

## PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 10th day of November, 2005, by and between Jason W. Mackelprang and Josie M. Mackelprang whose address is P O Box 278, Annabella UT 84711 as Lessor (whether one or more), and International Petroleum, L.L.C. as lessee whose address is 4834 S. Highland Drive, #200, Salt Lake City, Utah, 84117.

**1. Description.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called Leased Premises:

See EXHIBIT "A" attached hereto and by this reference made a part hereof.

in the County(ies) of Sevier, State of Utah containing 18.14 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, coal bed methane and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "Leased Premises" also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, 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. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

**2. Term of Lease.** This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of 10 years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the Leased Premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

**3. Royalty Payment.** Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows:

- For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth (1/8) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity;
- for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth (1/8) of the proceeds realized by Lessee from the sale thereof, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements entered into on the same or nearest preceding date as the date on which Lessee or its affiliate commences its purchases hereunder; and
- in calculating royalties on production hereunder, Lessee may deduct Lessor's proportionate part of any ad valorem, production and excise taxes, and any costs incurred by Lessee in treating, processing, delivering and otherwise marketing such production.

If at the end of the primary term or any time thereafter one or more wells on the Leased Premises or lands pooled or unitized therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository provided for below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the Leased Premises or lands pooled or unitized therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. 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. Depository Agent.** All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit with a depository bank or other depository agent, the name of which will be supplied to Lessee upon request, and which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the U.S. Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to lessee a proper recordable instrument naming another institution as depository agent to receive payments.

**5. Operations.** If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the Leased Premises or lands pooled or unitized therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled or unitized therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no interruption of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the Leased Premises or lands pooled or unitized therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

**6. Pooling and Unitization.** 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.

**7. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the Leased Premises, the royalties and shut-in royalties payable hereunder for any well on any part of the Leased Premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the Leased Premises bears to the full mineral estate in such part of the Leased Premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**8. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository provided for above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly, or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**9. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**10. Ancillary Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the Leased Premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the Leased Premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the Leased Premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the Leased Premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire Leased Premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the Leased Premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 400 feet from any house or barn now on the Leased Premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the Leased Premises, or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the Leased Premises or such other lands during the term of this lease or within a reasonable time thereafter.

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

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

**13. Warranty of Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the Leased Premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

**14. Limited Liability.** 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.

15. **Sole Agreement.** This Agreement may be executed in counterparts and all counterparts shall be construed together and shall constitute one Agreement. Upon execution, this lease shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor. Any prior agreement or representation, oral or written, between the parties is superseded by this Agreement and this Agreement between the parties above is the sole and only agreement now in effect between such parties.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above,

LESSOR (WHETHER ONE OR MORE)

Jason W. Mackelprang  
Jason W. Mackelprang  
Josie M. Mackelprang  
Josie M. Mackelprang

**ACKNOWLEDGEMENT**

State of Utah  
County of Sevier

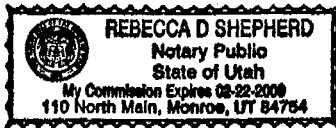
SS

The foregoing instrument was acknowledged before me this 10<sup>th</sup> day of November, 2005, by Jason W. Mackelprang and Josie M. Mackelprang

My Commission expires 2-22-2009

Notary Rebecca D. Shepherd

Residing at: 110 North Main  
Monroe, UT 84754



**ACKNOWLEDGEMENT**

State of Utah  
County of \_\_\_\_\_

SS

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2005, by \_\_\_\_\_

My Commission expires \_\_\_\_\_

Notary \_\_\_\_\_

Residing at: \_\_\_\_\_  
\_\_\_\_\_

**After Recording Return to:**

Wolcott, L.L.C.  
550 Cedar Avenue  
Grand Junction, CO 81501  
(970) 242-5957

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**EXHIBIT A**

Attached to and made a part of that certain Oil and Gas Lease dated 10 November, 2005 by and between Jason W. Mackelprang and Josie M. Mackelprang as Lessor and International Petroleum, L.L.C. as Lessee.

The lands referred to in paragraph 1 of the referenced Oil and Gas Lease are set out as follows:

**TOWNSHIP 24 SOUTH, RANGE 2 WEST**

- LOT 1, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-1)
- LOT 2, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-2)
- LOT 3, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-3)
- LOT 4, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-4)
- LOT 5, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-5)
- LOT 6, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-6)
- LOT 7, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-7)
- LOT 8, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-8)
- LOT 9, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-9)
- LOT 10, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-10)
- LOT 11, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-11)
- LOT 12, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-12)
- LOT 13, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-13)
- LOT 14, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-14)
- LOT 15, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-15)
- LOT 16, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-16)
- LOT 17, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-17)
- LOT 18, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-18)
- LOT 19, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-19)
- LOT 20, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-20)
- LOT 21, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-21)
- LOT 22, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-22)
- LOT 23, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-23)
- LOT 24, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-24)
- LOT 25, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-25)
- LOT 26, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-26)
- LOT 27, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-27)
- LOT 28, AMENDED COUNTRY VIEW ESTATES SUBDIVISION IN ANNABELLA TOWNSITE SURVEY (Serial# 3-275A-28)

It is the intent of the Lessor to include, and make subject to this lease, all interest, if any, owned by the Lessor in any easements, roads, or road right-of-ways within, or adjacent to, the above described tracts of land.

*Josie M. Mackelprang* 11-10-05  
11-10-05  
*Josie M. Mackelprang*

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