

LEASE DESCRIPTION

FEDERAL LEASE CO-000010485

632.74 ACRES

T. 3 N., R. 66 W., 6th P.M.

Sec. 36: All [excluding - A strip or parcel of land thirty (30) feet wide off of the north side of the North Half ( $N\frac{1}{2}$ ) of Section Thirty-Six (36), Township Three (3) North of Range Sixty-Six (66) West of the Sixth (6th) Principal Meridian, containing 3.63 acres, more or less; and also excluding - A strip or parcel of land thirty (30) feet wide off of the south side of the South Half ( $S\frac{1}{2}$ ) of Section Thirty-Six (36), Township Three (3) North of Range Sixty-Six (66) West of the Sixth (6th) Principal Meridian, containing 3.63 acres, more or less.]

Weld County, Colorado

Form 3130-1  
(February 1977)  
(formerly 3200-2)

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

Project

OIL AND GAS LEASE  
UNDER THE ACQUIRED LANDS MINERAL LEASING ACT  
(FUTURE INTEREST OR COMPETITIVE)

Serial Number

C-37842 Acq. Parcel #2

DEC 1 1983

THIS INDENTURE OF LEASE, entered into, and to take effect as of **DEC 1 1983** by and between the UNITED STATES OF AMERICA, through the Bureau of Land Management, hereinafter called lessor, and Basic Earth Sciences Systems Inc.

P.O. Box 3088  
Englewood, CO 80155

hereinafter called lessee, under, pursuant, and subject to the terms and provisions of the Act of August 7, 1947 (16 Stat. 913), hereinafter referred to as the Act, and to all applicable regulations thereunder now or hereafter in force when not inconsistent with any express and specific provisions of this lease, which are made a part hereof.

WITNESSETH:

Sec. 1. *Rights of lessee* - Lessee is granted the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all oil and gas deposits, except helium gas, in or under the following-described tracts of land situated in **Wattenberg Field**

Description

100% Interest of United States

T. 3 N., R. 66 W., 6th P.M.

Sec. 36: All [excluding - A strip or parcel of land thirty (30) feet wide off of the north side of the North Half (N½) of Section Thirty-Six (36), Township Three (3) North of Range Sixty-Six (66) West of the Sixth (6th) Principal Meridian, containing 3.63 acres, more or less; and also excluding - A strip or parcel of land thirty (30) feet wide off of the south side of the South Half (S½) of Section Thirty-Six (36), Township Three (3) North of Range Sixty-Six (66) West of the Sixth (6th) Principal Meridian, containing 3.63 acres, more or less.]

Weld County, Colorado

B 1194 REC 02139471 04/29/88 10:59 \$18.00 1/006  
F 0708 MARY ANN FEUERSTEIN CLERK & RECORDER WELD CO, CO

containing 632.74 acres, more or less, together with the right to construct and maintain thereupon all works, buildings, plants, waterways, roads, telegraph or telephone lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary to the enjoyment thereof, for a period of 5 years, and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior, the provisions of said agreement to govern the lands subject thereto where inconsistent with the terms of this lease.

Sec. 2. The lessee agrees:

- (a) *Bonds* - (1) To furnish and to maintain any bond required by lessor under the regulations as a condition for the issuance of this lease.
- (2) To furnish a bond in a sum double the amount of \$2 per acre annual rental, but not less than \$1,000 nor more than \$10,000, upon the inclusion of any part of the leased land within the known geologic structure of a producing oil or gas field.
- (3) To furnish, prior to beginning of drilling operations, and maintain at all times thereafter as required by lessor a bond in the penal sum of \$10,000 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms

of this lease, unless a bond in that amount is already being maintained or unless such a bond furnished by an operator of the lease is accepted.

(b) *Cooperative or unit plan* - Within thirty (30) days of demand, or, if the leased land is committed to an approved unit or cooperative plan and such plan is terminated prior to expiration of this lease, within thirty (30) days of demand made thereafter, to subscribe to and to operate under such reasonable cooperative or unit plan for the development and operation of the area, field, or pool, or part thereof, embracing the lands included herein as the Secretary of the Interior may then determine to be practicable and necessary or advisable, which plan shall adequately protect the rights of all parties in interest, including the United States.

LESSEE

(c) *Wells* - (1) To drill and produce all wells necessary to protect the leased lands from drainage by wells on lands not the property of lessor, or lands of the United States leased at a lower royalty rate, or as to which the royalties and rentals are paid into different funds than those of this lease; or in lieu of any part of such drilling and production, with the consent of the Director of the Geological Survey, to compensate lessor in full each month for estimated loss of royalty through drainage in the amount determined by said Director; (2) at the election of lessee, to drill and produce other wells in conformity with any system of well spacing or production allotments affecting the field or area in which the leased lands are situated, which is authorized and sanctioned by applicable law or by the Secretary of the Interior; and (3) promptly after due notice, in writing, to drill and produce such other wells as the Secretary of the Interior may reasonably require in order that the leased premises may be properly and timely developed and produced in accordance with good operating practice.

(d) *Special Stipulations* - (1) This lease is subject to all stipulations attached hereto and made a part hereof, and, to the extent applicable, the stipulation provided in 43 CFR 3109.4.

(2) To install cattleguards to prevent the passage of livestock in any openings made in fences by lessee or his contractors to provide access to the lands covered by this lease for automotive and other equipment.

(e) *Rents and Royalties* - (1) To pay the rentals and royalties set out in the rental and royalty schedule attached hereto.

(2) It is expressly agreed that the Secretary of the Interior may establish reasonable minimum values for purposes of computing royalty on any or all oil, gas, natural gasoline, and other products obtained from gas, due consideration being given to the highest price paid for a part or for a majority of production of like quality in the same field, to the price received by lessee, to posted prices, and to other relevant matters and, whenever appropriate, after notice and opportunity to be heard.

(3) When paid in value, such royalties on production shall be due and payable monthly on the last day of the month next following the month in which produced. When paid in amount of production, such royalty products shall be delivered in merchantable condition on the premises where produced without cost to lessor, unless otherwise agreed to by the parties hereto, at such times and in such tanks provided by lessee as reasonably may be required by lessor, but in no case shall lessee be required to hold such royalty oil or other products in storage beyond the last day of the month next following the month in which produced nor be responsible or held liable for loss or destruction of royalty oil or other products in storage from causes over which he has no control.

(4) Rentals or minimum royalties may be waived, suspended, or reduced and royalties on the entire leasehold or any portion thereof segregated for royalty purposes may be reduced if the Secretary of the Interior finds that, for the purpose of encouraging the greatest ultimate recovery of oil or gas and in the interest of conservation of natural resources, it is necessary, in his judgment, to do so in order to promote development, or because the lease cannot be successfully operated under the terms fixed herein.

(f) *Payments* - Unless otherwise directed by the Secretary of the Interior, to make rental payments to lessor to the order of the Bureau of Land Management at the proper office as set forth in 43 CFR 3103.1-2(a), except that rental and royalties on producing leases are to be paid to the Regional Oil and Gas Supervisor of the Geological Survey in accordance with 43 CFR 3103.1-2(b), by remittance made payable to the United States Geological Survey. If there is no well on the lease lands capable of producing oil or gas in paying quantities, the failure to pay rental on or before the anniversary date shall automatically terminate the lease by operation of law. However, if the time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official working day. For the purposes of this automatic termination provision a discovery of oil or gas in paying quantities on unitized land is construed as a discovery on all lands subject to the unit plan.

(g) *Contracts for disposal of products* - To file with the Oil and Gas Supervisor of the Geological Survey not later than thirty (30) days after the effective date thereof any contract, or evidence of other arrangement, for the sale or disposal of oil, gas, natural gasoline, and other products of the leased land: *Provided*, That nothing in any such contract or other arrangement shall be construed as modifying any of the provisions of this lease, including, but not limited to, provisions relating to gas waste, taking royalty in kind, and the method of computing royalties due as based on a minimum valuation and in accordance with the Oil and Gas Operating Regulations 30 CFR 221.

(h) *Statements, plats, and reports* - At such times and in such form as lessor may prescribe, to furnish detailed statements showing amounts and quality of all products removed and sold from the lease, the proceeds therefrom, and the amount used for production purposes or unavoidably lost; a plat showing development work and improvements on the leased lands; and a report with respect to stockholders, investments, depreciation, and costs.

(i) *Well records* - To keep a daily drilling record, a log, and complete information on all well surveys and tests in form acceptable to, or prescribed by, lessor of all wells drilled on the leased lands and an acceptable record of all subsurface investigations affecting said lands, and to furnish them, or copies thereof, to lessor when required. All information obtained under this paragraph, upon the request of lessee, shall not be open to inspection by the public until the expiration of the lease.

(j) *Inspection* - To keep open, at all reasonable times, for the inspection of any duly authorized officer of the department, the leases, premises and all wells, improvements, machinery, and fixtures thereon and all books, accounts, maps, and records relative to operations and surveys or investi-

gations on the leased lands or under the lease. All information obtained pursuant to any such inspection, upon the request of lessee, shall not be open to inspection by the public until the expiration of the lease.

(k) *Diligence, prevention of waste, health and safety of workmen* - To exercise reasonable diligence in drilling and producing the wells herein provided for unless consent to suspend operations temporarily is granted by lessor; to carry on all operations in accordance with approved methods and practices as provided in the Oil and Gas Operating Regulations, 30 CFR Part 221, having due regard for prevention of waste of oil or gas or damage to deposits or formations containing oil, gas, or water or to coal measures or other mineral deposits, for conservation of gas energy, for preservation and conservation of the property for future productive operations, and for health and safety of workmen and employees; to plug properly and effectively all wells drilled in accordance with the provisions of this lease or of any prior lease or permit upon which the right to this lease was predicated before abandoning the same; to carry out, at expense of lessee, all reasonable orders of lessor relative to matters in this paragraph, and that on failure of lessee so to do lessor shall have the right to enter on the property and to accomplish the purpose of such orders at lessee's cost: *Provided*, That lessee shall not be held responsible for delays or casualties occasioned by causes beyond lessee's control.

(l) *Taxes and wages, freedom of purchase* - To pay when due, all taxes lawfully assessed and levied under the laws of the State or the United States upon improvements, oil and gas produced from the lands hereunder, or other rights, property, or assets of lessee; to accord all workmen and employees complete freedom of purchase, and to pay all wages due workmen and employees at least twice each month in lawful money of the United States.

(m) *Equal Opportunity Clause* - The lessee agrees that, during the performance of this contract:

(1) The lessee will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The lessee will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The lessee agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the lessor setting forth the provisions of this Equal Opportunity clause.

(2) The lessee will, in all solicitations or advertisements for employees placed by or on behalf of the lessee, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The lessee will send to each labor union or representative of workers with which lessee has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the lessor, advising the labor union or workers' representative of the lessee's commitments under this Equal Opportunity clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The lessee will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The lessee will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, as amended, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the Secretary of the Interior and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the lessee's noncompliance with the Equal Opportunity clause of this lease or with any of said rules, regulations, or orders, this lease may be canceled, terminated or suspended in whole or in part and the lessee may be declared ineligible for further Federal Government contracts or leases in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, as amended, and such other sanctions as may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, as amended, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The lessee will include the provisions of Paragraphs (1) through (7), of this Section (m) in every contract, subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, as amended, so that such provisions will be binding upon each contractor, subcontractor, or subcontract, or purchase order as the Secretary may direct as a means of enforcing such provisions including sanctions for noncompliance; *provided, however*, that in the event the lessee becomes involved in, or is threatened with, litigation with a contractor, subcontractor, or vendor as a result of such direction by the Secretary, the lessee may request the lessor to enter into such litigation to protect the interests of the lessor.

(n) *Certification of Nonsegregated Facilities* - By entering into this lease, the lessee certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The lessee agrees that a breach of this certification is a violation of the Equal Opportunity clause of this lease. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, or restaurants or other eating areas, time clocks, or locker rooms, and other storage

or dressing rooms, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive, or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise. Lessee further agrees that (except where it has obtained identical certifications from proposed contractors and subcontractors for specific time periods) it will obtain identical certifications from proposed contractors and subcontractors prior to the award of contracts or subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following certification to such proposed contractors and subcontractors (except where the proposed contractor or subcontractor has submitted identical certifications for specific time periods); it will notify prospective contractors and subcontractors of requirement for certification of nonsegregated facilities. A Certification of Nonsegregated Facilities, as required by the May 9, 1967 Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a contract or subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each contract and subcontract or for all contracts and subcontracts during a period (i.e., quarterly, semiannually, or annually).

(o) *Assignment of oil and gas lease or interest therein* - As required by applicable law, to file for approval within ninety (90) days from date of final execution any instrument of transfer made of this lease, or any interest therein, including assignments of record title, working or royalty interests, operating agreements and subleases, such instrument to take effect upon final approval by the Bureau of Land Management, as of the first day of the lease month following the date of filing in the proper BLM office.

(p) *Pipelines to purchase or convey at reasonable rates and without discrimination* - If owner, or operator, or owner of a controlling interest in any pipeline or of any company operating the same which may be operated accessible to oil or gas derived from lands under this lease, to accept and convey and, if a purchaser of such products, to purchase at reasonable rates and without discrimination the oil or gas of the Government or of any citizen or company not the owner of any pipeline, operating a lease or purchasing or selling oil, gas, natural gasoline, or other products under the provisions of the Act, or under the provisions of the Act of February 25, 1920 (41 Stat. 437; 30 U.S.C. 181).

(q) *Reserved lands and deposits* - To comply with all statutory requirements and regulations thereunder, if the lands embraced herein have been or shall hereafter be disposed of under the laws reserving to the United States the deposits of oil and gas therein, subject to such conditions as are or may hereafter be provided by laws reserving such oil or gas. If any of the lands are reserved or designated for any particular purpose, to conduct operations in conformity with such requirements as may be made by the appropriate agency official.

(r) *Damage to property* - To pay lessor or its tenant, as the case may be, for any and all damage to, or destruction of, property caused by lessee's operations hereunder; to save and hold lessor harmless from all damage or claims for damage to persons or property resulting from lessee's operations under this lease; and where the surface of the leased land is owned by other than lessor, to pay such owner, or his tenant, as the case may be, for damage or injury to livestock, crops, trees, pipelines, buildings, and other improvements on the leased land.

(s) *Protection of the environment including the surface, other resources and improvements:*

(1) *General* - The lessee shall take such steps as required by the drilling permit, the attached stipulations or the authorized officer to prevent activities or operations on the leased lands from: (a) causing or contributing to soil erosion or damage to crops or other vegetative cover on Federal or non-Federal lands in the vicinity; (b) polluting soil, air or water; (c) creating hazards to wildlife or depriving them of the use of the natural elements of their habitat; (d) disturbing the surface or damaging areas of scenic value or natural beauty; (e) damaging or removing improvements owned by the United States or other parties; or (f) destroying, damaging or removing fossils, historic or prehistoric ruins or artifacts. The lessee shall, prior to the termination of bond liability or at any other time when required and in the manner directed by the lessor, reclaim all land the surface of which has been disturbed, dispose of all debris or solid waste, repair the offsite and onsite damage caused by his activity or activities incidental thereto, restore access roads or trails to their former condition and remove structures. The lessor may prescribe, by stipulations to be subsequently included in this lease or through the authorized officer, the steps to be taken by the lessee to protect or restore the environment both on and off the lands, and improvements thereon whether or not the improvements are owned by the United States.

Timber, mineral materials, and water from public water reserves or water developed by the Bureau of Land Management or its lessees, licensees or permittees, except water rights established under State law acquired by such lessees, licensees or permittees may be used only with advanced authorization from and on terms and conditions imposed by the authorized officer.

(2) *Antiquities and Objects of Historic Value* - The lessee shall immediately bring to the attention of the authorized officer any and all American antiquities or other objects of historic or scientific interest including, but not limited to, historic or prehistoric ruins, fossils, or artifacts discovered as a result of operations under this lease, and to leave such item(s) or condition(s) intact. Failure to comply with any of the terms and conditions imposed by the authorized officer with regard to the preservation of antiquities shall constitute a violation of the Antiquities Act (16 U.S.C. 431-433).

If the authorized officer determines that archaeological values exist or may exist on the lands within the lease and

that they might be impaired by oil and gas operations, the lessee will engage a recognized authority on archaeology, acceptable to the Bureau of Land Management, to survey and salvage, in advance of any operations, such values on the lands involved. The responsibility for and cost of this survey and salvage will be that of the lessee.

(3) *Pollution Control* - The lessee agrees that this lease is subject to all relevant pollution control legislation at the Federal, State, or local level. Such legislation includes, but is not limited to, the Clean Air Act, as amended, (77 Stat. 392; 42 U.S.C. 1857-1857i), the Refuse Act of 1899 (30 Stat. 1152; 33 U.S.C. 407-409), the Federal Water Pollution Control Act (62 Stat. 1155; 33 U.S.C. 1151-1161).

(4) *Stipulations* - To comply with stipulations attached hereto which are made a part of the lease or the approved Application for Permit to Drill.

(t) *Overriding royalties* - Not to create overriding royalties in excess of 5 percent except as otherwise authorized by regulation 43 CFR 3103.3-6.

(u) *Deliver premises in cases of forfeiture* - To deliver up to lessor in good condition the land leased including all improvements which are necessary for the preservation of producing wells.

(v) *Appropriate agency official* - To address all matters relating to subsection (q), (r), and (s) of this section to

William D. Walters, U.S. Dept. of Commerce  
National Telecommunications & Information  
Administration  
325 Broadway  
Boulder, CO 80303

Sec. 3. The lessor reserves:

(a) *Easements and rights-of-way* - The right to permit for joint or several use easements or rights-of-way, including easements in tunnels upon, through, or in the lands leased, occupied, or used as may be necessary or appropriate to the working of same or of other lands containing the deposits described in the Act, and the treatment and shipment of products thereof by or under authority of the Government, its lessees or permittees, and for other public purposes.

(b) *Disposition of surface or surface resources* - The right to lease, sell, use, permit the use of or otherwise dispose of the surface or surface resources of any of the lands embraced within this lease, which are owned by the United States, insofar as such use or disposition will not interfere with lease operations.

(c) *Monopoly and fair prices* - Full power and authority to promulgate and enforce all orders necessary to insure the sale of the production of the leased lands to the United States and to the public at reasonable prices, to protect the interests of the United States, to prevent monopoly, and to safeguard the public welfare.

(d) *Helium* - Pursuant to Section 1 of the Act of February 25, 1920 (41 Stat. 437; 30 U.S.C. 181), the ownership and the right to extract helium from all gas produced under this lease, subject to such rules and regulations as shall be prescribed by the Secretary of the Interior. In case lessor elects to take the helium lessee shall deliver all gas containing same, or portion thereof desired, to lessor at any point on the leased premises in the manner required by lessor, for the extraction of the helium in such plant or reduction works for that purpose as lessor may provide, whereupon the residue shall be returned to lessee with no substantial delay in the delivery of gas produced from the well to purchaser thereof. Lessee shall not suffer a diminution of value of the gas from which the helium has been extracted, or loss otherwise, for which he is not reasonably compensated, save for the value of the helium extracted. Lessor further reserves the right to erect, maintain, and operate any and all reduction works and other equipment necessary for the extraction of helium on the premises leased.

(e) *Taking of royalties* - All rights pursuant to Section 36 of the Act of February 25, 1920 (41 Stat. 451; 30 U.S.C. 192), to take royalties in amount or in value of production.

(f) *Casing* - In case lessee strikes water while drilling instead of oil or gas, or abandons a well drilled as a water well, the right to purchase the casing in any such well at the reasonable salvage value thereof.

Sec. 4. *Undivided fractional interests* - Where the interest of the United States in the oil and gas underlying any of the lands described in Section 1 is an undivided fractional interest, the following terms and conditions shall apply:

a) Rental and minimum royalties shall not be prorated for any lands in which the United States owns an undivided fractional interest but shall be payable at the same rate as provided in 43 CFR, Subpart 3103 for the full acreage in such lands.

Sec. 5. *Drilling and producing restrictions* - It is agreed that the rate of prospecting and developing, and quantity and rate of production from the lands covered by this lease, shall be subject to control in the public interest by the Secretary of the Interior, and in the exercise of his judgment the Secretary may take into consideration, among other things, Federal laws, State laws, and regulations issued thereunder, or lawful agreements among operators regulating either drilling or production, or both. After utilization, the Secretary of the Interior, or any person, committee, or State or Federal officer or agency so authorized in the unit plan, may alter or modify, from time to time, the rate of prospecting and development and quantity and rate of production from the lands covered by this lease.

Sec. 6. Sale of minerals - If all or a portion of the mineral interest in the leased land is sold pursuant to the Act of September 6, 1950 (64 Stat. 769; 7 U.S.C. 1033-1039), all royalties accruing as a result of production on any portion of the lease shall be treated as an entirety and shall be divided among, and paid to, the separate owners of the mineral interests in the proportion that the acreage owned by each such separate owner bears to the entire leased acreage.

Sec. 7. Surrender and termination of lease - Lessee may surrender this lease or any legal subdivision thereof by filing in the proper BLM office a written relinquishment, in triplicate, which shall be effective as of the date of filing subject to the continued obligation of lessee and his surety to make payment of all accrued rentals and royalties and to place all wells on the land to be relinquished in condition for suspension or abandonment in accordance with applicable lease terms and regulations.

Sec. 8. Removal of materials, etc., on termination of lease - Upon expiration of this lease, or the earlier termination thereof pursuant to the last preceding Section, lessee shall have the privilege at any time within a period of ninety (90) days thereafter of removing from premises all machinery, equipment, tools, and materials other than improvements needed for producing wells. Any materials, tools, appliances, machinery, structures, and equipment subject to removal as above provided, which are allowed to remain on the leased lands shall become the property of lessor on expiration of the 90-day period or such extension thereof as may be granted because of adverse climatic condition throughout said period: Provided, That lessee shall remove any or all of such property when so directed by lessor.

Sec. 9. Proceedings in case of default - If lessee shall not comply with any of the provisions of the Act or regulations thereunder, or of the lease, or make default in the performance or observance of any of the terms hereof (except that of payment of annual rental which results in the automatic termination of the lease), and such default shall continue for a period of thirty (30) days after service of written notice thereof

by lessor, this lease may be canceled by the Secretary of the Interior in accordance with Section 31 of the Act of February 25, 1920 (41 Stat. 445; 30 U.S.C. 188), except that if this lease covers lands known to contain valuable deposits of oil or gas, the lease may be canceled only by judicial proceedings in the manner provided in Section 31 of the Act of February 25, 1920, supra, but this provision shall not be construed to prevent the exercise by lessor of any legal or equitable remedy which lessor might otherwise have. Upon cancellation of this lease, any casing, material, or equipment determined by lessor to be necessary for use in plugging or preserving any well drilled on the leased land shall become the property of lessor. A waiver of any particular cause of forfeiture shall not prevent the cancellation and forfeiture of this lease for any other cause of forfeiture, or for the same cause occurring at any other time.

Sec. 10. Heirs and successors in interest - It is further agreed that each obligation hereunder shall extend to and be binding upon, and every benefit hereof shall inure to, the heirs, executors, administrators, successors, or assigns of the respective parties hereto.

Sec. 11. Unlawful interest - No Member of, or Delegate to, Congress, or Resident Commissioner, after his election or appointment, or either before or after he has qualified and during his continuance in office, and no officer, agent, or employee of the Department of the Interior, except as provided in 43 CFR 7.4(a)(1), shall be admitted to any share or part in this lease or derive any benefit that may arise therefrom; and the provisions of Section 3741 of the Revised Statutes of the United States, as amended, (41 U.S.C. 22), and Sections 431, 432, and 433, Title 18 U.S.C., relating to contracts, enter into and form a part of this lease so far as the same may be applicable.

Sec. 12. Stipulations - Stipulations are  attached hereto and made a part hereof. The attached stipulations appear as 2 consecutively numbered pages commencing with page 1 hereafter. Stipulations are  not attached.

B 1194 REC 02139471 04/29/88 10:59 \$18.00 4/006  
F 0711 MARY ANN FEUERSTEIN CLERK & RECORDER WELD CO, CO

IN WITNESS WHEREOF

THE UNITED STATES OF AMERICA

[Signature]  
(Signature of Witness)

By [Signature]  
(Signature of Signing Officer)

8235 S. Ireland Way  
Parker, Colorado 80134  
(Address, include zip code)

CHIEF, MINERAL LEASING SECTION  
ACTING (Title) NOV 29 1983 (Date)

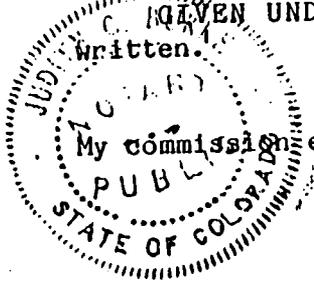
[Signature]  
(Signature of Witness)  
8742 E. Layton Ave.  
Denver, Co. 80237  
(Address, include zip code)

[Signature]  
(Signature of Lessee)  
BASIC EARTH SCIENCE SYSTEMS, INC.  
Jeffery E. Jones, Vice President  
(Signature of Lessee)

STATE OF COLORADO )  
COUNTY OF ARAPAHOE )SS

BEFORE ME, the undersigned Notary Public in and for said County and State, on the 20th day of April, 1988, personally appeared Jeffery E. Jones, to me known to be the identical person who subscribed the name of Basic Earth Science Systems, Inc. to the within and foregoing instrument as its Vice President, and duly acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the uses, purposes and consideration therein expressed and set forth.

GIVEN UNDER MY HAND AND SEAL OF OFFICE the day and year last above written.



[Signature]  
Judith C. Burke, Notary Public

B 1194 REC 02139471 04/29/88 10:59 \$18.00 5/006  
 F 0712 MARY ANN FEUERSTEIN CLERK & RECORDER WELD CO, CO

1. Notwithstanding any provision of this lease to the contrary, any drilling, construction or other operation on the leased lands that will disturb the surface thereof or otherwise affect the environment (hereinafter called "surface disturbing operation") conducted by lessee shall be subject, as set forth in this stipulation, to the prior approval of such operation by the District Manager, Bureau of Land Management, in consultation with the appropriate Federal Agency managing the surface and to such reasonable conditions, not inconsistent with the purpose for which this lease is issued, as the District Manager may require to protect the surface of the leased lands and the environment.
2. Prior to entry upon the land or the disturbance of the surface thereof for drilling or other purposes, the lessee shall submit for approval two copies of a map and explanation of the nature of the anticipated activity and surface disturbance to the appropriate District Manager of the Bureau of Land Management and if applicable, will also furnish the appropriate Federal Agency managing the surface with a copy of such map and explanation.

An evaluation of the proposal will be made by the appropriate Federal Agency managing the surface for the purpose of insuring proper protection of the surface, the natural resources, the environment, existing improvements, and for assuring timely reclamation of disturbed lands.

3. Upon completion of said evaluation, the District Manager, Bureau of Land Management shall notify lessee of the conditions, if any, to which the proposed surface disturbing operations will be subject.

Said conditions may relate but are not limited to any of the following:

- (a) The location of drilling or other exploratory or developmental operations or the manner in which they are to be conducted;
  - (b) The types of vehicles that may be used and the areas in which they may be used;
  - (c) The manner or location in which improvements such as roads, buildings, pipelines, or other improvements are to be constructed.
4. The plan of operation required by item 2 above must assure adequate protection of drainages, waterbodies, springs, or fish and wildlife habitat, steep slopes or fragile soil. The lessee agrees that during periods of adverse conditions due to climatic factors such as thawing, heavy rains, or flooding, all activities creating irreparable or extensive damage, as determined by the Federal Agency managing the surface, will be suspended or the plan of operation modified and agreed upon.

5. Protection of Cultural Resources

A. Prior to undertaking any ground disturbing activities on lands covered under the provisions of this lease, the lessee shall:

1. Contact the appropriate Bureau of Land Management office on lands managed by Bureau of Land Management or the appropriate Federal Agency managing the surface on lands where the surface is administered by such agency to determine if a site specific cultural resource inventory is required. If a survey is required, then;
2. Engage the services of a qualified cultural resource specialist acceptable to the Federal Agency managing the surface to conduct an intensive inventory for evidence of cultural resource values;
3. Submit a report acceptable to the authorized officer of the Federal Agency managing the surface and the Bureau of Land Management; and
4. Implement mitigation measures required by the Federal Agency managing the surface to preserve or avoid destruction of cultural resource values. Mitigation may include relocation of proposed facilities, testing and salvage or other protective measures. Where impacts cannot be mitigated to the satisfaction of the Federal Agency managing the surface, surface occupancy on that area must be prohibited.

B. The lessee or operator shall immediately bring to the attention of the Bureau of Land Management or the authorized officer of the Federal Agency managing the surface any cultural resources or any other object of scientific interest discovered as a result of surface operations under this lease, and not disturb such discoveries until directed to proceed by the Bureau of Land Management.

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ADDITIONAL TERMS OF OIL AND GAS LEASE

Under the provisions of Public Law 97-78, this lease includes all deposits of non-gaseous hydrocarbon substances other than coal, oil shale, or gilsonite (including all vein-type solid hydrocarbons). Development by methods not conventionally used for oil and gas extraction such as fire flooding and including surface mining will require the lessee to submit a plan of operations and will be subject to regulations governing development by such methods when those rules are issued by the Bureau of Land Management (BLM), the U.S. Minerals Management Service (MMS), and the rules or procedures of the surface managing agency, if other than BLM. Development may proceed only if the plan of operations is approved.

SPECIAL STIPULATIONS

NO OCCUPANCY OR OTHER SURFACE ACTIVITY WILL BE ALLOWED UNDER THIS LEASE.

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