option of Lessor, to pay to Lessor the cash value of such royalty. When paid in money, the royalty shall be calculated upon the reasonable market value of the oil at the well, including any subsidy or extra payment which the Lessee, or any successors in interest thereto, may receive, without regard to whether such subsidy or extra payment shall be made in the nature of money or other consideration, and, in no event shall the royalties be based upon a market value less than that used by the United States in the computation of royalties, if any, paid by this lessee to the United States of America on oil of like grade and gravity produced in the same field. When Lessor elects to take royalty oil in kind, such royalty oil shall be delivered on the premises where produced without cost to Lessor at such time and in such tanks provided by Lessee as may reasonably be required by Lessor, but in no event shall Lessee be required to hold royalty oil in storage beyond the last day of the calendar month next following the calendar month in which the oil was produced. Lessee shall not be responsible or be held liable for the loss or destruction of royalty oil in storage from causes under which Lessee has no control. For Royalty purposes, the word "oil" shall mean crude petroleum oil and any other hydrocarbons, regardless of gravities, which are produced at the well in liquid form, provided, however, oil produced from a reservoir with zero or near zero initial shut-in pressure shall bear the royalty rate specified in Section 4(c).

(b) Gas - Lessee agrees to pay to Lessor twelve and one-half percent (12½) of the reasonable market value at the well of all gas produced and saved or sold from the leased premises. Where gas is sold under a contract, and such contract has been approved in whole or conditionally by the Lessor, the reasonable market value of such gas for the purpose of determining the royalties payable hereunder, shall be the price at which the production is sold, provided that in no event shall the price for gas be less than that received by the United States of America for its royalties from gas of like grade and quality from the same field; provided, however, the reasonable market value of processed or manufactured or extracted products for the purpose of computing royalty hereunder, shall be the value after deducting the costs of processing, extracting, or manufacturing, except that the deduction for such costs may not exceed 2/3 of the amount of the gross of any such products without approval by the Lessor and, provided further, that the market value of extracted, processed, or manufactured products used in the computation of royalties hereunder shall not be less than the value used by the United States in its computation of royalties on similar products resulting from production of like grade and quality in the same field.

(c) Other Substances - For the first ten years of commercial production, Lessee agrees to pay Lessor a royalty of six and one-fourth (6¼) of the reasonable market value of all other hydrocarbon substances which are produced from a reservoir where the initial shut-in pressure is zero or near zero which in the discretion of the Land Board indicated the absence of sufficient motive force for the leased substances to enter the well bore, and where the said substances cannot be produced except by mining or removing the host rock or require the application of heat and/or solvents to remove the hydrocarbon substances from the host rock into the well bore or other form of catch trap or basin. The royalty may, at the discretion of Lessor, be increased after the first ten years of commercial production at a rate not to exceed one percent (1%) per annum until a maximum of 12½% is reached; provided, however, notwithstanding the foregoing, the royalty which Lessee shall pay at any time under this lease may, after notice and hearing, be fixed by Lessor up to the highest royalty rate then being paid, but in any event not to exceed 12½% by a Lessee producing from the same general area, reservoir, or deposit.

(d) Sulphur - Lessee agrees to pay Lessor 12½ percent of the reasonable market value of all sulphur which Lessee shall produce, save, or sell from the leased premises.

The basis for computing the reasonable market value of substances covered in this (c) and (d) shall be as follows:

(i) If the substances are sold under a bonafide contract of sale, the amount of money or its equivalent actually received from the sale of the substances less reasonable costs, if any, of transporting the substances from the place where extracted to the place where, under the contract of sale, the leased substances are to be delivered, shall be regarded as the reasonable market value.

(ii) If the lease substances extracted are treated at a mill, smelter, processing plant or reduction works which received the substances from independent sources and which is owned or controlled by the same interests owning or controlling the mine, such treatment shall be treated as a sale within the meaning of this section for the purpose of determining market value, and in such event a rate or charge for sampling, assaying, milling, smelting or refining the leased substances therefrom shall be deducted, which shall not exceed an amount to be determined by applying the same rates as are applied by such mill, smelter, or reduction works or competing works on ores of substantially like characteristics and like quantities received from independent sources. In the event of controversy, the Lessor shall have the power to determine such rates and charges. Transportation charges may also be deducted as provided in subdivision (i) hereof.

(iii) If a mill or other reduction works is operated exclusively in connection with a mine, such mill or reduction works shall be treated as a part of the mine, and the costs of operating the mill or reduction works shall, for the purpose of fixing the royalty set forth in this lease, be regarded as part of the costs of mining, and the proportionate cost of assaying, sampling, smelting, refining, and transportation only shall be deducted as herein provided.

(e) Time of Payment - All royalty on production during any calendar month shall be due and payable by Lessee to Lessor not later than the last day of the calendar month following that in which produced.

(f) Lessor agrees that upon request by the Lessee and after notice and hearing, upon good cause shown, the annual rental and/or the royalty rates specified in this lease may be reduced at the discretion of Lessor. However, upon the reduction of said rates, Lessor reserves the right to and Lessee agrees to reduce all outstanding overriding royalty interest proportionately.

Lessor may at its option take its royalty gas in kind at the well heads, provided expressly that Lessee shall be under no obligation to furnish any storage facilities for royalty gas.

Section 5. RIGHTS RESERVED TO LESSOR - The Lessor expressly reserves:

(a) Easements and Rights of Way - The right to permit for joint or several use in a manner which will not unreasonably interfere with Lessee's operations hereunder, such easements or rights of way upon, through or in the land hereby leased as may be necessary or appropriate to the workings of other lands belonging to the Lessor containing mineral deposits or to the working of the land hereby leased for other than the hereby leased substances, and for other public purposes.

(b) Surface Disposition - Leasing for Other Deposits - The right to use, lease, sell, or otherwise dispose of the surface of said hereby leased lands, or any part thereof, under existing state laws, subject to the rights herein granted and insofar as in the judgment of the Lessor, said surface is not necessary for the use of the Lessee in the exercise of the rights granted Lessee hereunder; and also the right to lease mineral deposits, other than the hereby leased substances, which may be contained in said hereby leased lands.

(c) Unitization - The right, with the consent of the Lessee, to commit the hereby leased lands to a unit or co-operative plan of development and to establish, alter or change the drilling, producing and royalty requirements and term of this lease to conform thereunto.

(d) Production Control - The right to alter or modify the quantity and rate of production to the end that waste may be eliminated or that production may conform to the Lessee's fair share of allowable production under any system of state or national curtailment and proration authorized by law.

Section 6. DRILLING AND DEVELOPMENT PROVISIONS PERTAINING TO OIL AND GAS OPERATIONS

(a) Offset Wells - Subject to the rights of surrender as provided in this lease, Lessee shall protect the oil and gas under the leased premises from drainage from adjacent lands or leases, and the Lessor expressly reserves the right to require the commencement, completion, and operation of a well or wells necessary for the protection of the leased premises from adjacent lands or leases.

(b) Diligence - Proper Operations - Lessee agrees:

(1) After discovery and subject to the right of surrender herein provided, to exercise reasonable diligence in producing oil and gas and in the drilling and operating of wells on the land covered hereby, unless consent to suspend operations temporarily is granted by the Lessor; and

(2) To carry on all operations hereunder in a good workmanlike manner in accordance with approved methods and practices, having due regard for the prevention of waste of oil and gas, or the entrance of water to the oil or gas bearing sands or strata, to the destruction or injury of such deposits, to the preservation and conservation of the property for future productive operations, and to the health and safety of workmen and employees; and

(3) To take every reasonable precaution to prevent water from migrating from one stratum to any other and to protect any water-bearing stratum from contamination; and

(4) To securely and properly plug in an approved manner any well before abandoning it and

(5) To drill any well in conformity with law and with the rules and regulations of the Utah Board of Oil, Gas, and Mining; and

(6) To conduct all operations subject to the inspection of the Lessor and to carry out at the Lessee's expense all reasonable orders and requirements of the Lessor relative to the prevention of waste and preservation of the property, and the health and safety of workmen; and on failure of the Lessee so to do, the Lessor shall have the right, together with other recourse herein provided, to enter on the property to repair damages or prevent waste at the Lessee's expense; and

(7) To conduct all operations under this lease in accordance with the Lessor's rules and regulations governing exploration for and production of oil and gas which are now in force, and with such reasonable rules and regulations as hereafter may be adopted by the Lessor; and

(8) To reimburse the owner or Lessee of the surface of the leased premises for actual damages thereto and injury to improvements thereon resulting from Lessee's operations hereunder, provided that Lessee shall not be held responsible for acts of providence or occurrences beyond Lessee's control.

(9) Whenever operations for the drilling for oil and gas are planned on Lessor's lands, no special notice need be filed so long as the required notices are filed with the Division of Oil, Gas, and Mining. When a drill site is located on Lessor's lands, any topsoil which is removed will be stockpiled on the site and will be redistributed on the site at the completion of operations and the land reseeded with grasses and/or native plants by Lessee or operator as prescribed by Lessor. All mud pits will be filled and material and debris will be removed from the site at the completion of operations.

Section 7. BOND - Lessee agrees at the time of commencement of operations to furnish a bond with an approved corporate surety company authorized to transact business in the State of Utah, or such other surety as may be acceptable to the Lessor, in the penal sum of not more than Five Thousand Dollars (\$5,000.00) conditioned upon the payment of all moneys, rentals, and royalties accruing to the Lessor under their terms hereof, and upon the full compliance with all other terms and conditions of this lease and the Rules and Regulations relating hereto, and also conditioned on the payment of all damages to the surface and improvements thereon where the lease covers lands, the surface of which has been sold or otherwise leased. Such bond or bonds furnished prior to the development of the lands contained in this lease may be increased in such reasonable amounts as the Lessor may decide after discovery of said substances.

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The Lessor may waive the provisions of this section, as to this lease, upon the furnishing of a blanket bond by Lessee extending to and including Lessee's operations hereunder.

Section 8. LOGS - REPORTS - MAPS - Lessee agrees to keep a log, in a form approved by the Board of Oil, Gas and Mining, of each well drilled by Lessee on the leased lands and agrees to file the same, together with such reports, maps and supplements as may be required, with said Commission. Lessee also agrees to furnish Lessor copies of such logs, reports and any other information which Lessor may request from time to time.

Section 9. NOTICE OF WATER ENCOUNTERED - In the drilling of wells under authority of this lease, all water-bearing strata shall be noted in the log and Lessee shall promptly give notice to Lessor when water has been encountered and such notice shall include an estimate of the possible amount of flow of said water and whether or not the water is fresh water.

Section 10. DEFAULT OF LESSEE - Upon failure or default of the Lessee to comply with any of the conditions or covenants herein, the Lessor may cancel this lease and such cancellation shall extend to and include all rights granted hereunder as to the whole of the tract hereinabove described, but shall not extend to nor affect the rights of this Lessee under other leases or partial assignments of this lease which have been approved by Lessor upon which no default has been made, provided, however, that in the event of any default by Lessee, Lessor shall, before cancellation, send a notice of intention to cancel said lease to the Lessee by registered or certified return receipt mail addressed to the post office address of said Lessee as first hereinabove stated or as shown by the records of the Lessor, which notice shall specify the default for which cancellation is to be made, and, if within thirty (30) days from the date of mailing said notice, Lessee has not remedied the violation or rectified the condition specified and notified Lessor thereof in writing, Lessor may thereupon cancel the lease without further notice to Lessee.

Section 11. OPERATION REQUIREMENTS - PREVENTION OF WASTE - Lessee covenants that no waste shall be committed on the land and agrees to develop and produce said substances which are susceptible of production with reasonable care and skill and in conformity with all applicable laws of the United States and the State of Utah, and the rules and regulations of the Division of State Lands now in effect or hereafter promulgated, and to carry on all mining, extractions, reducing, refining, and other operations on or below the surface of the earth by safe and economically feasible methods and practices and to take all proper and reasonable steps and precautions to prevent waste of or damages to said substances or other mineral deposits on said land. Should Lessee elect to dump waste products upon the leased lands, Lessee shall secure Lessor's consent as to the situs and manner of maintenance of the waste dump; it being understood that Lessor contemplates designating the manner of operation and maintenance of a waste dump so that the land used for dumping of waste will be suitable for other uses. Lessee shall not fence any watering place upon the leased lands without prior approval of Lessor, nor shall Lessee permit or contribute to the pollution of waters useful for domestic or agricultural purposes.

In those instances where strip or open-pit mining operations or other operations which will disturb the surface of Lessor's lands are utilized, Lessor may require rehabilitation of the surface of the disturbed area. At least 30 days prior to commencement, Lessee will submit to Lessor plans for such operations. Lessor will at the time outline the rehabilitation program required by Lessor for the particular property in question. In all cases the Lessee must agree to slope the side of all excavations to a ratio of not more than one foot (1') vertically for each two feet (2') of horizontal distance unless otherwise approved by the Lessor prior to commencement of operations. Such sloping is to become a normal part of the operation of the leased premises so as to keep pace with such operation to the extent that such operation shall not at any time constitute a hazard. Whenever practicable, all pits or excavations shall be shaped to drain, and in no case shall the pits or excavations be allowed to become a hazard to persons or livestock. All material mined, but not removed from the premises, is to be used to fill the pits and leveled, unless consent of the Lessor to do otherwise is obtained so that at the termination of the lease the land will as nearly as practicable approximate its original configuration. The Lessee or operator must strike off the peaks and ridges of spoil banks to a width satisfactory to the Board, Lessor may require that all topsoil in the affected area shall be removed and stockpiled until the completion of operations when in its opinion such action is justified. Upon completion of operations, the stockpiled topsoil will be redistributed on the affected area, and the land reseeded with grasses and/or native plants by Lessee as prescribed by Lessor.

Section 12. MAPS AND REPORTS - Where Lessee conducts mining operations under this lease, Lessee agrees to keep clear, accurate and detailed maps on tracing cloth, on a scale of not more than fifty (50) feet to the inch, of Lessee's working in each section of leased lands, oriented to a public land corner so that the maps can be readily and correctly superimposed, and to furnish to the Lessor annually, or upon demand, certified copies of such maps and any written reports of operations as Lessor may call for.

Section 13. IMPROVEMENTS AND REMOVAL OF SAME - Upon termination of this lease for any cause, the Lessee, upon payment of all amounts due Lessor, shall remove from the leased premises all property (including fixtures), machinery, equipment, and supplies. The leased land shall be surrendered in good usable condition in as near the natural condition of the land as is reasonably practical.

Section 14. LESSOR'S RIGHT OF ACCESS TO LEASED PREMISES AND LESSEE'S RECORDS - Lessor, its officers and agents, shall have the right at all reasonable times to go in and upon the leased lands and premises during the term of the lease to inspect the work done thereon and the progress thereof, and the products obtained therefrom, and to post any notice on the said lands that it may deem fit and proper. Lessee shall permit any authorized representative of the Lessor to examine all books and records pertaining to operations and royalties payable to Lessor under the lease, and to make copies of and extracts from such books and records if desired.

Section 15. SURRENDER BY LESSEE - Lessee may surrender this lease for cancellation by Lessor as to all or any part of the leased lands, but not less than a quarter-quarter section or surveyed lot, upon payment of all rentals, royalties, and other amounts due Lessor and by filing with the Lessor a written relinquishment. The relinquishment shall be effective as to future rental liability on the date of cancellation by Lessor.

Section 16. WATER RIGHTS - If the Lessor shall initiate or establish any water right upon the leased premises, such right shall become an appurtenance of the leased premises, and, upon the termination of the lease, shall become the property of the Lessor.

Section 17. DISCOVERY OF OTHER MINERALS - Upon such notification of the Lessee to the Lessor, the Lessee shall have 60 days in which to request that the Lessor issue a lease on the newly discovered mineral substances in line with the form of lease and regular rules and regulations of the Division of State lands regarding such mineral substances.

Section 18. FAILURE OF LESSOR'S TITLE - It is understood and agreed that this lease is issued only under such title as the State of Utah may now have or hereafter acquire, and that the Lessor shall not be liable for any damages sustained by the Lessee, nor shall the Lessee be entitled to or claim any refund of rentals or royalties theretofore paid to the Lessor in the event the Lessor does not have the title to the minerals in the leased lands. If Lessor owns a less interest in the leased lands than the entire and undivided fee simple estate in the leased minerals for which rental and royalty is payable, then the rentals and royalties herein provided shall be paid the Lessor only in the proportion which its interest bears to said whole and undivided fee simple estate in the said minerals for which royalty is payable.

Section 19. TRANSFERS OF INTEREST BY LESSEE - Lessor will not permit any assignment of this lease, or of any interest therein, or any sublease or operating agreement as to the leased lands, or any portion thereof, unless and until such assignment, transfer, sublease or operating agreement is approved by the Lessor. Any such instrument shall be filed with Lessor within ninety days from the date of final execution thereof, and when and provided it is approved by the Lessor, shall take effect as of the date of its execution. Subject to the necessity of approval as herein set out, all of the terms, covenants, conditions, and obligations of this lease shall extend to and shall be binding upon the successor in interest of the Lessee. The Lessee further agrees not to enter into any agreements limiting, restricting, prorating, or otherwise affecting the natural production from said lands in any way or in any event without the consent in writing of the Lessor first had and obtained.

Section 20. NOTICES - All notices herein provided to be given or which may be given by either party to the other, except as otherwise provided by law, shall be deemed to have been fully given when made in writing and deposited in the United States mail, postage prepaid, and addressed to the last known address of the parties.

Section 21. CONSENT TO SUIT - Lessee consents to suit in the courts of the State of Utah in any dispute arising under the terms of this lease or as a result of operations carried on under this lease. Service of process in any such action is hereby agreed to be sufficient if sent by registered mail to the Lessee at the last known address appearing on Lessor's records.

Section 22. ATTORNEY'S FEES - In the event Lessor shall institute and prevail in any action or suit for the enforcement of any provisions of this lease, Lessee will pay to Lessor a reasonable attorney's fee on account thereof.

IN WITNESS WHEREOF, the parties have hereunto subscribed their names the day and year first above written.

STATE OF UTAH
DIVISION OF STATE LANDS

By Charles R. Hansen LESSOR
Director

D. H. Willson LESSEE

STATE OF UTAH)
: ss.
COUNTY OF SALT LAKE)

On the 28th day of Sept., 19 77, personally appeared before me CHARLES R. HANSEN, who being by me duly sworn did say that he is the Director of the Division of State Lands of the State of Utah, and said instrument was signed in behalf of the State of Utah by authority of a resolution of the State Land Board and said CHARLES R. HANSEN acknowledged to me that the State of Utah executed the same.

Given under my hand and seal this 28th day of Sept.

Linda Belvas
Notary Public, residing at: 5170 N. 13th St. Salt Lake City, UT 84143

My Commission expires: 10-1-77

STATE OF ~~UTAH~~ Colorado)
: ss.
COUNTY OF Denver)

On the 23rd day of September, 19 77, personally appeared before me D. H. Willson, the signer of the above instrument, who duly acknowledged to me that he executed the same.

Given under my hand and seal this 23rd day of September, 19 77.

Sandra L. Pinner
Notary Public, residing at: Denver, Colorado

My Commission expires: 2-19-79

STATE OF UTAH)
: ss.
COUNTY OF)

On the _____ day of _____, 19 _____, personally appeared before me _____, who being duly sworn did say that he is an officer of _____ and that said instrument was signed in behalf of said corporation by resolution of its Board of Directors, and said _____ acknowledged to me that said corporation executed the same.

Given under my hand and seal this _____ day of _____, 19 _____.

Notary Public, residing at: _____

My Commission Expires: _____

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