

## OIL AND GAS LEASE

This agreement is made effective the 11th day of February, 2009, by and between William R. Smith, Individually, and Betty J. Smith, Individually, and as Trustees of the Smith Family Trust dated May 18, 1989, whose address is P. O. Box 300535 Glenwood, Utah 84730, hereinafter called Lessor (whether one or more), and Kervin & Kervin Land Services, Inc., whose address is P. O. Box 639, Saint George, Utah 84771, hereinafter called Lessee.:

In consideration of other valuable considerations and ten and more dollars in hand paid to Lessor by Lessee, the receipt and adequacy of which hereby confessed and acknowledged by Lessee, and of the agreements of lessee hereinafter put forth, hereby grants, demises, leases and lets exclusively unto said lessee the land 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 without 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, power lines, 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 and use 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:

All of Lot 4, Block 17, Plat "A", Glenwood Townsite Survey  
Tax Parcel # (2-G5-14)

Lessor herein intends to lease any right, title and interest Lessor may have in and to any and all mineral rights on, in and under any and all streets, alleys, sidewalks, driveways, lanes, county roads, highways, railroad strips, and/or any and all other easements and rights of way whatsoever, whether in use or abandoned and accruing to Lessor, the beds of any and all lakes, reservoirs, ponds and other water pools, canals, ditches, rivers, streams and other waterways whatsoever, whether dry or wet, and their banks and shores, lying across and/or adjacent and/or in any way appertaining to the lands hereinabove described, including without limitation any lands acquired by accretion through meander of waterways, and including any lands owned or deemed owned by Lessor within and along the banks of any river, stream or other watercourse and/or flood plain whatsoever abutting said leased lands owned or claimed by Lessor and containing 1.43 acres, more or less. Any discrepancy between the legal description herein and the actual and accurate legal description shall be deemed to be automatically reformed and corrected, and at Lessee's written request, Lessor shall execute an instrument to reflect such correction.

1. It is agreed that this lease shall remain in force of 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 reworking operations within (90) days from date of cessation of production or date of completion of dry hole. If oil or gas should 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: 1/5<sup>th</sup> of the total being a bonus payment and the remaining 4/5<sup>th</sup>s allocated as four equal annual rental payments.

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

1<sup>st</sup>. 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 (1/8<sup>th</sup>) of all oil produced and saved from the leased premises.

2<sup>nd</sup>. To pay Lessor one-eighth (1/8<sup>th</sup>) 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 (1/8<sup>th</sup>), payable monthly at the prevailing market rate for gas.

3<sup>rd</sup>. 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 (1/8<sup>th</sup>) 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 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 oil and 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 to 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 Lessor's 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 of 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 provision 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

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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 Lessor, 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 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 equal to One Hundred Fifty Percent (150%) of the prior payment of the total of the original bonus and of the combined prepaid annual rental payment, or as otherwise agreed, 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 herein 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 1 numbered above.

OTHER PROVISIONS:

17. 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.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written, by Lessor:

William R Smith, indiv trustee  
William R. Smith, Individually, and as Trustee of the  
Smith Family Trust dated May 18, 1989

Betty J Smith, indiv Trustee  
Betty J. Smith, Individually, and as Trustee of the  
Smith Family Trust dated May 18, 1989

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Acknowledgment

(INDIVIDUAL ACKNOWLEDGMENT)

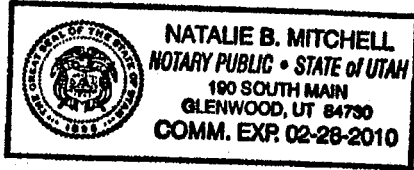
STATE OF UTAH )  
 ) ss.  
COUNTY OF SEVIER )

The foregoing instrument was acknowledged before me this 20<sup>th</sup> day of March, 2009, by William R. Smith, Individually, and Betty J. Smith, Individually, and as Trustees of the Smith Family Trust dated May 18, 1989, known to me, and who acknowledged that the foregoing signatory or signatories executed the foregoing instrument as the free and voluntary act and deed of each signatory, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires: February 28, 2010

Notary Public: Natalie B Mitchell



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**Kervin & Kervin Land Services, Inc.**  
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