PRODUCERS 88-PAID UP
Rev. 5-60, No 2

OIL AND GAS LEASE

AGREEMENT, Made and entered into effective the 28th day of October, 2011, by and between **Michael M. Mellott and Phyllis E. Mellott, husband and wife, Patrick K. Mellott and Shirley M. Mellott, husband and wife, Mary Ellen Dahm and John E. Dahm, her husband, and Penny C. Wilkins, a single woman, collectively as tenants in common,** whose address is P.O. Box 21, Hugo, CO 80821 called "Lessor" (whether one or more) and **Paul Abbey Consulting Inc**. whose address is 3977 Utica St., Denver, CO 80212, hereinafter called "Lessee".

WITNESSETH, That the Lessor, for and in consideration of Ten & More Dollars cash in hand (the "Bonus Consideration") paid, receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of drilling, mining, exploring by geophysical and other methods, and operating for and producing there from oil, gas and all other hydrocarbons of whatsoever nature or kind, specifically including shale gas, coal bed methane and any and all substances produced in association therewith from shale and coal-bearing formations, with rights of way and easements for laying pipelines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in Lincoln County, State of Colorado described as follows, to-wit:

See Exhibit "A" attached to and made a part hereof

containing ***1,146.65*** acres, more or less.

1. It is agreed that this lease shall remain in force for a term of three (3) years from this date and as long thereafter as oil, gas, and all other hydrocarbons of whatsoever nature or kind, specifically including, without limitation, shale gas, coal bed methane and any and all substances produced in association therewith from shale and coal-bearing formations, is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or reworking operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than one hundred eighty (180) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling, testing, completing, re-completing, re-working, deepening, plugging back or repairing operations within one hundred eighty (180) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the Bonus Consideration, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipeline to which Lessee may connect wells on said land, the equal [redacted] part of all oil produced and saved by Lessee from the leased premises.

2nd. To pay Lessor [redacted] of the gross proceeds each year, payable quarterly, for the gas from each well produced and saved by Lessee where gas only is found, while the same is being used off the premises, based upon the value received by Lessee, and if used in the manufacture of gasoline a royalty of [redacted] payable monthly at the prevailing market rate received by Lessee.

3rd. To pay Lessor for gas produced and saved by Lessee from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of [redacted] of the net proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas only is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar ($1.00) per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of one hundred eighty (180) days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above-described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the said Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operations thereon, except water from the wells and reservoirs of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipelines below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land. Lessor agrees to assist Lessee in Lessee's well site(s) and access routes and right of way agreements and with Federal, State and local permitting requirements and issues.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. Except as otherwise expressly provided herein, the rights and estate of Lessor and Lessee hereunder may be assigned in whole or part, from time to time, as to any mineral or horizon, in the sole discretion of Lessor or Lessee, as the case may be, but no change or division in ownership of Lessor's land, rentals, or royalties, or Lessor's interest hereunder, however accomplished, shall operate to enlarge or diminish the obligations or rights of Lessee or Lessor hereunder. Additionally, no change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

~~12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall~~

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~~be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations there under with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.~~

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor ~~hereby warrants and agrees to defend the title to the lands herein described against the claims of all persons whomsoever, and~~ agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof; and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

~~15. If at the end of the primary term, this lease is not maintained in effect under the terms herein, then Lessee shall have the option to extend this lease for an additional five (5) years commencing on the date that this lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor, at the address listed herein, not less than ten (10) days prior to the expiration of the original primary term, an amount equal to the original Bonus per acre Consideration Dollars paid Lessor. This consideration shall be calculated on per acre basis multiplied by the number of net mineral acres owned by Lessor or to which Lessee desires to extend its lease rights hereunder. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous commencing on the date of the lease and continuing from that date to the end of the extended primary term. If at the expiration of the original primary term of this lease, operations are being conducted to maintain this lease, then Lessee shall have a period of one hundred eighty (180) days after said operations cease, or one hundred eighty (180) days from the expiration of any other continuation of the primary term granted under the terms of this lease, from which to exercise this option to extend the lease.~~

~~16. If lessor, during the primary term of this lease, receives a bona fide offer from a third party to purchase from lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with such lease to become effective upon expiration of this lease, which lessor is willing to accept from the offering party, lessor hereby agrees to notify lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen (15) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein covered by the offer at the price and on the terms and conditions specified in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this paragraph. Should lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify lessor in writing by mail, telefax, or telegram prior to expiration of said fifteen (15) day period, and shall promptly thereafter furnish to lessor the new lease for execution by lessor along with lessee's sight draft payable to lessor in payment of the specified amount as consideration for the new lease, such draft being subject to approval of title according to the terms thereof. Upon receipt thereof, lessor shall promptly execute said lease and return same along with the draft through lessor's bank of record for payment.~~

17. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns and successive assigns of Lessor and Lessee, and by all persons or parties claiming by, through or under Lessor or Lessee.

18. It is the intent of the parties that the Lessor is leasing to the Lessee all mineral acres owned by Lessor within the Sections shown on the lease, whether described correctly or not.

19. In the event lessor considers that lessee has not complied with all its obligations hereunder, either express or implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this lease. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. This lease shall never be forfeited or cancelled for failure to perform in whole or in part any of its implied covenants, conditions, or stipulations until a judicial determination is made that such failure exists and lessee fails within a reasonable time to satisfy any such covenants, conditions, or stipulations.

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

LESSOR

Michael M Mellott

Michael M. Mellott

Phyllis E Mellott

Phyllis E. Mellott

PEW PEM 11-11-11 MEP JEB

Patrick K Mellott

Patrick K. Mellott

Shirley M. Mellott

Shirley M. Mellott

Mary Ellen Dahm

Mary Ellen Dahm

John E. Dahm

Penny C Wilkins

Penny C. Wilkins

LESSEE
Paul Abbey Consulting Inc.

By: Paul Abbey, President

ACKNOWLEDGEMENTS

State of Colorado §
§
County of Lincoln §

The foregoing instrument was acknowledged before me this 28th day of October, **2011,** by **Michael M. Mellott and Phyllis E. Mellott,** known to me, and who acknowledged that **they** executed the foregoing instrument as **their** free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires: 6-29-2012

Penny C. Wilkins
Notary Public:

State of Utah §
§
County of Sevier §

The foregoing instrument was acknowledged before me this 24th day of October, **2011,** by **Patrick K. Mellott and Shirley M. Mellott,** known to me, and who acknowledged that **they** executed the foregoing instrument as **their** free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires: 1-21-2012

Jennifer Hicks
Notary Public

JENNIFER N. HICKS
NOTARY PUBLIC STATE OF UTAH
55 WEST 100 NORTH
RICHFIELD, UTAH 84701
COMM. EXP. 1-21-2012

State of Colorado §
§
County of Lincoln §

The foregoing instrument was acknowledged before me this 28th day of October, **2011,** by **Mary Ellen Dahm and John E. Dahm,** known to me, and who acknowledged that **they** executed the foregoing instrument as **their** free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires: 6-29-2012

Penny C Wilkins
Notary Public

State of Colorado §
§
County of Lincoln §

The foregoing instrument was acknowledged before me this 28th day of October, **2011, Penny C. Wilkins,** known to me, and who acknowledged that **she** executed the foregoing instrument as **her** free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal.

My Commission Expires: 07/15/2012

Notary Public

State of Colorado §
§
County of Lincoln §

The foregoing instrument was acknowledged before me this 28th day of October, **2011,** by **Paul Abbey,** as **President of Paul Abbey Consulting Inc.**

WITNESS my hand and official seal.

My Commission Expires: 6-29-2012

Penny C Wilkins
Notary Public

EXHIBIT 'A'

This Exhibit A is attached to and made a part of that Oil and Gas Lease dated effective October 28, 2011 by and between **Michael M. Mellott and Phyllis E. Mellott, husband and wife, Patrick K. Mellott and Shirley M. Mellott, husband and wife, Mary Ellen Dahm and John E. Dahm, her husband, and Penny C. Wilkins, a single woman, collectively as tenants in common** as Lessors, and **Paul Abbey Consulting Inc.**, as Lessee, for the purpose of describing the lands covered by said Lease, to wit:

Township 11 South, Range 53 West, 6th P.M.

Section 2: NE/NW a/d/a Lot 3 (66.89), S/2 NW

Section 15: W/2

Section 18: Lot 1 (39.80), 2 (39.85), 3 (39.91), 4 (39.97), E2W2 a/d/a W/2

Township 11 South, Range 54 West, 6th P.M.

Section 24: SW/NW, NW/SW, SE/SW

Township 12 South, Range 53 West, 6th P.M.

Section 4: Lots 1(40.90), 2(40.80), 3(40.72), S2NE, SENW less a tract deeded to Board of County Commissioners recorded in Book 134, Page 209, containing .50 acres, more or less, and less 2 tracts deeded by Warranty Deed to the Department of Transportation, State of Colorado recorded at Reception #330963, recorded February 27, 2009 containing 1.69 acres, and less

containing 1,146.65 acres, more or less

Additional Provisions

The parties agree that the Additional Provisions set forth below amend and supersede the terms of the printed portion of the Oil and Gas Lease to which this Exhibit "A" is attached to the extent they are inconsistent with the provisions in this Exhibit "A." In the event of any conflict in the language between this Exhibit "A" and the printed portion of the Oil and Gas Lease, the provisions of this Exhibit "A" shall control.

1. **Royalty.** Notwithstanding anything to the contrary herein contained, wherever the term [redacted] royalty appears in the body of this Oil and Gas Lease, the term shall be changed to [redacted] royalty except that if drilling operations are not commenced on or before the second anniversary date of this Oil and Gas Lease, the [redacted] shall be changed to [redacted]. Lessee shall bear all costs as more fully set forth in paragraph 9 of these Additional Provisions.

2. **No Pooling Without Consent.** Notwithstanding anything to the contrary in this Oil and Gas Lease, the Lessee shall not pool or unitize any of the leased premises without the written consent of Lessor. Lessee's consent to pooling shall not be unreasonably withheld as to lands included in a spacing unit mandated or approved by the Colorado Oil and Gas Conservation Commission and any such pooling is expressly limited to spacing unit as so mandated and approved.

3. **Termination of Lease.** This Oil and Gas Lease shall terminate at the end of the primary term as to all of the leased premises except those lands contained within a production or spacing unit prescribed by law or administrative authority on which is located a well producing or capable of producing oil and gas or on which Lessee is engaged in drilling or reworking operations. In addition, in the event that this Oil and Gas Lease is extended by commercial production beyond its primary term, then on such date this Oil and Gas Lease shall terminate as to all rights one hundred feet or more below the deepest producing perforations in any such well or wells located on the lease

[redacted]

[redacted]

[redacted]

premises, or lands pooled or unitized therewith. If a well ceases to produce in paying quantities in the secondary term and there are no other wells in the same spacing unit, this Oil and Gas Lease will terminate as to the lands included in the drilling and spacing unit for such well. Lessee shall, at its sole expense, record in the records of the Clerk and Recorder of Lincoln County, Colorado, a written release of all such lands within ninety (90) days of the expiration of the primary term. In addition, in the event that this Oil and Gas Lease terminates as to the lands included in the drilling and spacing unit for a well, which ceases to produce in paying quantities in the secondary term, then Lessee shall, at its sole expense, record in the records of the Clerk and Recorder of Lincoln County, Colorado, a written release of all such lands within ninety (90) days following written demand therefore. In the event of default by Lessee, damages shall accrue at the rate of [redacted] ("Liquidated Damages") for each day after the deadline to record the release until such date that the release is recorded. In the event that Lessee fails to pay same then Lessor may sue to recover such damages and all costs, together with reasonable attorney's fees for preparing and prosecuting the suit. If no drilling and spacing unit is established by the Colorado Oil and Gas Conservation Commission then Lessee may hold no more than 160 acres of the leased premises with an oil well and no more than 640 acres of the leased premises with a gas well under the terms of this Oil and Gas Lease unless otherwise agreed by the parties. This Oil and Gas Lease shall not terminate so long as drilling or reworking operations are being continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well or, if after discovery of oil and gas on the leased premises or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, if Lessee commences additional drilling, testing, completing, recompleting, re-working, deepening, plugging back or repairing operations within ninety (90) days from the date of cessation of production or from date of completion of dry hole.

The Parties acknowledge and agree that the terms of the Oil and Gas Lease with respect to Liquidated Damages are fair and reasonable, considering the damages that Lessor will sustain if the release of Oil and Gas Lease is not recorded within the time period set forth above, and not a penalty, that such damages have been agreed upon and fixed as Liquidated Damages because of the difficulty of ascertaining the exact damages that will be suffered, sustained, paid or incurred by Lessor as a result of a delay or failure to record, and that such Liquidated Damages provisions shall be applicable regardless of the actual amount of damages suffered, sustained, paid or incurred.

4. **Drilling Operations Defined.** Notwithstanding anything to the contrary herein contained, for purposes of this Oil and Gas Lease drilling operations shall be deemed to be commenced for a new well at the time that Lessee has actually begun drilling of the well on the leased premises with a rig capable of drilling to the permitted depth. Drilling operations with respect to additional drilling, testing, completing, recompleting, re-working, deepening, plugging back, repairing or other operations conducted in an effort to resume or re-establish production of oil and gas shall be deemed to have commenced at the time Lessee begins actual work in the hole of a well located on the leased premises in a good-faith effort to restore that well to production.

5. **Surface Issues.** Notwithstanding any provision in the Oil and Gas Lease to the contrary, this Oil and Gas Lease does not grant the right to the Lessee to construct telephone and electric lines, tanks, ponds, roadways, storage tanks, power stations, employee's quarters or plants, including, but not limited to gas treatment or processing plants, or structures of any kind upon the leased premises until Lessor and Lessee have entered into a mutually acceptable surface use agreement that specifically permits such activities or operations and sets forth the full consideration due Lessor for such activities and operations. Lessor and Lessee agree to negotiate such surface use agreement in good faith recognizing that time is of the essence. Lessee will compensate Lessor, and any subsequent surface owners, for all damages, including, but not limited to, damages to growing crops, trees, fences, buildings, drainage ditches, livestock, reservoirs, springs or wells, the surface of the Lessor's property and loss of use of Lessor's property occasioned by Lessee's operations hereunder. Further, Lessee will at all times operate in such a fashion so as to minimize the loss or damage to Lessor's

[redacted]

property. Lessee will settle all surface damages with the Lessor prior to commencing operations in accordance with Paragraph 7 of these Additional Provisions below and in this regard will consult with the Lessor regarding the use and locations of roads, both temporary and permanent, as well as location on the surface of the leased premises of well sites, tank batteries, compressor stations, pipelines, pits or any other operation which would create any change on the surface or interfere in any way with the Lessor's ability to use or develop the leased premises. The right to lay any transportation or transmission pipelines of any kind, including such related to the transportation of oil, gas or any other substance produced under the terms of this Oil and Gas Lease and gathering or collection pipelines from other leases, but not including gathering, flow lines or collection pipelines for oil, gas and other substances produced under the terms of this Oil and Gas Lease which the Lessee may lay, shall be negotiated with Lessor under separate right-of-way or easement agreements prior to installation of any transportation or transmission pipeline referenced in this paragraph.

6. **No Disposal or Injection Wells.** Lessee shall not drill any disposal or injection wells (including but not limited to annular injection) nor use any well on the leased premises as a disposal well nor inject any substance, including but not limited to air, gas, water, brine and other fluids from any source, as part of an enhanced recovery effort or otherwise on the leased premises unless it has entered into a written agreement with Lessor and provided appropriate compensation to Lessor to do so.

7. **Surface Use Agreement.** Lessor owns the surface of the leased premises. Lessee shall not conduct any seismic or geophysical operations whatsoever when it is raining; thereafter, Lessee shall use reasonable efforts to conduct its operations so as to cause the least possible damage to the surface as a result of muddy conditions. In addition, notwithstanding any other provision herein, prior to entry, occupation or use of the surface of the leased premises for any purpose Lessee agrees to enter into a mutually acceptable written surface use agreement and such right-of-way or easement agreements with Lessor which address, but are not limited to, the use, improvement, construction and locations of roads, both temporary and permanent, as well as location on the surface of the leased premises of wellsites, tank batteries, compressor stations, equipment, structures, pipelines, pits, access roads or any other operation which would create any change on the surface or interfere in any way with the Lessor's ability to use or develop the leased premises. Further, Lessee agrees to the following:

   a. In the event that a road is constructed on the leased premises the Lessee shall gravel said road and maintain same in a good and passable condition, free of noxious weeds, litter and debris, for the life of any oil or gas well located on the leased premises by the Lessee. Access roads shall not exceed 40 feet in width and Lessee shall insure that all vehicles accessing any portion of the leased premises on behalf of Lessee remain on the access roads. Lessee agrees to pay Lessor an initial access fee of $10.00 per rod for use of existing roads on the leased premises, and at the rate of $20.00 per rod for any road Lessee builds on the leased premises, which payment shall be made at the time of execution of a mutually acceptable written right-of-way agreement for any such road. Lessee shall provide Lessor with a plat showing the location and length of all roads promptly after their first use, construction or improvement. If the Lessor uses existing roads on the leased premises, the Lessee shall repair any damage to those roads caused by its drilling equipment or other operations and maintain said roads in a good and passable condition, free of noxious weeds, litter and debris, for the life of any oil or gas well located on the leased premises by the Lessee.

   In addition, Lessee agrees to pay Lessor $10.00 per rod for any pipeline located on the leased premises, which payment shall be made at the time of execution of a mutually acceptable written right-of-way agreement for any such pipeline. Lessee shall bury all pipelines no less than 48 inches below the surface of the ground and all pipelines shall be double ditched with soil compaction and restoration of topsoil to the surface.

   b. For each new well drilled on the leased premises, including but not limited to well site preparation, the drilling, operating, reworking, maintaining, producing and plugging of the well, the location of tank batteries, and the laying

of flow lines, as long as the flow lines are on the well location, Lessee shall pay Lessor, provided Lessor is the surface owner, the sum of $5,000.00, which payment shall be made at the time of execution of a mutually acceptable written surface use agreement for any such well location. Lessee shall also pay to Lessor an annual rental of $500.00 for each well drilled on the leased premises. This annual rental payment shall be made on the anniversary date of the commencement of drilling of each well in each and every year until the well has been plugged and abandoned and the location of the well site and any roads and pipelines constructed in connection therewith have been reclaimed as provided herein. Lessee shall consult with Lessor or surface owner if not Lessor, as to the location of each well pad to be located on the leased premises and obtain consent from Lessor, or surface owner if not Lessor, as to the location of same, which consent shall not be unreasonably withheld. In all cases, Lessee agrees to consult with the surface owner regarding the placement of such well pads as set forth in paragraph 5 above. Any such well pad shall be no more than five acres in size during operations and reclaimed to a production area as small as is practicable, but in no event greater than 1/2 acre, upon completion of drilling operations.

Lessee will endeavor to consolidate drilling locations and to consolidate and centralize production equipment on the leased premises. Lessee will use good faith efforts to locate production and gathering facilities together with related pipelines and valves at the well pad for each well and will install remote monitoring and control equipment in order to reduce vehicle traffic to and on the wellpads. Lessee shall also endeavor to diligently pursue any drilling operations to minimize the total time period and to minimize rig relocations or startup during the course of drilling.

c. During drilling operations the well sites and any pits shall be fenced with 4-strand barbed wire fence, with steel posts every rod, H Braces at every corner and access gates. After completion of each well and in the event of production, the wellheads and all production equipment shall be fenced to the same standard. All fences shall be built in a manner sufficient to turn ordinary horses and cattle and to protect any livestock on the leased premises. Once a wellsite has been restored to the Lessor's satisfaction, the fencing that surrounded the wellsite shall be left in place.

In addition, Lessee shall install cattle guards with a 16' steel tubular gate next to the cattle guard at all fence crossings at its sole cost and expense and which shall remain on the leased premises and become the property of Lessor after installation. Such cattle guards shall be installed by Lessee to the satisfaction of Lessor. Lessee shall be responsible for restoring Lessor's fence to its original condition or as near as practicable to its original condition at any point of access should the Lessor elect not to keep the cattle guard and gate at any location.

d. All topsoil shall be separated at the time of excavation so that the topsoil and subsurface soil may be placed back in proper order as nearly as possible. Lessee shall make every effort to save all topsoil and replace any which may be lost during operations, whether the well is completed as a producer or as a dry hole. Within ninety (90) days, or as soon thereafter as weather conditions permit, after completion of any operations under this Oil and Gas Lease which result in disturbance of the surface of the leased premises, Lessee shall restore and seed any lands upon which operations were conducted to their original condition, as near as practicable after replacing topsoil, unless conditions upon the land, such as mud pits which have not yet dried out, make it impracticable to do so. In the event that Lessee determines that such conditions do exist, it shall provide Lessor with immediate written notice of such conditions and shall thereafter restore the lands as soon as conditions so permit, but in no event longer than 180 days after termination of drilling operations. Lessee agrees that, in all operations conducted by it or its successors upon the leased premises; it will protect ground water sources and surface soils from contamination. Upon completion of any activity, or otherwise as necessary, Lessee will remove from the leased premises all drilling mud and all other substances or materials, whether singly or mixed,

which are listed or considered as a toxic substance by any government agency and shall save and hold Lessor and its successors or assigns harmless from any and all claims arising from its operations on or near the leased premises.

e. Lessee shall not permit its agents, employees, contractors, subcontractors, or service company personnel to possess or use drugs or alcohol or carry firearms, archery equipment, wildlife calls, weapons, spotting, optical or night vision equipment (other than as required for oil and gas operations), or to bring dogs or other animals on the leased premises. Nor shall Lessee permit such persons to bring friends or family onto the leased premises or to picnic, barbecue, transport firewood, cut Christmas trees, fish, hunt, or injure wildlife, or remove pine nuts, artifacts, vegetation or other non-oil and gas materials from the leased premises.

f. Drilling equipment shall be removed from the leased premises no later than 30 days after drilling operations have ceased. After such time, a fee of $100.00 per day will be paid by Lessee to Lessor for storage of any such drilling equipment.

g. Lessee will drill no closer than 400 feet from any spring or water well on the leased premises without the Lessor's prior written consent.

j. Lessee will place no facility upon the surface of the leased premises closer than 400 feet from any house or barn existing at the time Lessee seeks to place said facility without the Lessor's prior written consent. In addition, Lessee will use good faith efforts to minimize the aesthetic and noise impact of the equipment located at the well site and any of its other equipment located on the leased premises, which efforts will include screening any such equipment and other improvements and uses on the leased premises as may be reasonably requested by the Lessor.

k. No production water will be discharged on the surface without the Lessor's prior written consent, which written consent shall not be unreasonably withheld, and any water produced in connection with operations shall be disposed of pursuant to all applicable laws and Lessee shall maintain a record evidencing such disposal.

l. Lessee agrees to pay the fair market value for all domestic livestock killed or injured by its operations on the leased premises. In the event Lessee requires an animal autopsy or other scientific evidence prior to reimbursing the Lessor for livestock loss, Lessee will secure and pay for such investigation and obtain any required analysis, which shall be provided to the Lessee. If said investigation or scientific investigation reveals that lessee is not at fault then Lessor shall bear the cost of such investigation, autopsy and/or analysis.

m. Tank batteries to be installed by the Lessee shall be limited to industry-standard, low-profile type design and construction. Lessee shall cause its facilities and equipment to be painted in a color which blends with the environment, as reasonable designated by Lessor. Lessee will not place any logos or similar marks on facilities and equipment, except as required by law.

n. During drilling, production and reclamation operations, Lessee shall keep all disturbed areas as reasonably free of noxious weeds as practicable.

o. Lessee shall not impound water or build, construct, create or install, nor permit others to impound water or build, construct, create or install, any buildings, structures, fences, trees, engineering works, or any obstructions on the associated roads or pipeline right-of-ways on the leased premises.

p. Lessee shall not remove any minerals, sand, gravel, earth or other substances from any access road without first obtaining Lessor's written consent.

8. **Removal of Machinery, Material and Structures.** Within 90 days after the abandonment of any well, Lessee shall remove all machinery, material and structures used in connection with such well and not used in other operations on the leased premises, unless otherwise agreed in writing by Lessor. Any machinery, material, or structure not so removed shall, at Lessor's option, become Lessor's property.

9. **Surface Restoration.** Upon permanent cessation of Lessee's operations on the leased premises, all areas used or occupied by Lessee will be restored by Lessee to its original condition and contour as nearly as reasonably practicable, then ripped or chiseled, disked, seed drilled with Lessor's or surface owner's choice of appropriate seed, mulched with hay, and crimped or imbedded to retain the hay in the restored area.

10. **No Deductions From Royalty.** Notwithstanding any of the other provisions hereof, for purposes of calculating royalties payable to the Lessor under this Oil and Gas Lease, Lessor shall receive gross proceeds, defined as the price of production received by the Lessee (but in no event less than the prevailing gross market value thereof), less taxes applicable thereto, and with no other deductions of any kind or nature. Any reference that royalty is payable or calculated "at the well," "at the wellhead," at the "mouth of the well," or at any other location other than the actual point of sale is deleted from the Oil and Gas Lease. In addition, no matter where sold or calculated, all royalties payable to the Lessor under this Oil and Gas Lease shall be paid free and clear of all costs and expenses and without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, marketing, and otherwise making the oil, gas or other products hereunder ready for sale or use or enhancing the value of otherwise marketable oil, gas or other products and in no event shall any costs of any kind or nature either prior to or subsequent to production and whether incurred on or off the leased premises, be borne by Lessor. Lessee shall reimburse Lessor for any such charges or expenses withheld by a purchaser, by Lessee or by others. In the event that Lessee sells any production from the leased premises to an entity, which is affiliated or related to the Lessee in any way, then royalties shall be based upon the higher of market price or proceeds on the day that oil and/or gas are removed but in no event less than the gross amount the Lessee receives from the oil or gas sale. In addition, in the event that a court of law finds this provision unenforceable for any reason then royalty will be determined at the final point of sale and with no cost deductions of any kind.

11. **Limitation on Maintenance of Lease by Payment of Shut-in Royalties.** Notwithstanding any provision in this Oil and Gas Lease to the contrary, it is expressly agreed and provided that after the expiration of the primary term this Oil and Gas Lease may not be maintained in force by the payment of shut in royalties for any period in excess of two (2) consecutive years or for shorter periods from time-to-time after the expiration of the primary term which aggregate three (3) years in all, except in the event that the Lessee is unable to market production because of the inability to access a market, unacceptable terms, or market conditions. For purposes of this Oil and Gas Lease "access a market" means the availability of a mode of transportation, under reasonable terms, to deliver oil or gas to a purchaser; "unacceptable terms" means that the contract terms offered to Lessee are not reasonable when compared with the terms of existing contracts with other producers similarly situated to Lessee; and "market conditions" means the market price being paid for oil or gas is such that a reasonable person in Lessee's position, having the power to do so, would refrain from marketing the oil or gas.

12. **Compliance with Laws.** Lessee will drill all wells in compliance with all applicable federal, state and local laws, guidelines, rules and regulations which shall include those established from time to time by the Colorado Oil and Gas Conservation Commission, including, but not limited to the minimum surface casing requirements for protecting fresh and usable water.

13. **Water.**

    a. Notwithstanding anything top the contrary in this Oil and Gas Lease, Lessee agrees that it will not use or sell any water found in, upon or under the leased premises in the course of conducting its drilling operations unless it has

entered into a written agreement with Lessor and compensated Lessor in an amount agreed to by the Lessor to do so.

b. Lessee shall not alter the natural flow of any creeks, streams or irrigation ditches located on the leased premises without Lessor's prior written consent.

c. Lessee shall be solely responsible to Lessor for any and all damage to any springs, water wells, water sources or water rights located on the leased premises directly resulting from Lessee's operations and use of the leased premises.

d. Upon receipt of the final survey plat for any well to be drilled by Lessee, Lessee shall provide Lessor with a plat and the legal description of any water source which may be within one-fourth (1/4th) mile of Lessee's operations. If any surface or underground water source located on the leased premises, or any decreed water right owned by Lessor, is located within one-fourth (1/4th) mile of any well, then Lessee shall test the amount and quality of water from such water source both prior to commencement of Lessee's drilling activities for such well and upon completion of such well.

e. All water testing shall be conducted by a qualified third-party expert mutually agreed to by Lessor and Lessee and at Lessee's sole cost and expense.

f. If water testing confirms that after Lessee has drilled an oil and/or gas well on the leased premises that, in the sole opinion of the third-party expert, that such water source was contaminated or damaged by Lessee's operations ("Lessee Caused Contamination"), then Lessee shall either: drill a new water well for Lessor at Lessee's sole cost and expense; provide Lessor with a replacement water source in a like volume to such damaged water source at the same or at a mutually agreed location; or mutually agree with Lessor on an alternate method of addressing such contamination or damage, including but not limited to installation of a water treatment system.

g. Additionally, Lessee shall pay all annual operating and maintenance costs in excess of any costs attributable to the old water source prior to the Lessee Caused Contamination for as long as the new water source is used by Lessor or, Lessor and Lessee may mutually agree that Lessee shall pay Lessor a one-time lump-sum amount equal to the estimated present value of such annual operating and maintenance costs for a twenty (20) year period of use as calculated by a third-party with expertise in water matters, as mutually agreed to by Lessor and Lessee.

h. Lessee shall commence construction of any new water well or source within sixty (60) days of receipt of the third-party expert's report evidencing Lessee Caused Contamination and shall complete such construction within six (6) months.

i. Following any Lessee Caused Contamination, Lessee shall provide potable water by truck or other means to Lessor in an amount sufficient to replace the damaged water well or source until construction of the new water source or other remedy is completed.

14. **No Amendment of Lease by Division Orders.** Lessee agrees that no division order shall amend the terms of this Oil and Gas Lease.

15. **Assignability.** Notwithstanding any provision in this Oil and Gas Lease to the contrary, any assignment of this Oil and Gas Lease is not valid or binding on the Lessor until the Lessor receives written notice of said assignment, a certified copy of the recorded assignment and an written agreement by the assignee that it assumes all of the terms, covenants, conditions and provisions of this Oil and Gas Lease including the Additional Provisions set forth in this Exhibit "A".

16. **Indemnification**. Lessee agrees to indemnify and hold harmless Lessor against all claims, suits, costs, damages, losses, and expenses that may in any manner result from, arise out of, or are related to Lessee's use or occupancy of the leased premises, presence on the leased premises or operations conducted by the Lessee, its employees, representatives, agents, invitees, guests or contractors and subcontractors pursuant to this Oil and Gas Lease. This obligation to indemnify shall include the payment of reasonable attorneys' fees and investigation costs, as well as other reasonable costs and expenses connected with any claim asserted.

17. **No Warranty**. Notwithstanding any provision in this Oil and Gas Lease to the contrary, this Oil and Gas Lease is made without warranty of title, either express or implied as to the ownership of the mineral estate covered by this Oil and Gas Lease. Lessor agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof.

18. **Enforcement; Attorney's Fees**. In the event that any party to this Oil and Gas Lease is required to commence any action or proceeding against the other party in connection with or arising out of any provisions of this Oil and Gas Lease, the prevailing party in any such action shall be awarded, in addition to any monetary damages or injunctive or other equitable relief otherwise awarded, all reasonable costs incurred in connection with the preparation, prosecution and appeal of such action or proceedings, including attorneys' fees and all court costs.

19. **Severability**. If any term, covenant, condition or provision of the Additional Provisions to Oil and Gas Lease shall to any extent be held by a court of competent jurisdiction to be invalid, void or unenforceable, it shall not affect of impair the validity, legality of enforceability of any other provision of the Additional Provisions to Oil and Gas Lease, and it is the intent of the parties that there shall be substituted for the affected provision a valid and enforceable provision as similar as possible to the affected provision.

20. **Binding Effect**. The provisions, terms and conditions of this Oil and Gas Lease and this Exhibit "A" shall be considered covenants running with the land covered by this Oil and Gas Lease and this Exhibit "A" and shall be binding upon, extend to and inure for the benefit of the respective heirs, executors, administrators, successors and/or assigns to the parties hereto. Any assignee of this Oil and Gas Lease, by acceptance of the Oil and Gas Lease, is deemed to have accepted liability for the performance of all provisions, terms, conditions and covenants of this Oil and Gas Lease; provided, however, that an assignment does not relieve the Lessee of its obligation to perform all provisions, terms, conditions and covenants of this Oil and Gas Lease.

21. **Headings**. The headings used in this Oil and Gas Lease are for administrative purposes only and will not be used for purposes of construing this Oil and Gas Lease.

LESSOR

Michael M. Mellott

Michael M. Mellott

Phyllis E. Mellott

Phyllis E. Mellott

Patrick K Mellott

Patrick K. Mellott

Shirley M. Mellott

Shirley M. Mellott

Mary Ellen Dahm

Ma y Ellen Dahm

John E. Dahm

Penny C. Wilkins

Penny C. Wilk ns

LESSEE
Paul Abbey Consulting Inc.

By: Paul Abbey, President