

STATE OF COLORADO  
BOARD OF LAND COMMISSIONERS

OIL AND GAS LEASE NO. OG 7875.3

Containing 648.16 acres, more or less:

Land Fund School

THIS LEASE AGREEMENT, Dated this 14<sup>th</sup> day of August, 2003 made and entered into by and between the STATE OF COLORADO, acting by and through the STATE BOARD OF LAND COMMISSIONERS, hereinafter called Lessor, and Kerr-McGee Rocky Mountain Corporation  
1999 Broadway, Suite 3600, Denver, CO 80202 Hereinafter called Lessee:

WITNESSETH

WHEREAS, Said Lessee has applied to Lessor for an oil and gas lease covering the land herein described, and has paid a filing fee in the amount of \$ 20.00, plus a bonus consideration of \$10,370.56 fixed by Lessor as an additional consideration for the granting of this lease, and Lessee agrees to pay an annual rental of \$973.50 computed at the rate of \$ 1.50, per acre or fraction thereof per year.

WHEREAS, All the requirements relative to said application have been duly complied with and said application has been approved and allowed by Lessor;

THEREFORE, In consideration of the agreements herein, on the part of Lessee to be paid, kept and performed, Lessor does lease exclusively to Lessee for the sole and only purpose of drilling for, development of and production of oil and gas, or either of them, thereon and therefrom with the right to own, except as set forth in the METHANE FROM COAL SEAMS paragraph herein, all oil and gas so produced and saved therefrom and not reserved as royalty by Lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone and telegraph lines, tanks and fixtures for producing and caring for such products, and any and all rights and privileges necessary for the exploration and operation of said land for oil and gas, the following described land situated in the County of Weld, State of Colorado, and more particularly described as follows:

<u>DESCRIPTION OF LAND</u>	<u>TOWNSHIP</u>	<u>RANGE</u>	<u>SECTION</u>
Lots 1,2, E/2W/2, E/2 (All)	3N	62W	18

Surface Patents: Yes \_\_\_ No X

TO HAVE AND TO HOLD Said land, and all the rights and privileges granted hereunder to Lessee until the hour of twelve o'clock noon on the 14th day of August, 2008, as primary term, and so long thereafter as oil and gas, or either of them, is produced in paying quantities from said land or Lessee is diligently engaged in bona fide drilling or reworking operations on said land, subject to the terms and conditions herein. Drilling or reworking operations shall be deemed to be diligently performed if there is no delay or cessation thereof for a period greater than 60 consecutive days unless an extension in writing is granted by Lessor; provided that such drilling or reworking operations are commenced during said primary term or any extension thereof or while this lease is in force by reason of production of oil and gas or either of them, or that such reworking is commenced within 60 days upon cessation of production for the purpose of re-establishing the same, and provided further that such production is commenced during such primary term or any extension thereof, or while this lease is in force by reason of such drilling or reworking operations or other production.

METHANE FROM COAL SEAMS - Coalbed methane may be produced, saved and/or sold by a coal mining lessee from mineable coal measures and from roofs and floors of mineable coal measures and the gas shall be the property of that lessee provided that the gas is removed only as a mining safety procedure prior to or during mining. Gas that is uneconomical to produce may be vented or flared provided that such venting or flaring complies with all Federal and State requirements. Gases produced by the oil and gas lessee from the mineable coal measures and from roofs and floors of mineable coal measures prior to, during, or after mining shall be the property of the oil and gas lessee under the terms of this lease. Oil and gas operations shall not render coal seams unmineable.

EXPLORATION - Lessor reserves the right to conduct exploration on the leased land provided such exploration does not interfere with rights granted herein.

In consideration of the premises, the parties covenant and agree as follows:

1. RENTAL - If lease is extended for any reason beyond primary term rental will be determined by Lessor. The rental in effect at the time production is established shall not be increased due to the term of this lease being extended by such production. Rentals set at the time of established production shall be paid during the remaining life of this lease, annually, in advance, on or before each anniversary date hereof. There shall be no refund of unused rental.

2. ROYALTY - Lessee shall account for any and all substances produced on the leased land and Lessee shall pay to Lessor a royalty on same in addition to the rentals provided. Products used on the leased land, unavoidably lost or flared on the leased land, may be exempt with approval of Lessor:

- (a) On oil, one-eighth of the oil produced and saved from the leased land.

At the option of Lessor, and with 60 days' notice to Lessee, Lessor may take its royalty oil in kind, in which event Lessee shall deliver such royalty oil to Lessor on the leased land, free of cost or deduction, into the pipelines or storage tanks designated by Lessor, but Lessee shall not in such case be required to provide free tankage for any such oil for a longer period than 1 month after the same is run into tanks. With 60 days' notice to Lessee, Lessor may cease taking oil royalty in kind. When paid in cash, the royalty shall be calculated upon the fair market value of the oil at the well which shall not be deemed to be less than the price actually paid to Lessee at the well by the purchaser thereof; and in no event shall the royalties be based upon a market value at the well less than the posted price in the field for such oil, or in the absence of a posted price in the field for such oil, upon a market value at the well less than the prevailing price received by other producers in the field for oil of like grade and gravity at the time such oil is run into pipelines or storage tanks.

- (b) On gas, including casinghead gas or other gaseous substance, one-eighth of the fair market value at the well or of the price received by Lessee at the well, whichever is greater, of all gas produced and sold from the leased land or utilized off the land by Lessee. A copy of all contracts for sale of gas shall be furnished to Lessor. Where gas is sold under a contract that has been approved by Lessor, the fair market value of such gas for determining the royalties payable hereunder shall be the price at which such gas is sold under such contract. No approval by Lessor of the terms of any such agreement shall operate to make Lessor a party thereto or obligate it thereunder in any way. At the option of Lessor, and with 60 days' notice to Lessee, Lessor may take its royalty in kind. With 60 days' notice to Lessee, Lessor may cease taking gas royalty in kind.
- (c) All costs of marketing the oil and/or gas produced shall be borne by Lessee and such costs shall not directly or indirectly reduce the royalty payments to Lessor, except that marketing costs for Lessor's in-kind royalty shall be borne by Lessor.
- (d) If Lessor owns a lesser interest in the oil and gas deposits of the above described land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid to Lessor only in the proportion which its interest bears to the whole and undivided fee.

3. RECORDS - Lessee agrees to keep and to have in possession complete and accurate books and records showing the production and disposition of any and all substances produced on the leased land and to permit Lessor, at all reasonable hours, to examine the same, or to furnish copies of same to Lessor upon request along with purchaser's support documentation. Lessor will not be unreasonable with requests. All said books and records shall be retained by Lessee and made available in Colorado to Lessor for a period of not less than 5 years. All gas contracts and subsequent agreements and amendments shall be submitted to Lessor within 60 days of execution.

4. MEASUREMENTS - All production shall be accurately measured using standards established by the American Gas Association (AGA) and/or the American Petroleum Institute (API) and all measuring devices shall be tamperproof as nearly as possible. Oil royalties due within the terms of this lease shall be calculated on actual and accurate measurements within API standards unless a different means of measurement, subject to Lessor's approval, is provided.

5. PAYMENTS & REPORTS - All payments and reports due hereunder shall be made on or before the day such payments and reports are due. Nothing in this paragraph shall be construed to extend the expiration of the primary term hereof.

Oil royalty payments and supporting documents shall be submitted prior to the last day of the calendar month following each month's sale of production, and gas royalty payments and supporting documents shall be submitted prior to the last day of the second calendar month following each month's sale of production. Payments and supporting documents for new wells shall be submitted prior to the last day of the third calendar month following first month's sale of production.

All payments shall be made by cash, check, certified check or money order. Payments having restrictions, qualifications, or encumbrances of any kind whatsoever shall not be accepted by Lessor. A penalty for a late payment shall be charged as set forth in the PENALTIES paragraph herein.

6. PENALTIES - A penalty shall be imposed for, but not limited to, late payments, improper payments, operational deficiencies, violation of any covenant of this lease, or false statements made to Lessor. Penalties shall be determined by Lessor unless otherwise provided for by law and may be in the form of, but not limited to, interest, fees, fines, and/or lease cancellation.

7. LAW - The terms and conditions of this lease shall be performed and exercised subject to all laws, rules, regulations, orders, local ordinances or resolutions applicable to and binding upon the administration of lands owned by the State of Colorado, and to laws, rules and regulations governing oil and gas operations in Colorado. Violations shall result in penalties as provided for by law or as set forth in the aforementioned schedule or shall, at the option of Lessor, result in default as provided hereinafter.

8. SURRENDER - Lessee may at any time, by paying to Lessor all amounts then due as provided herein, surrender this lease insofar as the same covers all or any portion of the land herein leased and be relieved from further obligations or liability hereunder with respect to the land so surrendered; provided that no partial surrender or cancellation of this lease shall be for less than contiguous tracts of approximately 40 acres or Governmental lot corresponding to a quarter-quarter section; provided further that this surrender clause and the option herein reserved to Lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law by Lessee, Lessor or any assignee of either to enforce this lease, or any of its terms express or implied. In no case shall any surrender be effective until Lessee shall have made full provision for conservation of the leased products and protection of the surface rights of the leased land.

#### 9. ASSIGNMENTS -

- (a) Lessee, with written consent of Lessor, shall have the right to assign the entire leasehold interest of said Lessee in all or part of the land covered hereby, but not less however, than contiguous tracts of approximately 40 acres or Governmental lot corresponding to a quarter-quarter section for any partial assignment, and for approval of such assignment Lessor shall make an assignment charge in an amount to be determined by Lessor. Prior to written approval by Lessor of assignment of this lease, Lessee (assignor) shall not be relieved of its obligations under the terms and conditions herein. An assignment shall not extend the term of this lease.
- (b) If any assignment of a portion of the land covered hereby shall be approved, a new lease shall be issued to the assignee covering the assigned land, containing the same terms and conditions as this lease, and limited as to term as this lease is limited, and the assignor shall be released and discharged from all further obligations and liabilities as to that portion so assigned.
- (c) Lessee shall notify Lessor of all assignments of undivided percentage or other interests. Said interests will not be recognized or approved by Lessor, and the effect of any such assignments will be strictly and only between the parties thereto, and outside the terms of this lease; and no dispute between parties to any such assignment shall operate to relieve Lessee from performance of any terms or conditions hereof or to postpone the time therefor. However, if Lessee assigns 100 percent of said interest in this manner, a leasehold assignment must be received and approved by Lessor to assure that a leasehold interest is maintained by the record lessee. Lessor shall at all times be entitled to look solely to Lessee or his assignee shown on its books as being the sole owner hereof, and for the sending of all notices required by this lease and for the performance of all terms and conditions hereof.
- (d) Although not binding on Lessor, all instruments of every kind and nature whatsoever affecting this lease shall be filed in the records of the Mineral Department of Lessor.

10. OVERRIDING ROYALTY - Any and all reservations or assignments of overriding royalties shall not exceed 5 percent, including any overriding royalties previously provided for. In the event that production drops to an amount that would cause the well to be shut-in or to be plugged, then overriding royalties based on last in first

out, or prorated, may be suspended to allow the well, if possible, to be economic. A reservation or assignment of an overriding royalty interest shall not relieve Lessee of any of its obligations for payment of royalties to Lessor as provided by ROYALTY paragraph herein.

11. **OFFSET WELLS** - Lessee agrees to protect the leased land from drainage by offset wells located on adjoining lands not owned by Lessor, when such drainage is not compensated for by counter-drainage. It shall be presumed that the production of oil and gas from offset wells results in drainage from the leased land, unless Lessee demonstrates to Lessor's satisfaction by engineering, geological, or other data that production from such offset well does not result in such drainage, or that the drilling of a well or wells on the leased land would not accomplish the purposes of protecting the deposits under the leased land. Lessor's decision as to the existence of such drainage shall be final, and Lessee shall comply with Lessor's order thereon or surrender this lease as to any such undeveloped acreage as designated by Lessor.

12. **DEVELOPMENT** - Upon discovery of oil and gas or either of them on the leased land, Lessee shall proceed with reasonable diligence to develop said land at a rate and to an extent commensurate with the economic development of the field in which the leased land lies.

13. **UNITIZATION - COMMUNITIZATION** - In the event Lessor permits the land herein leased to be included within a communitization or unitization agreement, the terms of this lease may be deemed to be modified to conform to such agreement. When only a portion of the land under this lease is committed by an agreement, Lessor may segregate the land and issue a separate lease for each portion not committed thereunder; the term of such separate lease shall be limited as to the original term of this lease. The terms of the lease on that portion remaining in the unit shall be deemed to be modified to conform to such agreement. Nonproducing leases shall terminate on the first anniversary date of the lease following the termination date of the unit or part thereof modifying the lease, but in no event prior to the end of the primary term of the lease or the extension term of the lease.

14. **DISPOSAL WELLS** - No well on State land shall be used as a disposal or injection well without a Disposal Well Lease approved by Lessor.

15. **PRODUCTION** - Lessee shall, subject to applicable laws, regulations and orders binding upon the administration of state lands, operate and produce all wells upon the leased land so long as the same are capable of producing in paying quantities, and shall operate the same so as to produce at a rate commensurate with the rate of production of wells on adjoining lands within the same field and within the limits of good engineering practice, except for such times as there exist neither market nor storage therefor, and except for such limitations on or suspensions of production as may be approved in writing by Lessor. Lessee shall be responsible for adequate site security on all producing properties.

16. **SHUT-IN WELLS** - If Lessee shall complete a well on the leased land productive of oil and/or gas and Lessee is unable to produce such oil and/or gas due to a lack of suitable market therefor, Lessor may grant Lessee suspension of his obligations to produce hereunder until a suitable market for such oil and/or gas can be found, and during any such suspension period, it shall be deemed that oil and/or gas is being produced hereunder in paying quantities. Except, however, that beginning on the anniversary date next, of the year of an extension of the lease by reason of a shut-in well, Lessee shall pay to Lessor a shut-in royalty equal to \$2 per acre of the lease per annum in addition to the annual rental. The minimum amount of such shut-in royalty payment shall be \$320. Each year's shut-in royalty shall be forfeited to Lessor except for the shut-in royalty paid for the year during which the well begins production. The maximum extension of the lease, due to the existence of a shut-in well, shall be 5 years beyond the extension term as described in the EXTENSION paragraph herein. The granting of any further extensions shall be at the sole option of Lessor.

17. **OPERATIONS** - No exploration, drilling or production operation, including permanent installations, shall be within 200 feet of any existing building or other improvement, including water well or reservoir, without the written permission of the owner of said improvements. Lessee shall keep a correct log of each well drilled hereunder, showing by name or description the formations passed through, the depth at which each formation was reached, the number of feet of each size casing set in each well, where set, and the total depth of each well drilled. Lessee, within 30 days after the completion or abandonment of any well drilled hereunder, shall file in the office of Lessor a complete and correct log of such well, together with a copy of the electric log and the radioactivity log of the well when such logs, or either of them, are run; and also a copy of all drill stem test results, core records and analyses, record of perforations and initial production tests, if any. If any of the information required by this paragraph is contained in reports required to be filed with the Oil and Gas Conservation Commission of Colorado, the requirements of this paragraph for such information may be satisfied by such filing with said Commission, except for copies of the reports as are required by the following paragraph, and provided that all such information is immediately available to Lessor. Any proprietary information so submitted shall not be subject to public inspection under Colorado law.

Lessee shall bury pipelines below plow depth. Lessee shall set and cement sufficient surface casing to protect the fresh water wells of the area.

18. NOTIFICATION - Lessee shall notify Lessor and the surface lessee or surface owner of the location of each drill site at least two weeks prior to commencing drilling operations thereon. Lessee shall notify Lessor before commencing to plug and abandon any well by copy of Lessee's request for approval or sundry notice of intent to plug and abandon.

19. BONDS - Lessee shall be liable for all damages to the surface of the land, livestock, growing crops, water wells, reservoirs, or improvements caused by Lessee's operations on said land. No operations shall be commenced on the land hereinabove described unless and until Lessee shall have filed a good and sufficient bond with Lessor, in an amount to be fixed by Lessor, to secure the payment for such damages as may be caused by Lessee's operations on said land and to assure compliance with all the terms and provisions of this lease, the laws of the State of Colorado, and the rules and regulations thereto appertaining. A bond may be held in effect for the life of production of any well.

20. SETTLEMENT - Lessee shall not remove any machinery, equipment or fixtures placed on said land, other than drilling equipment, nor draw the casing from any well unless and until all payments and obligations currently due Lessor under the terms of this lease shall have been paid or satisfied. Any machinery, equipment or fixtures left on this land for a period of more than 6 months after the expiration hereof, shall automatically become the property of Lessor.

21. OTHER DISCOVERY - Should Lessee discover any valuable products other than oil and gas, on or within the leased land, Lessee shall within 7 days report such discovery to Lessor, in which event Lessee and Lessor may negotiate a provision for production of such discovery.

22. WATER - This lease does not grant permission, express or implied, to Lessee for water exploration, drilling or establishing water wells without written permission of the surface owner and other required state permits. If Lessee desires to establish or adjudicate any water right for beneficial use on the leased land in direct relationship to lease operations this adjudication or application shall be in the name of Lessor if Lessor is the surface owner. Water for use off the lease may only be used with permission of the surface owner and a charge may be imposed for this use.

23. DEFAULT - Upon failure or default of Lessee to comply with any of the terms and provisions hereof, including but not limited to the failure to comply with laws, rules and regulations governing Colorado oil and gas operations and including Lessor's policy now or hereafter in force relative to this lease, provided that no policy made after the execution of this lease affecting either the length of the term hereof, the rate of royalty, or payment hereunder, or the assignment hereof, shall operate to alter the terms and conditions of this lease, Lessor is hereby authorized upon notice and hearing, as hereinafter provided, to cancel this lease as to all of the leased land so claimed or possessed by Lessee hereunder. In the event of any such default or failure, Lessor shall, before making any such cancellation, send to Lessee by certified mail, to the post office address of said lessee as shown by the records of Lessor, a notice of intention to cancel for such failure or default, specifying the same, stating that if within 30 days from the date of mailing said notice, Lessee shall correct such failure or default to the satisfaction of Lessor, no cancellation will be made. If such failure or default is not corrected within 30 days after the mailing of such notice, and if Lessee does not request a hearing on such notice within 30 days, this lease will terminate and be cancelled by operation of this paragraph without further action by Lessor, or further notice to Lessee.

24. EXTENSION - If, at the expiration of the primary term of this lease, production of oil or gas has not been obtained on the leased premises but drilling operations are being conducted thereon in good faith and in a good and workmanlike manner, Lessee may, on or before the expiration of the primary term, make written application to Lessor for an extension of this lease for a term equal to one year. Such application must be accompanied by a payment of \$10 per acre or portion thereof. This lease shall not be extended for more than one year past the primary term unless production in paying quantities has been obtained or unless extended by some other provision hereof.

25. HOLD HARMLESS - Lessee shall indemnify Lessor against all liability and loss, and against all claims and actions, including the defense of such claims or actions, based upon or arising out of damage or injury, including death, to persons or property caused by or sustained in connection with operations on this leased land or by conditions created thereby, or based upon any violation of any statute, ordinance, or regulation.

26. CONDEMNATION - If the leased land shall be taken in any condemnation proceeding, this lease shall automatically terminate as of the date of taking. The award for such condemnation shall be paid to Lessor, except for any specific award(s) paid to Lessee for severed oil and gas reserves, in which event a percentage of such specific awards equal to royalty as specified under Item 2 (Royalty) shall be paid to Lessor in lieu of royalty lost by

virtue of the condemnation. Improvements shall be removed by Lessee per terms in the SETTLEMENT paragraph herein. If only a portion of the leased land is taken by condemnation, Lessee may, at its option, terminate this lease or terminate only that portion of the lease so taken.

27. ERRORS - Every effort is made by Lessor to avoid errors in all procedures including but not limited to auction listings and lease preparation. Lessor shall not be liable for any inconvenience or loss caused by errors which may occur. Lessee shall notify Lessor immediately upon discovery of any errors or discrepancy whatever.

28. ARCHAEOLOGY - Lessee shall not destroy, disturb, mar, collect, remove or alter any prehistoric or historic resources of any kind on state lands as provided by law. These resources include but are not limited to all artifacts of stone, wood or metal, pictographs, structures, and bones. A discovery of anything of prehistoric or historic nature shall be reported to Lessor or the State Archaeologist immediately.

29. DEFINITIONS -

- A. "Gas" as used herein shall mean all gases (combustible and noncombustible), including but not limited to all gaseous hydrocarbons, gaseous compounds, carbon dioxide, and helium.
- B. "Oil and gas" as used herein shall include all substances produced as by-products therewith, including but not limited to sulfur.
- C. "Paying quantities" as used herein shall mean and refer to quantities of oil and gas or of either of them sufficient to return to Lessor an amount equal to the shut-in royalty.

30. TAXES - Lessee shall pay all property taxes, or payments in lieu of taxes, lawfully assessed for the leased premises or improvements thereon.

31. HEIRS AND ASSIGNS - The benefits and obligations of this lease shall inure to and be binding upon the heirs, legal representatives, successors or assigns of Lessee; but no sublease or assignment hereof, or of any interest herein, shall be binding upon Lessor until the same has been approved by Lessor as explained in the ASSIGNMENTS paragraph provided.

32. IN WITNESS WHEREOF, Lessor has hereunto signed and caused its name to be signed by the STATE BOARD OF LAND COMMISSIONERS, with the seal of the office affixed, and Lessee has signed this agreement, the day and year first above written.

Recommended:

Mark W. Davis  
Mark W. Davis, Minerals Director

STATE BOARD OF LAND COMMISSIONERS



John Brejcha  
John Brejcha, Acting Director

LESSEE

Attorney-In-Fact  
Seal or Authority

ATTEST

State of \_\_\_\_\_

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, by \_\_\_\_\_ as being authorized to execute same.

\_\_\_\_\_  
Notary Public

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

(SEAL)