

WLS0529

Utah Producers 88(DOP)200

OIL AND GAS LEASE

Prospect: Denmark Wash

AGREEMENT, Made and entered into the 13 day of FEB., 2004, by and between Johnson Feedlot Inc., a/k/a Johnson Feed Lot, Inc.

Whose address is: P.O. Box 309, Aurora, Utah 84620-0309 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 Sevier, State of Utah, and being described as follows, to-wit:

See "Exhibit A" attached, and "Exhibit B" attached, and "Exhibit C" attached

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JAYRENE B NIELSEN RECORDER SEVIER COUNTY
2004 APR 12 13:48 PM FEE \$23.00 BY CWB
REQUEST: WESTERN LAND SERVICES INC

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 195.26 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of Ten (10) 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: 1/10th of the total being a bonus payment and the remaining 9/10ths allocated as nine 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

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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 (five) 5 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 \$5.00 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 \$700.00 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.

Scott Johnson
 * Scott Johnson, President

SS or Tax ID # 528-88-6093

STATE OF UTAH)
) ss. INDIVIDUAL NOTARY
 COUNTY OF Sevier)

BEFORE ME, the undersigned authority, on this day personally appeared Scott Johnson, a married man, * known to me to be the person(s) whose name(s) (is)(are) subscribed to the foregoing instrument and acknowledged to me that his executed the same for the purposes and consideration therein expressed.

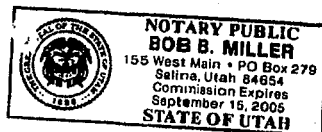
GIVEN UNDER MY HAND AND SEAL OF OFFICE THIS 13th day of February, 2004.

My commission expires: 9/15/05

Bob B. Miller
 Notary Public
Sevier County, Utah,
 Acting in Garfield County, Utah

* President of Johnson Feedlot, Inc.
 a/k/a Johnson Feed Lot, Inc.

Prepared by:
Mark Woodruff, Agent



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

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EXHIBIT "A"

This Exhibit A is attached to and made a part thereof that certain Oil and Gas Lease dated 2-13, 2004, by and between ^{*}Johnson Feed Lot Inc., as Lessor, (whether one or more) and Western Land Services - Utah, of 54 West Seymour, Sheridan, WY 82801, as Lessee. ^{**}a/k/a Johnson Feedlot, Inc.

Township 22 South, Range 1 West, of the S.L.B. & M., Sevier County, Utah

Section 7:

Commencing at a point on the West line of the Vermillion Extension Canal 10 chains North and approximately 18 chains West of the Southeast Corner of the Northeast Quarter; thence East 22 chains, more or less to the State Highway right of way; thence Southwesterly 7 chains, more or less along the same to the Section line; thence North 0.50 of a chain, more or less to a point 5.00 chains North of the 40 line; thence West 20 chains, more or less to the West line of the Vermillion extension canal; thence Northeasterly along the same to the place of beginning.
(4-87-15)

10.60 acres, more or less

Commencing at a point 2.47 chains North of the Southeast corner of the Northeast Quarter; which point is on the East line of the Old State Highway right of way; running thence North 2.53 chains, thence West 20 chains, thence South 5 chains, thence East 18.27 chains to the East side of aforementioned right of way, thence Northeasterly along said right of way to the point of beginning.
(4-87-31)

9.22 acres, more or less

Commencing 3.61 chains East of the Northwest Corner of the Southeast quarter of the Southeast quarter; and running thence West 23.61 chains; thence South 20 chains; thence East 11.25 chains to the West side of State Highway; thence Northeasterly along West side of Highway to the point of beginning.
(4-87-3)

33.80 acres, more or less

~~ALSO/ The Southeast quarter of the Southwest quarter.
(4-87-4)~~

~~40.0 acres, more or less~~

Township 22 South, Range 1 West, of the S.L.B. & M., Sevier County, Utah

Section 8:

~~Beginning at the Northeast Corner of the Northwest quarter of the Southeast quarter; thence South 5 chains; thence West 41.10, more or less, to the Rio Grande Western Railway; thence Northeasterly along Railway right of way to the quarter Section line; thence East 38.3 chains, more or less, to beginning.
(4-88-18)~~

~~19.41 acres, more or less~~

Township 22 South, Range 1 West, of the S.L.B. & M., Sevier County, Utah 00724459 Bk00489 Ps00537

Section 7:

~~Parcel #1: Commencing 75 chains North of the Southeast Corner of the Northeast quarter of the Southeast quarter; thence West 15 chains, more or less, to State Road; thence Northeasterly along State Road 7.70 chains; thence East 10.70 chains, more or less, to section line; thence South 6.42 chains to beginning.
(4-87-10)~~

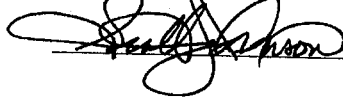
~~8.25 acres, more or less~~ Page 1

EXHIBIT "B"

This Exhibit B is attached to and made a part thereof that certain Oil and Gas Lease dated 2-13-, 2004, by and between Johnson Feed Lot Inc., as Lessor, (whether one or more) and Western Land Services - Utah, of 54 West Seymour, Sheridan, WY 82801, as Lessee. **a/k/a Johnson Feedlot, Inc.

Lessor and Lessee agree the location of all access roads, well sites, and pipelines on the herein described lands shall be laid out in such a way as to avoid Lessor's irrigation system. Lessee further agrees if the Lessor's irrigation system is damaged as a direct result of Lessee's operations, Lessee agrees to pay for, or repair said damage in a timely manner.

Signed for Identification



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EXHIBIT "C"

This Exhibit C is attached to and made a part thereof that certain Oil and Gas Lease dated 2-13-, 2004, by and between Johnson Feedlot Inc.* as Lessor, (whether one or more) and Western Land Services - Utah, of 54 West Seymour, Sheridan, WY 82801, as Lessee. **a/k/a Johnson Feed Lot, Inc.

Township 22 South- Range 1 West, S.L.B & M., Sevier County, Utah

Section 18:

Beginning on the West right of way of U.S. Highway 89, said point being 9.84 chains North and approximately 1.5 chains West of the Southeast Corner of the Southwest Quarter of the Northeast Quarter; running thence Northeasterly along the West right of way line of said Highway 6.5 chains, more or less, to a point 15.65 chains North of the Forty Line; thence West 8 chains, more or less, to the East Line of the Vermillion/Canal; thence Southwesterly 7.05 chains, more or less, to a point due West of point of beginning; thence east 8.5 chains, more or less, to the place of beginning.

5.26 acres, more or less