



515065 12/11/2003 10:30:00 AM BEVERLY A WENGER
1 of 2 OGLSE R \$11.00 D \$0.00 Yuma County, CO

OIL AND GAS LEASE (PAID UP)

THIS AGREEMENT, made and entered into this 3rd day of October, 2003, by and between Charles Gilliam Waugh, and Ann S. Waugh, his wife, 38203 SE Lusted Road, Boring, OR 97009, hereinafter called lessor, (whether one or more), and Cohort Energy Company, P.O. Box 226406, Dallas, TX 75222-6406, hereinafter called lessee;

WITNESSETH: that lessor, for and in consideration of

the agreements of lessee hereinafter set forth, hereby grants, demises, leases and lets exclusively unto said lessee the lands hereinafter described, together with any reversionary rights therein, for the purpose of prospecting, exploring by geophysical and other methods, drilling, mining, operating for and producing oil or gas, or both, including, but not as a limitation, casinghead gas, casinghead gasoline, gas-condensate (distillate) and any substance, whether similar or dissimilar, produced in a gaseous state, together with the right to construct and maintain pipe lines, telephone and electric lines, tanks, powers, ponds, roadways, plants, equipment, and structures thereon to produce, save and take care of said oil and gas, and the exclusive right to inject air, gas, water, brine and other fluids from any source into the subsurface strata and any and all other rights and privileges necessary, incident to, or convenient for the economical operation of said land, alone or conjointly with neighboring land, for the production, saving and taking care of oil and gas and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said lands being situated in the County of Yuma, State of Colorado, and being described as follows to wit:

Township 4 North, Range 46 West
Section 5: SW1/4

it being the purpose and intent of lessor to lease, and lessor does hereby lease, all of the lands or interests in lands owned by lessor which adjoin the lands above described or which lie in the section or sections herein specified. For all purposes

of this lease, said lands shall be deemed to contain 160.00 acres.

Subject to the other provisions herein contained, this lease shall remain in force for a term of Three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced from the above described land or drilling operations are continuously prosecuted as hereinafter provided. "Drilling operations" includes operations for the drilling of a new well, the reworking, deepening or plugging back of a well or hole or other operations conducted in an effort to obtain or re-establish production of oil or gas. Drilling operations shall be considered to be "continuously prosecuted" if not more than 60 days shall elapse between the completion or abandonment of one well or hole and the commencement of drilling operations on another well or hole. If, at the expiration of the primary term of this lease, oil or gas is not being produced from the above described land but lessee is then engaged in drilling operations, this lease shall continue in force so long as drilling operations are continuously prosecuted; and if production of oil or gas results from any such drilling operations, this lease shall continue in force so long as oil or gas shall be produced. If, after the expiration of the primary term of this lease, production from the above described land should cease, this lease shall not terminate if lessee is then prosecuting drilling operations, or within 60 days after each such cessation of production commences drilling operations, and this lease shall remain in force so long as such operations are continuously prosecuted, and if production results therefrom, then as long thereafter as oil or gas is produced from the above described land.

In consideration of the premises, it is hereby mutually agreed as follows:

1. Lessee shall deliver, free of cost, to lessor at the wells, or to the credit of lessor in the pipeline to which the wells may be connected, the equal one-eighth (1/8) part of all oil and other liquid hydrocarbons produced and saved from the leased premises, or, at lessee's option, pay to lessor for such one-eighth (1/8) royalty the market price at the well for such oil and other liquid hydrocarbons of like grade and gravity prevailing on the day such oil and other liquid hydrocarbons are run from the lease stock tanks.

2. On gas, gas condensate, gas distillate, casinghead gas and all other gases, including their constituent parts, produced from said land and sold or produced from said land and used off the leased premises or in the manufacture of gasoline or other products, lessee shall pay to lessor a sum equal to one-eighth (1/8) of the net proceeds received from the sale of such produced substances where the same is sold at the mouth of the well or, if not sold at the mouth of the well, then one-eighth (1/8) of the market value thereof at the mouth of the well, but in no event more than one-eighth (1/8) of the actual amount received by lessee for the sale thereof. Without limiting the foregoing, it is expressly agreed that Lessee shall at all times have the right to deduct from Lessor's royalty on any gas produced hereunder the royalty share of the costs, if any, of compression for delivery, transportation and gathering to the point of delivery to the purchaser of such production and all applicable production, severance, and other taxes.

3. If a well capable of producing gas or gas and gas condensate in paying quantities located on the leased premises (or on acreage pooled or consolidated with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut-in and no gas or gas condensate therefrom is sold or used off the premises or for the manufacture of gasoline or other products, such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessee shall use reasonable diligence to market gas or gas and gas condensate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in lessee's judgment exercised in good faith, are unsatisfactory. Lessee shall be obligated to pay or tender to lessor on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut-in and thereafter on or before the succeeding anniversary dates of this lease during the period or periods such well is shut-in, as royalty, the sum of

provided that, if gas or gas condensate from such well is sold or used as aforesaid prior to any such anniversary date of this lease, or if at any such anniversary date, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, lessee shall not be obligated to pay or tender, on or before that particular anniversary date, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered to lessor or to lessor's credit in the following bank:

All payments or tenders may be made by cash, check or draft, mailed or delivered on or before the payment date, and the depositing of such cash, check or draft in any post office, addressed to the depository bank or lessor (at his last known address as shown by lessee's records) on or before the payment date, shall be deemed payment or tender as herein provided. Notwithstanding the death of lessor, payment or tender of shut-in royalty to such deceased or to his credit in the manner provided herein shall be binding on the heirs, devisees, executors, administrators and personal representatives of lessor and his successors in interest. Royalty ownership as of the date of payment as shown by lessee's records shall govern the determination of the party or parties entitled to receive such payment. In consideration of the obligation so to pay, it shall within the meaning of all terms of this lease, including the habendum clause, be conclusively deemed that gas is being produced from the premises during the time such gas or gas condensate is not sold or used. Notwithstanding any provision to the contrary herein, it is expressly agreed that the foregoing shut-in royalty obligation shall be in effect both during and after the primary term.

4. THIS IS A PAID-UP LEASE. In consideration of the down payment, lessor agrees that lessee shall not be obligated to commence or continue any drilling operations during the primary term hereof or to make any rental payments during such primary term.

5. Should lessor hereafter acquire any additional right, title or interest in and to the said land, it shall be subject to the provisions hereof to the same extent as if owned by lessor at the date hereof.

6. If lessor owns a less interest in the land covered by this lease than the entire undivided fee simple mineral estate therein, then whether or not such less interest is referred to or described herein, all shut-in royalties and royalties herein provided shall be paid lessor only in the proportion which his interest bears to the whole and undivided mineral fee. However, any such shut-in royalty shall be increased at the next succeeding anniversary date after any reversion occurs to cover the interest so acquired provided that notice of said reversion is provided to lessee under the terms of this lease.

7. If the estate of either party hereto is assigned or sublet, and the privilege of assigning or subletting in whole or in part is expressly allowed, the express and implied covenants hereof shall extend to the sublessees, successors and assigns of the parties; and in the event of an assignment or subletting by lessee, lessee shall be relieved and discharged as to the leasehold rights so assigned or sublet from any liability to lessor thereafter accruing upon any of the covenants or conditions of this lease, either express or implied. No change in the ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of lessee or require separate measuring or installation of separate tanks by lessee. Notwithstanding any actual or constructive knowledge of or notice to lessee, no change in the ownership of said land or of the right to receive shut-in royalties or other royalties hereunder, or of any interest therein, whether by reason of death, conveyance or any other matter, shall be binding on lessee (except at lessee's option in any particular case) until 90 days after lessee has been furnished written notice thereof, and the supporting information hereinafter referred to, by the party claiming as a result of such change in ownership or interest. Such notice shall be supported by original or certified copies of all documents and other instruments or proceedings necessary in lessee's opinion to establish the ownership of the claiming party. If at any time there be as many as six parties (or more) entitled to receive royalties under this lease, lessee may withhold payment thereof unless and until all parties designate in writing in a recordable instrument to be filed with the lessee, the trustee or agent to receive all royalty payment due hereunder and to execute division and transfer orders on behalf of said parties and their respective successors in title.

8. Lessee may, at any time, execute and deliver to lessor or place of record a release covering all or any part of the acreage embraced in the leased premises or covering any one or more zones, formations or depths underlying all or any part of such acreage, and thereupon shall be relieved of all obligations thereafter to accrue with respect to the acreage, zones, formations or depths covered by such release. In the event of a release of this lease as to all rights in only a part of the acreage embraced in the leased premises, thereafter the shut-in royalties hereinabove provided for shall be reduced proportionately on an acreage basis.

9. Lessee is granted the right, from time to time while this lease is in force, whether before or after the commencement of drilling operations, to pool into a separate operating unit or units all or any part of the land covered by this lease with other land, lease or leases, or interests therein (whether such other interests are pooled by a voluntary agreement on the part of the owners thereof or by the exercise of a right to pool by the lessee's interest), when in lessee's judgment it is necessary or advisable in order to promote conservation, to properly develop or operate the land and interests to be pooled, or to obtain a multiple production allowable from any

governmental agency having control over such matters. Any pooling hereunder may cover all oil and gas, or any one or more of the substances covered by this lease, and may cover one or more or all zones or formations underlying all or any portion or portions of the leased premises. Any unit formed by such pooling shall be of abutting or cornering tracts and shall not exceed 640 acres (plus a tolerance of 10%) for gas or gas condensate and shall not exceed 40 acres (plus a tolerance of 10%) for any other substance covered by this lease; provided that if any governmental regulation or order shall prescribe a spacing pattern for the development of a field wherein the above described land, or a portion thereof, is located, or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be permitted in such allocation of allowable. The area pooled and the zones or formations and substances pooled shall be set forth by lessee in a "declaration of pooling" filed for record in the county or counties in which the pooled area is located. Such pooling shall be effective on the date such declaration is filed unless a later effective date is specified in such declaration. In lieu of the royalties elsewhere herein specified, except shut-in gas well royalties, lessor shall receive on production from an area so pooled only such portion of the royalties which, in the absence of such pooling, would be payable hereunder to lessor on production from the land covered by this lease which is placed in the pooled area as the amount of the surface acreage in the land covered by this lease which is placed in the pooled area bears to the amount of the surface acreage of the entire pooled area. Nothing herein contained shall authorize or effect any transfer of any title to any leasehold, royalty or other interest pooled pursuant hereto. The commencement of a well, the conduct of other drilling operations, the completion of a well or of a dry hole, or the operation of a producing well on the pooled area, shall be considered for all purposes (except for royalty purposes) the same as if said well were located on, or such drilling operations were conducted upon, the lands covered by this lease whether or not such well is located upon, or such drilling operations are conducted upon, said lands. Lessee shall also have the right, but not the obligation, from time to time, while this lease is in force, to modify or terminate any prior declaration of pooling by either increasing or decreasing the size of the pooled unit, such right to be exercised by the recording of an instrument evidencing such modification or termination; provided, however, that this right may be exercised only to the extent that such modification or termination will result in pooled units of a size equal to any spacing pattern established by governmental regulation or order for the lands involved. Notwithstanding the limitations on termination of pooled units contained in the preceding sentence, lessee may also terminate any pooling effected pursuant hereto at any time the pooled unit is not producing and no drilling operations are being conducted thereon by executing and filing of record in the county or counties in which the pooled area is located a written declaration of the termination of such pooling, provided that the pooling of all interests not covered by this lease which comprise a part of such pooled unit be also terminated in some effective manner.

10. In addition to and not in limitation of the rights granted in paragraph 9 hereof, lessee shall have the right to unitize, pool or combine all or any part of the above-described lands or 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 lands or any part thereof shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production thereof 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 a 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, but such consent shall not be deemed necessary to bind the interest of lessor to such cooperative or unit plan of development or operation.

11. Lessee shall have the right to use, free of cost, oil, gas and water produced on said land for its operations thereon except water from wells of lessor. 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. No part of the surface of the leased premises shall, without the written consent of lessee, be let, granted or licensed by lessor to any other party for the location, construction or maintenance of structures, tanks, pits, reservoirs, equipment, or machinery to be used for the purpose of exploring, developing or operating adjacent lands for oil, gas or other minerals. In addition, and not by way of limitation, lessee shall have the right for one year after the expiration of the terms of this lease to enter the leased premises and remove any machinery or fixtures placed on the premises as well as the right to draw and remove casing during said period of time.

12. Lessee shall bury below plow depth its pipe lines on the leased premises when requested by a lessor owning an interest in the surface. No well shall be drilled nearer than 200 feet to any house or barn now on said premises without the written consent of the owner of the surface on which such house or barn is located. Lessee shall pay for damages to growing crops caused by its operations on said lands.

13. Lessor hereby warrants and agrees to defend the title to the lands herein described, but if the interest of lessor covered by this lease is expressly stated to be less than the entire fee or mineral estate, lessor's warranty shall be limited to the interest so stated. Lessee may purchase or lease the rights of any party claiming any interest in said land and exercise such rights as may be obtained thereby but lessee shall not suffer any forfeiture nor incur any liability to lessor by reason thereof. Lessee shall have the right at any time to pay for lessor, any mortgage, taxes or other lien on said lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and any such payments made by lessee for lessor may be deducted from any amounts of money which may become due lessor under this lease. Furthermore, if any claim is asserted or any action or proceeding instituted by lessor, or any third party claiming title to the leased land or any part thereof or any interest therein or any production therefrom, adverse to lessor or adverse to the rights claimed in good faith by lessee under this lease, then during the pendency of such controversy and until 90 days after determination thereof, lessee may defer or discontinue payment of any sums due hereunder and all operations on the leased land or, if it operates wells, it may deposit royalties accruing hereunder in respect to the production therefrom in any bank in the state in which the leased premises are located to abide the final determination of such controversy.

14. All express provisions and implied covenants of this lease shall be subject to all applicable laws, governmental orders, rules and regulations. This lease shall not be terminated in whole or in part, nor lessee held liable in damages, because of a temporary cessation of production or of drilling operations due to breakdown of equipment or due to the repairing of a well or wells, or because of failure to comply with any of the express provisions or implied covenants of this lease if such failure is the result of the exercise of governmental authority, war, armed hostilities, lack of market, act of God, strike, civil disturbance, fire, explosion, flood or any other cause reasonably beyond the control of lessee.

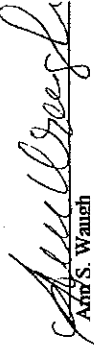
15. It is agreed that this lease shall never be forfeited or canceled for failure to perform in whole or in part any of its implied covenants, conditions or stipulations until it shall have first been finally judicially determined that such failure exists, and after such final determination, lessee is given a reasonable time therefrom (but in no event less than 90 days) to comply with any such covenants, conditions or stipulations.

16. This lease and all provisions thereof shall be applicable to and binding upon the parties and their respective successors and assigns. Should any one or more of the parties named above as lessors not execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

17. The lessors for themselves and their heirs, successors and assigns, hereby expressly release and waive any and all rights of homestead, dower, curtesy and augmented estate rights.

IN WITNESS WHEREOF, this lease is executed as of the day and year first above written.


Charles Gilliam Waugh


Ann S. Waugh

STATE OF Oregon

SS.

COUNTY OF Multnomah

(Individual)

On the 18 day of November, A.D., 2003, before me personally appeared Charles Gilliam Waugh and Ann S. Waugh, his wife, to me known to be the persons described in and who executed the foregoing instrument and acknowledged that they executed the same as their free act and deed.

Given under my hand this 18 day of November, 2003 WITNESS my hand and official seal.



Notary Public

My commission expires

7-1-2005

Address 2444 N.W. Oregon 97030



OFFICIAL SEAL
JUDITH ANN WHEELER
NOTARY PUBLIC - OREGON
COMMISSION NO. 347415
MY COMMISSION EXPIRES JULY 1, 2005