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908-262

FREMONT COUNTY, CO 558656 04/11/89 08:00A  
BK 908 PG 262 NORMA HATFIELD, RECORDER 1 OF 8

8:00  
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EXHIBIT "C"

OIL AND GAS LEASE

THIS AGREEMENT, made this 15th day of September, 1988, between SANTA FE PACIFIC MINING, INC., herein called Lessor (whether one or more) and SANTA FE ENERGY COMPANY, hereinafter called Lessee:

1. Lessor, for and in consideration of the payment by Lessee of the sum of One and No/100 Dollar (\$1.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, and of the observance and performance of the covenants, stipulations, conditions and agreements hereafter contained on the part of Lessee to be paid, kept and performed, has granted, demised, leased and let and does by these presents grant, demise, lease and let unto the said Lessee for the sole and only purpose of exploring, mining, drilling and operating for the production of oil, gas casinghead gas and all other gaseous or liquid hydrocarbon substances and all other mineral substances produced in association therewith, including helium and CO2 (hereinafter sometimes referred to as "leased substances") and laying pipelines, building tanks, power stations and structures thereon to produce, save, take care of, treat and transport all of said products in, on or under certain tracts of land in the county of Fremont, State of Colorado, more particularly described in attached Exhibit "A" ("leased lands") for a primary term of fifty (50) years from the date of this lease and for as long thereafter as any of the leased substances is produced in commercial quantities from the leased lands. For the purpose of determining the amount of any money payment under this lease, the leased lands shall be deemed to consist of 11,772.32 acres, more or less.

Notwithstanding any provision hereof to the contrary, this lease does not cover or include coal, uranium, geothermal steam, water (except insofar as required in Lessee's operations upon the leased lands), potash or other mineral substances except those specifically described in the preceding paragraph.

Upon written request to Lessee, Lessor shall have the right to daily drilling reports, copies of all logs, samples of all cores and reports and records of production of all wells drilled by or caused to be drilled by Lessee on the land covered by this lease; and the right to be present at any and all reasonable times to inspect and gauge or measure any and all oil and/or gas produced hereunder; and the right at any and all reasonable times to inspect such of Lessee's records of the use and sale of gas or its products on or off the premises; and/or sale of oil, as are pertinent to the proper determination of Lessor's interest in such gas and oil or its or their proceeds, and all these rights may be exercised by Lessor's representatives thereunto duly authorized in writing.

2. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law and by governmental authority having jurisdiction or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any minerals used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The operations on or production from any part of any such unit shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by Lessee, as provided herein, may be dissolved by lessee by recording any appropriate instrument in the county where the land is situated at any time after the completion of a dry hole or the cessation of production from said unit.

3. If prior to the discovery of oil or gas hereunder, Lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if Lessee commences reworking or additional drilling operations within sixty (60) days thereafter and diligently prosecutes the same. If at the expiration of the primary term oil or gas is not being produced and Lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than sixty (60) consecutive days. If during the drilling or reworking of any well under this paragraph, Lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, Lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

4. Lessee shall have free use of oil, gas and water from said land for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines on cultivated lands below ordinary blow depth.

5. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns, but no change or division in the ownership of land, or in the ownership of or right to receive royalties or payments, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and such change or division shall not be binding upon Lessee for any purpose until thirty (30) days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of said land, an assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge Lessee of any obligations hereunder, and, if Lessee or assignee or part of parts hereof shall fail to comply with any other provision of the lease, such default shall not affect this lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall so comply.

6. Should Lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil and or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's duty shall be suspended, and Lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil and gas hereunder; and the time while Lessee is so prevented shall not be counted against Lessee anything in this lease to the contrary notwithstanding.

7. It is mutually agreed that Lessor does not warrant the title or the quiet possession of said land, or of said oil and/or gas, in whole or in part, to Lessee against the claims of any person or persons claiming or purporting to claim the same or any part thereof adversely to Lessor; and Lessor shall in no event be liable to Lessee because of any lack or failure of title in Lessor in the same or the eviction of Lessee therefrom, and it is mutually understood that no covenant of warranty shall be implied from any word or words herein contained. Lessor agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said premises, and in the event Lessee does so it shall be subrogated to said lien with the right to enforce same, and to apply royalties accruing hereunder toward satisfying same. It is agreed that if Lessor owns an interest in said oil and gas less than the entire and undivided fee simple estate therein, then royalties to be paid Lessor hereunder shall be paid said Lessor only in the proportion which its interest bears to the whole and undivided fee. Lessee shall not contest the validity of the title of Lessor to any of the leased premises conveyed by patent, grant or other conveyance from the United States Government or any of its agencies to Lessor or its predecessors, or any title reserved to Lessor or its predecessor upon the transfer of any interest in the leased premises by them.

8. Lessee shall comply with all constitutions, statutes, ordinances, regulations, rules, orders, decisions and other actions of all governmental authorities which have valid jurisdiction over the leased lands or Lessee's operations or activities on the leased lands.

9. Lessee's exercise of its rights under this lease shall not unreasonably interfere with Lessor's operations or activities on the leased lands for minerals or substances other than leased substances.

10. Lessee shall comply with and perform the obligations of Lessor under any agreement between Lessor and the owners of the surface estate of the leased lands as the obligations relate to Lessee's operations and activities on the leased lands, provided however, that any obligation of Lessor for the payment of production royalties to the owners of the surface estate shall remain the obligation of Lessor and be paid or payable out of the royalties reserved to Lessor by this lease. Any obligation or liability to the owners of the surface estate arising after the date hereof and not covered by Lessor's prior agreement with the surface owners shall be the sole obligation of Lessee.

11. Lessee shall at its own expense discharge and remove all liens or encumbrances on the leased lands which are the result or consequence of Lessee's operations or activities. Lessee shall pay all taxes, with the exception of taxes under the Windfall Profit Tax Act or any other excise tax, resulting from the exercise of its rights under this lease, including, but not limited to, all severance and production taxes.

12. (a) Except as otherwise provided in paragraph 11, Lessee shall indemnify and hold Lessor harmless for and against payment of or responsibility for all expenses, liabilities, claims, demands, causes of actions, damages, and expenditures of any kind or type whatsoever incurred in connection with or arising, in whole or in part, out of any act or omission of Lessee under this lease, including, but not limited to, any act or omission of Lessee in the development, construction, operation, and reclamation of wells or facilities and the properties or performance of any of the terms and conditions of this lease. Lessee shall assume all responsibility and expense for defense of any claims, demands, actions, or other legal proceedings of any kind or type whatsoever brought against or involving Lessor in connection with or arising, in whole or in part, out of any act or omission of Lessee under this lease, including, but not limited, to any act or omission of Lessee in the development, construction, operation or reclamation of the leased lands or performance of any of the terms and conditions of this lease. Nothing contained in this paragraph 13 shall affect Lessor's right to participate in, initiate, or prosecute any legal proceedings Lessor deems necessary to preserve or enforce its rights in the leased lands or pursuant to the terms of this lease. For purposes of this paragraph 13, "any act or omission of Lessee" shall include any act or omission of Lessee or anyone acting by, through or under Lessee, including any agent, employee, invitee, or licensee of Lessee, or any independent contractor employed by Lessee, or any agent, employee, invitee, or licensee of such contractor.

(b) Lessee's obligation to indemnify under paragraph 13(a) shall not extend to liability, claims, damages, losses, or expenses, including attorneys' fees arising out of:

(i) the preparation or approval of maps, drawings, opinions, reports, surveys, change orders, designs or specifications by Lessor, or the agents or employees of Lessor; or

(ii) the preparation of or the failure to give directions or instruction by Lessor, or the agents or employees of Lessor, where such giving or failure to give directions or instructions is the primary cause of bodily injury to persons or damage to property.

(c) Lessee shall have no obligation under paragraph 13(a) to indemnify Lessor against loss or liability for:

(i) death or bodily injury to persons; or

(ii) injury to property; or

(iii) any other loss, damage or expense arising under (i) or (ii) or both; or

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(iv) any combination of these,

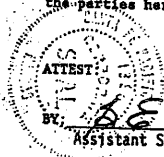
arising from the sole or concurrent negligence of Lessor or the agents or employees of Lessor or any independent contractor who is directly responsible to Lessor, or from any accident which occurs in operations carried on at the direct or under the supervision of Lessor or an employee or representative of Lessor or in accordance with methods and means specified by Lessor or employees or representatives of Lessor.

13. This lease may for recording purposes be reduced to memorandum, which memorandum may be recorded in the county records of the county in which the leased premises are located.

14. This lease is subject to that certain Letter Agreement dated the 8th day of October, 1987, between Lessor and Lessee, provided, however, that in the event of any conflict between the terms of this lease and such agreement, the terms hereof shall control.

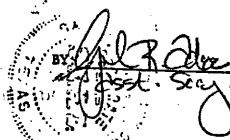
15. The rights of Lessee under this lease shall be subject to the rights of all persons holding as of the date of this lease an interest in the mineral estate in any part of the leased lands by, through or under Lessor.

IN WITNESS WHEREOF, this agreement has been duly executed in duplicate by the parties hereto, the day and year first above written.



SANTA FE PACIFIC MINING, INC.

BY: P. F. Weber  
Lessor Vice President-Adm. *fw*



SANTA FE ENERGY COMPANY

BY: K. L. Weber  
Lessee *fw*

STATE OF NEW MEXICO }  
COUNTY OF BERNALILLO } ss

The foregoing instrument was acknowledged before me this 23rd day of February, 1989, 1989, by P. F. Weber, Vice President - Adm. of Santa Fe Pacific Mining, Inc., a corporation, on behalf of said corporation.

MY COMMISSION EXPIRES:

June 21, 1989

Laurie L. Frantz  
NOTARY PUBLIC



OFFICIAL SEAL  
LAURIE L. FRANTZ  
NOTARY PUBLIC - STATE OF NEW MEXICO  
Notary Bond Filed with Secretary of State  
My Commission Expires 6-21-89

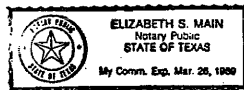
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THE STATE OF TEXAS §

COUNTY OF HARRIS §

BEFORE ME, the undersigned authority, on this day personally appeared R. I. ARNOLD, known to me to be the person whose name is subscribed to the foregoing instrument as Attorney-in-Fact of SANTA FE ENERGY COMPANY, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and in the capacity therein stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 28<sup>th</sup> day of Feb., 1989.



*Elizabeth S. Main*  
Notary Public in and for the  
State of Texas

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EXHIBIT "A"

To Lease Option Agreement  
Between Santa Fe Pacific Mining, Inc.  
And Santa Fe Energy Company

Fremont County, Colorado

SEC-TWP-RGE	PARCEL DESCRIPTION	ACRES
	<u>FEE</u>	
06-20S-69W	NE/4	163.79
07-20S-69W	E/2, less R/W	309.72
07-20S-69W	NW/4, less R/W	167.21
07-20S-69W	SW/4	171.80
18-20S-69W	NE/4	160.00
18-20S-69W	E/2NW/4	80.00
18-20S-69W	W/2NW/4	91.93
18-20S-69W	N/2SE/4	80.00
18-20S-69W	W/2SW/4	91.81
18-20S-69W	E/2SW/4	80.00
30-19S-69W	SW/4SW/4	38.40
31-19S-69W	NW/4NW/4	37.88
31-19S-69W	SW/4SW/4, less R/W	33.04
06-20S-69W	E/2SW/4, less R/W	78.45
06-20S-69W	W/2SW/4, less R/W	79.13
14-19S-70W	NW/4	160.00
14-19S-70W	W/2SW/4	80.00
24-19S-70W	SW/4, S/2NW/4, S/2SE/4, less Ry	319.78
25-19S-70W	N/2NE/4	68.05
25-19S-70W	SW/4NE/4	23.56
25-19S-70W	N/2NW/4	80.00
25-19S-70W	SE/4NW/4	38.00
25-19S-70W	SE/4SE/4, less R/W	36.95
36-19S-70W	NE/4NE/4, less R/W	36.39
36-19S-70W	SW/4SE/4	40.00
36-19S-70W	SE/4SE/4	40.00
01-20S-70W	N/2NE/4, NE/4NW/4	121.60
01-20S-70W	S/2NE/4, SE/4NW/4, E/2SW/4, SE/4 less R/W	358.09
11-20S-70W	E/2NE/4NE/4	20.00
11-20S-70W	W/2NE/4NE/4, SE/4, NW/4NE/4, S/2NE/4	300.00
12-20S-70W	E/2NW/4NW/4NW/4, NE/4NW/4NW/4, W/2SW/4NW/4NW/4, S/2NW/4SW/4NW/4, S/2SW/4NW/4, SW/4, NE/4SE/4NW/4, S/2SE/4NW/4, E/2NE/4NW/4, NW/4NE/4NW/4	265.00
12-20S-70W	N/2NW/4SW/4NW/4, W/2NW/4NW/4NW/4, NE/4SW/4NW/4, E/2SW/4NW/4NW/4, SW/4NE/4NW/4, NW/4SE/4NW/4, SE/4NW/4NW/4	55.00
12-20S-70W	E/2	320.00
13-20S-70W	N/2	320.00
13-20S-70W	S/2	320.00
14-20S-70W	E/2	320.00
02-19S-70W	Pt. SW/4NE/4	0.87
11-19S-70W	Pt. SW/4NE/4	10.25
11-19S-70W	NW/4SE/4	40.00
10-19S-70W	SW/4	160.00
13-19S-70W	All	645.93
		5,842.63
	<u>ALL MINERALS ONLY</u>	
07-20S-69W	E/2 (Ry)	10.28
07-20S-69W	NW/4 (Ry)	4.19
12-19S-70W	SW/4NW/4	40.00
04-19S-70W	S/2SE/4SE/4	20.00
05-19S-70W	SE/4SE/4, E of W line of Ry	14.37

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EXHIBIT "A" cont.

ALL MINERALS ONLY cont.

SEC-TWP-RGE	PARCEL DESCRIPTION	ACRES
08-19S-70W	NE/4NE/4, SE/4NE/4, SW/4NE/4	120.00
09-19S-70W	NW/4NE/4	40.00
09-19S-70W	NE/4NE/4	40.00
19-19S-70W	SE/4NW/4	40.00
24-19S-70W	S/2SE/4 (Ry)	0.22
31-19S-69W	SW/4SW/4 (Ry)	6.28
06-20S-69W	E/2SW/4 (Ry)	1.55
06-20S-69W	W/2SW/4 (Ry)	9.27
25-19S-70W	SE/4SE/4 (Ry)	3.05
36-19S-70W	NE/4NE/4 (Ry)	3.61
01-20S-70W	SE/4NE/4 (Ry)	1.07
01-20S-70W	NE/4SE/4 (Ry)	0.84
		354.73

OIL AND GAS RIGHTS ONLY

04-19S-70W	W/2SW/4 (1/2 Int. Only)	80.00
05-19S-70W	NE/4SE/4, exc. W 17 Rods (1/2 Int. Only)	31.50
05-19S-70W	SE/4SE/4 W of Ry	25.79
10-19S-70W	E/2SE/4, E/2NE/4	160.00
02-19S-70W	SE/4SW/4, SW/4SE/4	80.00
11-19S-70W	NE/4NW/4, SW/4NW/4	80.00
11-19S-70W	Pt. SE/4NW/4 lying westerly and southerly of Brookside Townsite	21.01
11-19S-70W	SW/4, NW/4NE/4	200.00
	NE/4NE/4 except tract 50' x 120' in NW corner	39.86
12-19S-70W	SW/4SE/4	40.00
17-19S-69W	SW/4SW/4	40.00
18-19S-69W	NW/4	152.00
18-19S-69W	N/2SW/4	76.92
18-19S-69W	SE/4SE/4	40.00
19-19S-69W	E/2NE/4	80.00
30-19S-69W	NW/4SW/4	38.40
31-19S-69W	SW/4NW/4, NW/4SW/4	80.00
13-19S-70W	E/2, S/2SW/4	400.00
35-19S-70W	S/2	320.00
36-19S-70W	N/2SE/4, SE/4NE/4	120.00
06-20S-69W	W/2NW/4NW/4, NE/4NW/4NW/4, W/2SE/4NW/4NW/4	35.96
06-20S-69W	W/2NW/4NE/4NW/4	5.00
19-20S-69W	S/2NW/4	82.10
19-20S-69W	NW/4	171.81
19-20S-69W	SW/4	171.93
30-20S-69W	S/2NE/4, NE/4NE/4	120.00
30-20S-69W	N/2NW/4	85.97
30-20S-69W	SW/4NW/4	45.92
30-20S-69W	SE/4, SW/4NE/4	200.00
31-20S-69W	W/2SW/4	91.69
31-20S-69W	NE/4	160.00
31-20S-69W	S/2NW/4	85.92
01-20S-70W	W/2NW/4	81.24
01-20S-70W	W/2SW/4	80.00
02-20S-70W	All	645.54
03-20S-70W	E/2	322.96
03-20S-70W	N/2NW/4	85.44
03-20S-70W	NE/4SW/4, SE/4NW/4	80.00
10-20S-70W	E/2	320.00
23-20S-70W	E/2	320.00
24-20S-70W	N/2	320.00
25-20S-70W	N/2, N/2SW/4, NW/4SE/4	440.00
26-20S-70W	NE/4, NE/4SE/4	200.00
20-19S-69W	NW/4NW/4	40.00

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EXHIBIT "A" cont.

OIL AND GAS RIGHTS ONLY cont.

SEC-TWP-RGE	PARCEL DESCRIPTION	ACRES
29-19S-69W	N/2, SE/4	480.00 6,774.96
FREMONT COUNTY TOTAL		12,972.32

30-19S-69W	SW/4NW/4	80.00
<del>10-19S-69W</del>	<del>SE/4SW/4</del>	<del>80.00</del>