

# OIL AND GAS LEASE

This Oil and Gas Lease ("Lease") is made this 1st day of August, 2002, by and between Bob L. Mosley whose address is 701 E. Zia, P.O. Box 1653, Aztec NM 87410, ("Lessor", whether one or more) and San Juan Basin Properties LLC whose address is 1499 Blake Street, Suite 7K, Denver, CO 80202, ("Lessee").

WITNESSETH, For and in consideration of TENDOLLARS, the covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Lessor does hereby grant, demise, lease and let exclusively unto said Lessee, with the exclusive rights for the purposes of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind (including coalbed gas), and laying pipelines, telephone and telegraph lines, building tanks, plants, power stations, roadways and structures thereon to produce, save and take care of said products (including dewatering of coalbed gas wells), and the exclusive surface and subsurface rights and privileges related in any manner to any and all such operations, and any and all other rights and privileges necessary, incident to, or convenient for the operation alone or conjointly with neighboring land for such purposes, all that certain tract

or tracts of land situated in San Juan County, New Mexico described as follows, to-wit:

TOWNSHIP 30 NORTH, RANGE 11 WEST, N.M.P.M.

Section 18: W/2SE/4 North of the Right of Way of the Denver & Rio Grande Western Railroad and all of the land lying and being situated in the SW/4SE/4 South of said Railroad Right of Way and East of the Cook Arroya

Below the base of the Pictured Cliffs Formation only.

See the attached EXHIBIT "A" which is made a part of this lease for all purposes.

and containing 68.00 acres, more or less, (the "Premises").

1. It is agreed that this Lease shall remain in force for a term of four (4) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever nature or kind is produced from the Premises or on acreage pooled or unitized therewith, or operations are continued as hereinafter provided. If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking or dewatering operations thereon, then this Lease shall continue in force so long as such operations are being continuously prosecuted. 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 the Premises or on acreage pooled or unitized therewith, the production thereof should cease from any cause after the primary term, this Lease shall not terminate if Lessee commences additional drilling, reworking or dewatering 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, this Lease shall continue in force so long as oil or gas is produced from the Premises or on acreage pooled or unitized therewith.

2. This is a PAID-UP LEASE. In consideration of the payment made herewith, 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 the Premises 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 obligations thereafter accruing as to the acreage surrendered.

3. Lessee covenants and agrees to pay royalty to Lessor as follows:

(a) On oil, to deliver to the credit of Lessor, free of cost in the pipe line to which Lessee may connect wells on the Premises, the equal one-fifth (1/5th) part of all oil produced and saved from the Premises.

(b) On gas of whatsoever nature or kind, including coalbed gas and other gases, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the Premises ("Gas") Lessee shall pay, as royalty, one-fifth (1/5th) of the net proceeds realized by Lessee from the sale thereof; provided that Lessee shall have the continuing right to sell that Gas to itself or to an affiliate of Lessee, in which event the royalty shall be based upon the prevailing wellhead market price paid for Gas of similar quality in the same field (or if there is no such price prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements, including arrangements under which Lessee, or an affiliate, is purchaser, entered into on the same or nearest preceding date as the date on which Lessee, or an affiliate, commences its purchases hereunder; and further provided that the net proceeds or prevailing wellhead market price, as applicable, shall be after deduction for costs (third party charges and tariffs, and capital and operating costs incurred by Lessee) related to gathering, transporting, dehydrating, compressing, processing and treating the Gas.

4. Where Gas from a well capable of producing Gas (or from a well in which dewatering operations have commenced), is not sold or used after the expiration of the Primary Term, Lessee shall pay or tender as royalty to Lessor at the address set forth above Two Hundred Fifty Dollars per year, 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 or dewatering operations are commenced and thereafter on or before the anniversary date of this Lease during the period such well is shut in or dewatering operations are being conducted.

5. If Lessor owns a lesser interest in the Premises than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid 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 the Premises for Lessee's operations 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 the house or barn now on the Premises without written consent of Lessor.

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

10. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.

11. The rights of the 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 the Premises 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 Premises and as to any one or more of the formations thereunder, 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 judgement 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, reworking or dewatering 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, reworking or dewatering 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 royalties on production from such unit only on the portion of such production allocated to this Lease. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the Premises 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 the Premises 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 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. Any delay or interruption caused by storm, flood, act of God or other event of force majeure shall not be counted against Lessee. If, due to the above causes or any cause whatsoever beyond the control of Lessee, Lessee is prevented from conducting operations hereunder, such time shall not be counted against Lessee, and this Lease shall be extended for a period of time equal to the time Lessee was so prevented, anything in this Lease to the contrary notwithstanding.

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

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

Bob L. Mosley  
Bob L. Mosley

7-30-2002

STATE OF New Mexico SS.  
COUNTY OF San Juan }

UNIFORM ACKNOWLEDGEMENT-INDIVIDUAL

The foregoing instrument was acknowledged before me this 30<sup>th</sup> day of July, 2002

My Commission Expires: March 29, 2006

Notary Public, State of New Mexico  
Name of Notary Printed R.D. Hussieutt

STATE OF \_\_\_\_\_ SS.  
COUNTY OF \_\_\_\_\_ }

UNIFORM ACKNOWLEDGEMENT-CORPORATE

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by \_\_\_\_\_ as \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Name of Notary Printed \_\_\_\_\_

STATE OF \_\_\_\_\_ SS.  
COUNTY OF \_\_\_\_\_ }

UNIFORM ACKNOWLEDGEMENT-OTHER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ by \_\_\_\_\_ as \_\_\_\_\_ on behalf of \_\_\_\_\_ a \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_  
Name of Notary Printed \_\_\_\_\_

### EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated August 1, 2002, by and between Bob L. Mosley, as Lessor and San Juan Basin Properties LLC, as Lessee

1. The royalty shall be calculated at the rate of one-fifth (1/5th). The royalty shall be based on the gross proceeds realized from the sale of oil or gas without deductions for third party charges, capital and operating costs, gathering, transporting, dehydrating, compressing, process or treating. The royalty shall be paid and delivered to Lessor on a monthly basis with royalty payments commencing within 90 days of first production.
2. The shut-in payment shall be two hundred fifty dollars (\$250.00) per well per year. There shall be no proportionate reduction in the shut-in payments.

The printed form of this lease shall be deemed amended to the extent necessary to conform to this EXHIBIT "A". In the event of a conflict between the printed form and this EXHIBIT "A"; this EXHIBIT "A" shall prevail.

Signed for identification:

  
Bob L. Mosley