

McHUGH

Jerome P. McHugh & Associates
Operating Affiliate: Nassau Resources, Inc.
650 South Cherry, Suite 1225
Denver, Colorado 80222
(303) 321-2111 FAX (303) 321-1563

July 5, 1989

CERTIFIED - Return Receipt Requested

Mr. Edward S. Gallegos, Jr.
6468 West Arbor Drive
Littleton, Colorado 80123

Mr. Joe E. Martinez, Jr.
P. O. Box 1303
Pagosa Springs, Colorado 81147

Mr. Demetrio Martinez
c/o Joe E. Martinez, Jr.
P. O. Box 1303
Pagosa Springs, Colorado 81147

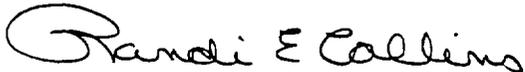
Gentlemen:

During a telephone conversation with Elizabeth Troxell today, I realized that the letter dated June 29, 1989 that you received was not complete. I sincerely apologize for this error.

Enclosed please find the letter in complete format.

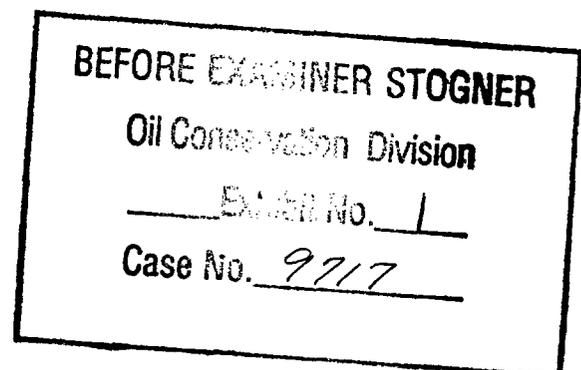
Again, I apologize for this error and hope that it did not cause you any inconvenience.

Very truly yours,



Randi E. Collins

enclosure



● **SENDER:** Complete items 1, 2, 3, and 4. Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
 Show to whom and date delivered 90¢
 Show to whom, date, and address of delivery ..
 RESTRICTED DELIVERY
(The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL \$ 90¢

3. **ARTICLE ADDRESSED TO:**
 Joe E. Martinez, Jr.
 P. O. Box 1303
 Pagosa Springs, CO 81147

4. **TYPE OF SERVICE:** **ARTICLE NUMBER**
 REGISTERED INSURED P841883206
 CERTIFIED COD
 EXPRESS MAIL

I have received the article described above.
 SIGNATURE Addressee Authorized agent
Maui Elizabeth Martinez

5. **DATE OF DELIVERY** **POSTMARK**
 7/7/89 (may be on reverse side)

6. **ADDRESSEE'S ADDRESS** (only if requested)

7. **UNABLE TO DELIVER BECAUSE:** **7a. EMPLOYEE'S INITIALS**
 _____ *[Signature]*

* GPO: 1982-378-693

● **SENDER:** Complete items 1, 2, 3, and 4. Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
 Show to whom and date delivered 90¢
 Show to whom, date, and address of delivery ..
 RESTRICTED DELIVERY
(The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL \$ 90¢

3. **ARTICLE ADDRESSED TO:**
 Joe E. Martinez, Jr.
 P. O. Box 1303
 Pagosa Springs, CO 81147

4. **TYPE OF SERVICE:** **ARTICLE NUMBER**
 REGISTERED INSURED P841883200
 CERTIFIED COD
 EXPRESS MAIL

I have received the article described above.
 SIGNATURE Addressee Authorized agent
Maui Elizabeth Martinez

5. **DATE OF DELIVERY** **POSTMARK**
 7/7/89 (may be on reverse side)

6. **ADDRESSEE'S ADDRESS** (only if requested)

7. **UNABLE TO DELIVER BECAUSE:** **7a. EMPLOYEE'S INITIALS**
 _____ *[Signature]*

* GPO: 1982-378-693

M^CHUGH

Jerome P. McHugh & Associates
Operating Affiliate: Nassau Resources, Inc.
650 South Cherry, Suite 1225
Denver, Colorado 80222
(303) 321-2111 FAX (303) 321-1563

June 29, 1989

CERTIFIED - Return Receipt Requested

Mr. Edward S. Gallegos, Jr.
6468 West Arbor Drive
Littleton, Colorado 80123

Mr. Joe E. Martinez, Jr.
P. O. Box 1303
Pagosa Springs, Colorado 81147

Mr. Demetrio Martinez
c/o Joe E. Martinez, Jr.
P. O. Box 1303
Pagosa Springs, Colorado 81147

Gentlemen:

Jerome P. McHugh, through its operating entity Nassau Resources, Inc., plans to drill an approximate 4100' Fruitland Coal test in the SW/4NE/4 of Section 15-T32N-R4W by mid-August. The proposed drilling/spacing unit for the well is the E/2 of Section 15.

The county records indicate that each of you own 6 net mineral acres, more or less, in the following lands:

Township 32 North, Range 4 West
Section 15: E/2NE/4, NE/4SE/4

As you can see from the attached map, the above described acreage falls within our proposed drilling unit.

We are hereby proposing that you consider one of the two following alternatives:

1. Enclosed are three (3) original Oil and Gas Lease instruments covering your interest in the E/2NE/4, NE/4SE/4 of Section 15-T32N-R4W. Also enclosed is our draft in the amount of \$174.00, being \$25/net mineral acre for your 6 mineral acres (total \$150) plus four years of delay rentals (total \$24). Our lease provides for a five (5) year term and a 1/8th royalty. In conjunction with said lease, enclosed are six (6) Ratification and Joinder instruments for our Carracas Canyon Unit that need to be executed as well as our

Ms. Edward S. Gallegos, Jr., et al
June 29, 1989
Page Two

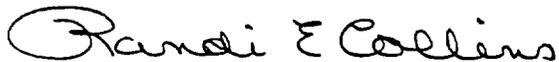
-OR-

2. Enclosed are two original Authority for Expenditure (AFE) instruments No. A52202. In the event you elect not to lease with us, you may elect to join as a paying and participating working interest owner in our well. Based on your 6 net acres in the drilling unit, you may join for 1.875% (6 acres ÷ 320 acres) of the drilling and completion costs, being \$7,706.25. If this is your election, please execute and date one copy of the AFE instrument returning it to my attention, at which time I will forward the remaining documentation for your participation.

We request that you respond in writing to this proposal by July 15, 1989. Failure to do so will leave us no alternative but to request that this well be put on the August 9, 1989 docket of the New Mexico Oil Conservation Commission for a forced pooling action.

Feel free to call me at (303) 321-2111 should you have any questions.

Very truly yours,



Randi E. Collins
for Kent C. Craig

KCC/rc

enclosures

THIS IS A COLLECTION ITEM
NOT A CASH ITEM

CUSTOMER'S DRAFT
With privilege of Re-Draft

COLLECT DIRECTLY THROUGH First National Bank of Denver

P. O. BOX 1017
DENVER, CO

DATE 10/10/70

10/10/70 Days After Sight and Subject to Approval of Title

Pay to the Order of Joe F. Hartman, Jr. \$ 17,000.00

One Hundred Seventy Four and 00/100 DOLLARS
With Exchange

Consideration for Oil & Gas Lease, 4 year, 1/16th

To: George P. McHugh & Associates
250 South Cherry St., Suite 1220
Denver, Colorado 80202

George P. Collins

Description: **DETACH BEFORE PRESENTING FOR PAYMENT**

County Jefferson
State Colorado
Gross Acres 1
Net Acres 1

1/16th, NE/4
1/16th, NE/4

OFFICE COPY

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 29th day of June, 1989, by and between
Joe E. Martinez, Jr.

whose post office address is P. O. Box 1303, Pagosa Springs, CO 81147, hereinafter called Lessor, (whether one or more) and
Kindermac Partners, a Colorado whose post office address is 650 S. Cherry St., Suite 1225, Denver, CO 80222
general partnership hereinafter called Lessee;

WITNESSETH, That the Lessor, for and in consideration of Ten and more DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Rio Arriba State of New Mexico, described as follows, to-wit:

Township 32 North, Range 4 West
Section 15: E/2NE/4, NE/4SE/4
Section 10: Lots 6(28.37), 7(28.26),
8(28.28)
Section 14: NW/4SW/4

and containing 244.91 acres, more or less, five

1. It is agreed that this lease shall remain in force for a term of xx years from this date and as long thereafter 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.

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 one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), 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 (1/8) 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 may 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. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire 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 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 the house or barn 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 re-working 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 re-working 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 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 hereinabove 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.

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

Joe E. Martinez, Jr.

NASSAU RESOURCES, INC. - AUTHORITY FOR EXPENDITURE

DATE: 27 JUNE 1989
 LSE NAME: CARRACAS CANYON UNIT
 LOCATION: SW NE SEC 15, T32N R04W
 OPERATOR: NASSAU RESOURCES, INC.

AFE NO.: A52202
 WELL NO.: 15 B-7
 COUNTY: RIO ARRIBA
 STATE: NEW MEX.

DESCRIPTION: 4100' FRUITLAND COAL TEST

=====
 ACCOUNTING EXPENDITURE TANGIBLE INTANGIBLE LEASEHOLD
 CODE DESCRIPTION COST COST COSTS

A-60105	TITLE COSTS	XXXXXXXXXX	XXXXXXXXXX	2,000	
A-60202	LEGAL COSTS/SURFACE DAMAGES	XXXXXXXXXX	2,000	XXXXXXXXXX	
A-60203	SURVEYOR/ARCHEOLOGIST/ROADS/LOCATION	XXXXXXXXXX	20,000	XXXXXXXXXX	
A-60204	CONTRACT DRILLING	XXXXXXXXXX	55,000	XXXXXXXXXX	
A-60205	MUD/CHEMICALS/ADDITIVES	XXXXXXXXXX	10,000	XXXXXXXXXX	
A-60206	WATER/PURCHASE/TRANSPORTATION	XXXXXXXXXX	INCL	XXXXXXXXXX	
A-60207	OPEN HOLE LOGGING	XXXXXXXXXX	8,500	XXXXXXXXXX	
A-60208	MUD LOGGING	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60209	DST/FORMATION TESTING	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60210	CORING/CORE ANALYSIS	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60211	TRUCKING/HAULING/CATWORK	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60212	CEMENTING SERVICES	XXXXXXXXXX	INCL	XXXXXXXXXX	
A-60213	RENTAL TOOLS AND EQUIPMENT	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60214	PROF SERVICES AND EXPENSES	XXXXXXXXXX	2,000	XXXXXXXXXX	
A-60215	SUPERVISION/OVERHEAD	XXXXXXXXXX	5,000	XXXXXXXXXX	
A-60216	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	1,500	XXXXXXXXXX	
A-60217	PLUG/ABANDON/CLEANUP	XXXXXXXXXX	0	XXXXXXXXXX	
A-60218	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	3,000	XXXXXXXXXX	
A-60302	CASING, SURFACE &/OR CONDUCTOR	INCL	XXXXXXXXXX	XXXXXXXXXX	
A-60303	CASING, INTERMEDIATE	0	XXXXXXXXXX	XXXXXXXXXX	
A-60304	FLOAT EQUIPMENT & CENTRALIZERS	INCL	XXXXXXXXXX	XXXXXXXXXX	
A-60305	CASING HEAD/ DRILLING FLANGE	0	XXXXXXXXXX	XXXXXXXXXX	
A-60306	NON-CONTROLLABLE EQUIPMENT	0	XXXXXXXXXX	XXXXXXXXXX	

DRY HOLE COST: TOTAL \$114,000 <<< 0 112,000 2,000

A-60231	CEMENTING SERVICES	XXXXXXXXXX	10,000	XXXXXXXXXX	
A-60232	COMPLETION UNIT/POWER SWIVEL/PUMP/PITS	XXXXXXXXXX	15,000	XXXXXXXXXX	
A-60233	PERFORATING AND CASED HOLE LOGGING	XXXXXXXXXX	3,500	XXXXXXXXXX	
A-60234	FORMATION TREATING/FRAC/ACID	XXXXXXXXXX	55,000	XXXXXXXXXX	
A-60235	RENTAL TOOLS & EQUIPMENT	XXXXXXXXXX	2,000	XXXXXXXXXX	
A-60236	DIRT WORK/CONSTRUCTION	XXXXXXXXXX	500	XXXXXXXXXX	
A-60237	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	10,000	XXXXXXXXXX	
A-60238	SUPERVISION/OVERHEAD	XXXXXXXXXX	4,000	XXXXXXXXXX	
A-60239	PROFESSIONAL SERVICES & EXPENSES	XXXXXXXXXX	1,000	XXXXXXXXXX	
A-60240	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	5,000	XXXXXXXXXX	
A-60331	CASING, PRODUCTION &/OR LINER	25,000	XXXXXXXXXX	XXXXXXXXXX	
A-60332	FLOAT EQUIPMENT & CENTRALIZERS	0	XXXXXXXXXX	XXXXXXXXXX	
A-60333	TUBING/PACKER/SPECIAL SUBSURFACE EQUIP	9,000	XXXXXXXXXX	XXXXXXXXXX	
A-60334	RODS/PUMP/AUXILLARY EQUIP	6,000	XXXXXXXXXX	XXXXXXXXXX	
A-60335	TUBING HEAD/CHRISTMAS TREE	7,000	XXXXXXXXXX	XXXXXXXXXX	
A-60336	PUMPING UNIT/PRIME MOVER/COMPRESSOR	20,000	XXXXXXXXXX	XXXXXXXXXX	
A-60337	TANKS/STAIRWAY/WALKWAY	20,000	XXXXXXXXXX	XXXXXXXXXX	
A-60338	SEPARATOR/TREATOR/PRODUCTION UNIT	20,000	XXXXXXXXXX	XXXXXXXXXX	
A-60339	PIPELINE/POWERLINE	80,000	XXXXXXXXXX	XXXXXXXXXX	
A-60340	VALVES/FITTINGS/LINE PIPE	2,000	XXXXXXXXXX	XXXXXXXXXX	
A-60341	NON-CONTROLLABLE EQUIP/MISC EQUIP	500	XXXXXXXXXX	XXXXXXXXXX	
A-60342	TRUCKING/HAULING/TRANSPORTATION	1,500	XXXXXXXXXX	XXXXXXXXXX	

COMPLETION COSTS: TOTAL \$297,000 <<< 191,000 106,000 0

TOTAL WELL COSTS: \$411,000 <<< 191,000 218,000 2,000

WORKING INTEREST PARTNER APPROVALS:

Joe E. Martinez, Jr. 1.875%

BY: _____ DATE: _____

TITLE

=====
 McHUGH APPROVALS:
 LAND ENGR. ACCT. PRES. FIELD
 APPR. BY: _____

COLLECT DIRECTLY THROUGH First National Bank of Colorado

P. O. Box 12273
Aurora, CO 80012

DATE July 15, 1988

Thirty (30) Days After Sight and Subject to Approval of Title

Pay to the Order of Electric Machine \$ 1,000.00

One Thousand Seventy-Four and 10/100 DOLLARS
With Exchange

Consideration for Oil & Gas Lease, 3 year, 100 ac

To: Terrence P. Hough & Associates
410 S. Cherry St., Suite 1275
Aurora, Colorado 80012

Terrence P. Hough

THIS IS A COLLECTION ITEM
NOT A CASH ITEM

CUSTOMER'S DRAFT
With privilege of Re-Draft

Description:

DETACH BEFORE PRESENTING FOR PAYMENT

County Jefferson
State Colorado
Gross Acres 1
Net Acres 1

10/10/88
10/10/88

OFFICE COPY

ILLEGIBLE

NASSAU RESOURCES, INC. - AUTHORITY FOR EXPENDITURE

DATE: 27 JUNE 1989
 LSE NAME: CARRACAS CANYON UNIT
 LOCATION: SW NE SEC 15, T32N R04W
 OPERATOR: NASSAU RESOURCES, INC.
 DESCRIPTION: 4100' FRUITLAND COAL TEST

AFE NO.: A52202
 WELL NO.: 15 B-7
 COUNTY: RIO ARRIBA
 STATE: NEW MEX.

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ACCOUNTING CODE	EXPENDITURE DESCRIPTION	TANGIBLE COST	INTANGIBLE COST	LEASEHOLD COSTS
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A-60105	TITLE COSTS	XXXXXXXXXX	XXXXXXXXXX	2,000
A-60202	LEGAL COSTS/SURFACE DAMAGES	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60203	SURVEYOR/ARCHEOLOGIST/ROADS/LOCATION	XXXXXXXXXX	20,000	XXXXXXXXXX
A-60204	CONTRACT DRILLING	XXXXXXXXXX	55,000	XXXXXXXXXX
A-60205	MUD/CHEMICALS/ADDITIVES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60206	WATER/PURCHASE/TRANSPORTATION	XXXXXXXXXX	INCL	XXXXXXXXXX
A-60207	OPEN HOLE LOGGING	XXXXXXXXXX	8,500	XXXXXXXXXX
A-60208	MUD LOGGING	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60209	DST/FORMATION TESTING	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60210	CORING/CORE ANALYSIS	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60211	TRUCKING/HAULING/CATWORK	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60212	CEMENTING SERVICES	XXXXXXXXXX	INCL	XXXXXXXXXX
A-60213	RENTAL TOOLS AND EQUIPMENT	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60214	PROF SERVICES AND EXPENSES	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60215	SUPERVISION/OVERHEAD	XXXXXXXXXX	5,000	XXXXXXXXXX
A-60216	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	1,500	XXXXXXXXXX
A-60217	PLUG/ABANDON/CLEANUP	XXXXXXXXXX	0	XXXXXXXXXX
A-60218	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	3,000	XXXXXXXXXX
A-60302	CASING, SURFACE &/OR CONDUCTOR	INCL	XXXXXXXXXX	XXXXXXXXXX
A-60303	CASING, INTERMEDIATE	0	XXXXXXXXXX	XXXXXXXXXX
A-60304	FLOAT EQUIPMENT & CENTRALIZERS	INCL	XXXXXXXXXX	XXXXXXXXXX
A-60305	CASING HEAD/ DRILLING FLANGE	0	XXXXXXXXXX	XXXXXXXXXX
A-60306	NON-CONTROLLABLE EQUIPMENT	0	XXXXXXXXXX	XXXXXXXXXX

DRY HOLE COST: TOTAL \$114,000 <<< 0 112,000 2,000

A-60231	CEMENTING SERVICES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60232	COMPLETION UNIT/POWER SWIVEL/PUMP/PITS	XXXXXXXXXX	15,000	XXXXXXXXXX
A-60233	PERFORATING AND CASED HOLE LOGGING	XXXXXXXXXX	3,500	XXXXXXXXXX
A-60234	FORMATION TREATING/FRAC/ACID	XXXXXXXXXX	55,000	XXXXXXXXXX
A-60235	RENTAL TOOLS & EQUIPMENT	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60236	DIRT WORK/CONSTRUCTION	XXXXXXXXXX	500	XXXXXXXXXX
A-60237	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60238	SUPERVISION/OVERHEAD	XXXXXXXXXX	4,000	XXXXXXXXXX
A-60239	PROFESSIONAL SERVICES & EXPENSES	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60240	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	5,000	XXXXXXXXXX
A-60331	CASING, PRODUCTION &/OR LINER	25,000	XXXXXXXXXX	XXXXXXXXXX
A-60332	FLOAT EQUIPMENT & CENTRALIZERS	0	XXXXXXXXXX	XXXXXXXXXX
A-60333	TUBING/PACKER/SPECIAL SUBSURFACE EQUIP	9,000	XXXXXXXXXX	XXXXXXXXXX
A-60334	RODS/PUMP/AUXILLARY EQUIP	6,000	XXXXXXXXXX	XXXXXXXXXX
A-60335	TUBING HEAD/CHRISTMAS TREE	7,000	XXXXXXXXXX	XXXXXXXXXX
A-60336	PUMPING UNIT/PRIME MOVER/COMPRESSOR	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60337	TANKS/STAIRWAY/WALKWAY	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60338	SEPARATOR/TREATOR/PRODUCTION UNIT	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60339	PIPELINE/POWERLINE	80,000	XXXXXXXXXX	XXXXXXXXXX
A-60340	VALVES/FITTINGS/LINE PIPE	2,000	XXXXXXXXXX	XXXXXXXXXX
A-60341	NON-CONTROLLABLE EQUIP/MISC EQUIP	500	XXXXXXXXXX	XXXXXXXXXX
A-60342	TRUCKING/HAULING/TRANSPORTATION	1,500	XXXXXXXXXX	XXXXXXXXXX

COMPLETION COSTS: TOTAL \$297,000 <<< 191,000 106,000 0

TOTAL WELL COSTS: \$411,000 <<< 191,000 218,000 2,000

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WORKING INTEREST PARTNER APPROVALS:

Demetrio Martinez 1.875%

BY: _____ DATE: _____

TITLE

=====

McHUGH APPROVALS:

LAND ENGR. ACCT. PRES. FIELD

APPR. BY: _____

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 29th day of June, 19 89, by and between
Demetrio Martinez

whose post office address is c/o Joe E. Martinez, Jr. 81147
P. O. Box 1303, Pagosa Springs, CO, hereinafter called Lessor (whether one or more) and
Kindermac Partners, a Colorado whose post office address is 650 S. Cherry St., Suite 1225, Denver, CO 80222
general partnership. hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and more DOLLARS
cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised,
leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the
exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of
whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care
of said products, all that certain tract of land situated in the County of Rio Arriba

State of New Mexico, described as follows, to-wit:

Township 32 North, Range 4 West
Section 15: E/2NE/4, NE/4SE/4
Section 10: Lots 6(28.37), 7(28.26),
8(28.28)
Section 14: NW/4SW/4

and containing 244.91 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of ~~xx~~ five years from this date and as long thereafter 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 continu-
ously 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 opera-
tions 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 other-
wise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the pri-
mary 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.

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 one-eighth
(1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is
found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), 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 (1/8) 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 may 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. If such payment or tender is made, it will be considered that gas is being produced 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 the house or barn 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 lease-
hold 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 re-
working 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 speci-
fied, 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 agree-
ment. 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 produc-
tion 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 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 hereinabove 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.

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

Demetrio Martinez

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address.		2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to: Demetrio Martinez c/o Joe E. Martinez, Jr. P. O. Box 1303 Pagosa Springs, CO 81147		4. Article Number P 841883214	
		Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
5. Signature — Addressee X		Always obtain signature of addressee or agent and DATE DELIVERED .	
6. Signature — Agent X <i>Mary Ellen Martinez</i>		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery <i>7/27/89</i>			

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

● SENDER: Complete items 1, 2, 3, and 4. Add your address in the "RETURN TO" space on reverse.		(CONSULT POSTMASTER FOR FEES)	
1. The following service is requested (check one). <input checked="" type="checkbox"/> Show to whom and date delivered 90¢ <input type="checkbox"/> Show to whom, date, and address of delivery .. <input type="checkbox"/> RESTRICTED DELIVERY <small>(The restricted delivery fee is charged in addition to the return receipt fee.)</small>		TOTAL \$ 90¢	
3. ARTICLE ADDRESSED TO: Demetrio Martinez c/o Joe E. Martinez, Jr. P. O. Box 1303 Pagosa Springs, CO 81147		ARTICLE NUMBER P841883207	
4. TYPE OF SERVICE: <input type="checkbox"/> REGISTERED <input type="checkbox"/> INSURED <input checked="" type="checkbox"/> CERTIFIED <input type="checkbox"/> COD <input type="checkbox"/> EXPRESS MAIL		(Always obtain signature of addressee or agent)	
I have received the article described above. SIGNATURE <input type="checkbox"/> Addressee <input type="checkbox"/> Authorized agent <i>Mary Ellen Martinez</i>		POSTMARK (may be on reverse side)	
5. DATE OF DELIVERY <i>7/27/89</i>		6. ADDRESSEE'S ADDRESS (Only if requested)	
7. UNABLE TO DELIVER BECAUSE		7a. EMPLOYEE'S INITIALS <i>EM</i>	

PS Form 3811, July 1982

RETURN RECEIPT

* GPO: 1982-379-593

M^CHUGH

Jerome P. McHugh & Associates
Operating Affiliate: Nassau Resources, Inc.
650 South Cherry, Suite 1225
Denver, Colorado 80222
(303) 321-2111 FAX (303) 321-1563

June 29, 1989

CERTIFIED - Return Receipt Requested

Ms. Sophia Martinez
Star Route, Box 33
Pagosa Springs, Colorado 81147

Ladies:

Jerome P. McHugh, through its operating entity Nassau Resources, Inc., plans to drill an approximate 4100' Fruitland Coal test in the SW/4NE/4 of Section 15-T32N-R4W by mid-August. The proposed drilling/spacing unit for the well is the E/2 of Section 15.

The county records indicate that you own 12 net mineral acres, more or less, in the following lands:

Township 32 North, Range 4 West
Section 15: E/2NE/4, NE/4SE/4

As you can see from the attached map, the above described acreage falls within our proposed drilling unit.

We are hereby proposing that you consider one of the two following alternatives:

1. Enclosed are three (3) original Oil and Gas Lease instruments covering your interest in the E/2NE/4, NE/4SE/4 of Section 15-T32N-R4W. Also enclosed is our draft in the amount of \$348.00, being \$25/net mineral acre for your 12 mineral acres (total \$300) plus four years of delay rentals (total \$48). Our lease provides for a five (5) year term and a 1/8th royalty. In conjunction with said lease, enclosed are six (6) Ratification and Joinder instruments for our Carracas Canyon Unit that need to be executed as well as our proposed well is a Carracas Canyon Unit well. If you are married, we ask that both you and your spouse execute the leases before a Notary Public, fill in your social security number, and return two originals to my attention. Both of you should also sign the Ratification instruments before a Notary Public and return five (5) to my attention with the lease. Upon executing and returning the lease and Ratification to me, feel free to submit the enclosed draft to your local bank as a collection item.

Ms. Sophia Martinez
June 29, 1989
Page Two

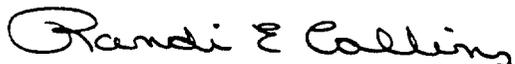
-OR-

2. Enclosed are two original Authority for Expenditure (AFE) instruments No. A52202. In the event you elect not to lease with us, you may elect to join as a paying and participating working interest owner in our well. Based on your 12 net acres in the drilling unit, you may join for 3.75% (12 acres ÷ 320 acres) of the drilling and completion costs, being \$15,412.50. If this is your election, please execute and date one copy of the AFE instrument returning it to my attention, at which time I will forward the remaining documentation for your participation.

We request that you respond in writing to this proposal by July 15, 1989. Failure to do so will leave us no alternative but to request that this well be put on the August 9, 1989 docket of the New Mexico Oil Conservation Commission for a forced pooling action.

Feel free to call me at (303) 321-2111 should you have any questions.

Very truly yours,



Randi E. Collins
for Kent C. Craig

KCC/rc

enclosures

● **SENDER:** Complete items 1, 2, 3, and 4. Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one)
 Show to whom and date delivered 90¢
 Show to whom, date, and address of delivery ..
 RESTRICTED DELIVERY
(The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL \$ 90¢

3. **ARTICLE ADDRESSED TO:**
 Sophia Martinez
 Star Route, Box 33
 Pagosa Springs, CO 81147

4. **TYPE OF SERVICE:** **ARTICLE NUMBER**
 REGISTERED INSURED
 CERTIFIED COD P841883199
 EXPRESS MAIL

(Always obtain signature of addressee or agent)

I have received the article described above

SIGNATURE Addressee Authorized agent
Sophia Martinez

5. **DATE OF DELIVERY** POSTMARK
 7/5/89 (may be on reverse side)

6. **ADDRESSEE'S ADDRESS (only if requested)**

7. **UNABLE TO DELIVER BECAUSE:** 7a. **EMPLOYEE'S INITIALS:**
[Signature]

RETURN RECEIPT

NASSAU RESOURCES, INC. - AUTHORITY FOR EXPENDITURE

DATE: 27 JUNE 1989
 LSE NAME: CARRACAS CANYON UNIT
 LOCATION: SW NE SEC 15, T32N R04W
 OPERATOR: NASSAU RESOURCES, INC.
 DESCRIPTION: 4100' FRUITLAND COAL TEST

AFE NO.: A52202
 WELL NO.: 15 B-7
 COUNTY: RIO ARriba
 STATE: NEW MEX.

=====

ACCOUNTING CODE	EXPENDITURE DESCRIPTION	TANGIBLE COST	INTANGIBLE COST	LEASEHOLD COSTS
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A-60105	TITLE COSTS	XXXXXXXXXX	XXXXXXXXXX	2,000
A-60202	LEGAL COSTS/SURFACE DAMAGES	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60203	SURVEYOR/ARCHEOLOGIST/ROADS/LOCATION	XXXXXXXXXX	20,000	XXXXXXXXXX
A-60204	CONTRACT DRILLING	XXXXXXXXXX	55,000	XXXXXXXXXX
A-60205	MUD/CHEMICALS/ADDITIVES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60206	WATER/PURCHASE/TRANSPORTATION	XXXXXXXXXX	INCL	XXXXXXXXXX
A-60207	OPEN HOLE LOGGING	XXXXXXXXXX	8,500	XXXXXXXXXX
A-60208	MUD LOGGING	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60209	DST/FORMATION TESTING	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60210	CORING/CORE ANALYSIS	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60211	TRUCKING/HAULING/CATWORK	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60212	CEMENTING SERVICES	XXXXXXXXXX	INCL	XXXXXXXXXX
A-60213	RENTAL TOOLS AND EQUIPMENT	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60214	PROF SERVICES AND EXPENSES	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60215	SUPERVISION/OVERHEAD	XXXXXXXXXX	5,000	XXXXXXXXXX
A-60216	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	1,500	XXXXXXXXXX
A-60217	PLUG/ABANDON/CLEANUP	XXXXXXXXXX	0	XXXXXXXXXX
A-60218	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	3,000	XXXXXXXXXX
A-60302	CASING, SURFACE &/OR CONDUCTOR	INCL	XXXXXXXXXX	XXXXXXXXXX
A-60303	CASING, INTERMEDIATE	0	XXXXXXXXXX	XXXXXXXXXX
A-60304	FLOAT EQUIPMENT & CENTRALIZERS	INCL	XXXXXXXXXX	XXXXXXXXXX
A-60305	CASING HEAD/ DRILLING FLANGE	0	XXXXXXXXXX	XXXXXXXXXX
A-60306	NON-CONTROLLABLE EQUIPMENT	0	XXXXXXXXXX	XXXXXXXXXX

DRY HOLE COST: TOTAL \$114,000 <<< 0 112,000 2,000

A-60231	CEMENTING SERVICES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60232	COMPLETION UNIT/POWER SWIVEL/PUMP/PITS	XXXXXXXXXX	15,000	XXXXXXXXXX
A-60233	PERFORATING AND CASED HOLE LOGGING	XXXXXXXXXX	3,500	XXXXXXXXXX
A-60234	FORMATION TREATING/FRAC/ACID	XXXXXXXXXX	55,000	XXXXXXXXXX
A-60235	RENTAL TOOLS & EQUIPMENT	XXXXXXXXXX	2,000	XXXXXXXXXX
A-60236	DIRT WORK/CONSTRUCTION	XXXXXXXXXX	500	XXXXXXXXXX
A-60237	CONTRACT SERVICES/SUPPLIES	XXXXXXXXXX	10,000	XXXXXXXXXX
A-60238	SUPERVISION/OVERHEAD	XXXXXXXXXX	4,000	XXXXXXXXXX
A-60239	PROFESSIONAL SERVICES & EXPENSES	XXXXXXXXXX	1,000	XXXXXXXXXX
A-60240	MISCELLANEOUS/CONTINGENCIES	XXXXXXXXXX	5,000	XXXXXXXXXX
A-60331	CASING, PRODUCTION &/OR LINER	25,000	XXXXXXXXXX	XXXXXXXXXX
A-60332	FLOAT EQUIPMENT & CENTRALIZERS	0	XXXXXXXXXX	XXXXXXXXXX
A-60333	TUBING/PACKER/SPECIAL SUBSURFACE EQUIP	9,000	XXXXXXXXXX	XXXXXXXXXX
A-60334	RODS/PUMP/AUXILLARY EQUIP	6,000	XXXXXXXXXX	XXXXXXXXXX
A-60335	TUBING HEAD/CHRISTMAS TREE	7,000	XXXXXXXXXX	XXXXXXXXXX
A-60336	PUMPING UNIT/PRIME MOVER/COMPRESSOR	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60337	TANKS/STAIRWAY/WALKWAY	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60338	SEPARATOR/TREATOR/PRODUCTION UNIT	20,000	XXXXXXXXXX	XXXXXXXXXX
A-60339	PIPELINE/POWERLINE	80,000	XXXXXXXXXX	XXXXXXXXXX
A-60340	VALVES/FITTINGS/LINE PIPE	2,000	XXXXXXXXXX	XXXXXXXXXX
A-60341	NON-CONTROLLABLE EQUIP/MISC EQUIP	500	XXXXXXXXXX	XXXXXXXXXX
A-60342	TRUCKING/HAULING/TRANSPORTATION	1,500	XXXXXXXXXX	XXXXXXXXXX

COMPLETION COSTS: TOTAL \$297,000 <<< 191,000 106,000 0

TOTAL WELL COSTS: \$411,000 <<< 191,000 218,000 2,000

WORKING INTEREST PARTNER APPROVALS:

Sophia Martinez 3.75%

BY: _____ DATE: _____

TITLE

McHUGH APPROVALS:

LAND ENGR. ACCT. PRES. FIELD

APPR. BY: _____

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 29th day of June, 19 89, by and between
Sophia Martinez

whose post office address is Star Route, Box 33, Pagosa Springs, CO 81147, hereinafter called Lessor (whether one or more) and
Kindermac Partners, a Colorado general partnership whose post office address is 650 S. Cherry St., Suite 1225, Denver, CO 80222
hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and more DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Rio Arriba State of New Mexico, described as follows, to-wit:

Township 32 North, Range 4 West
Section 15: E/2NE/4, NE/4SE/4
Section 14: NW/4SW/4

and containing 160 acres, more or less.
1. It is agreed that this lease shall remain in force for a term of ~~XX~~ five years from this date and as long thereafter 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.

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 one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), 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 (1/8) 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 may 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. If such payment or tender is made, it will be considered that gas is being produced 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 the house or barn 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 re-working 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 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 hereinabove 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.

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

Sophia Martinez

COLLECT DIRECTLY THROUGH United Bank of Colorado
P. O. Box 3100
Aurora, CO 80011

DATE June 20, 1978

Thirty (30) Days After Sight and Subject to Approval of Title

Pay to the Order of Sophia Martinez \$ 300.00

Three Hundred Forty-Eight and NO/100 DOLLARS
With Exchange

Consideration for Oil & Gas Lease, 5 year, paid-up

To: Jerome P. McHugh & Associates
650 S. Cherry St., Suite 1225
Denver, CO 80222

Randi E. Collins

Description:

DETACH BEFORE PRESENTING FOR PAYMENT

T32N-R4W
Sec. 15: E/2NE/4, NE/4SE/4

County El Paso
State Colorado
Gross Acres 1.00
Net Acres 1.00

OFFICE COPY

NOT A CASH ITEM
CUSTOMER'S DRAFT
With privilege of Re-Draft

