

**OIL AND GAS LEASE  
(PAID-UP)**

**STATE OF NEW MEXICO**

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**COUNTIES OF MORA AND SAN MIGUEL**

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THIS LEASE AGREEMENT is made as of the 15<sup>th</sup> day of April, 2009, between  
whose address  
as Lessor individually and as holder of any  
executive leasing rights pertinent to the leased premises, and  
corporation, whose address is as Lessee. All printed portions  
of this lease were prepared by the party hereinabove named as Lessee, but all other provisions  
(including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

**1. Description.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises (use Exhibit "A" for long description):

**See Exhibit "A" Attached hereto and made a part hereof**

in the Counties of Mora and San Miguel, State of New Mexico, containing gross  
acres, more or less (including any interests therein which Lessor may hereafter acquire by  
reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and  
marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in  
association therewith. The term "gas" as used herein includes helium, carbon dioxide, gaseous  
sulfur compounds, coalbed methane and other commercial gases, as well as normal hydrocarbon  
gases. In addition to the above-described land, this lease and the term "leased premises" also  
covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which  
are contiguous or adjacent to the above-described land, and in consideration of the  
aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or  
supplemental instruments for a more complete or accurate description of the land so covered.  
For the purpose of determining the amount of any bonus payment, extension bonus payment (if  
applicable), delay rental payment (if applicable), or shut-in royalty payments based on acreage  
hereunder, the number of gross acres above specified shall be deemed correct, whether actually  
more or less. During the term of this lease, Lessee shall have the exclusive right to explore,  
develop, produce and market oil and gas, and all hydrocarbons and nonhydrocarbons produced in  
association therewith, from the leased premises by any method inclusive of, without limitation,  
geophysical or seismic operations. For the same consideration stated above, Lessor further  
grants, sells, conveys and warrants to Lessee a subsurface right-of-way and easement in, through  
and under the leased premises for the purpose of drilling oil and/or gas wells to, and producing  
through said wells oil, gas or other minerals from, lands other than the leased premises, together  
with the right of ingress and egress to said wells.

**2. Term of Lease.** This lease, which is a "paid-up" lease requiring no rentals, shall be in force  
for a primary term of Ten (10) years from the date hereof, and for as long thereafter as oil or gas  
or other substances covered hereby are produced in paying quantities from the leased premises or  
from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to  
the provisions hereof.

**3. Royalty Payment.** Royalties on oil, gas and other substances produced and saved hereunder  
shall be paid by Lessee to Lessor as follows: (a) for oil and other liquid hydrocarbons separated  
at Lessee's separator facilities, the royalty shall be one-eighth of such production, to be delivered  
at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's  
transportation facilities, provided that Lessee shall have the continuing right to sell such  
production to itself or an affiliate at the wellhead market price then prevailing in the same field  
(or if there is no such price then prevailing in the same field, then in the nearest field in which  
there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including  
casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth of the  
proceeds realized by Lessee from the sale thereof, provided that Lessee shall have the continuing

right to sell such production to itself or an affiliate at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements entered into on the same or nearest preceding date as the date on which Lessee or its affiliate commences its purchases hereunder; and (c) in calculating royalties on production hereunder, Lessee may deduct Lessor's proportionate part of any ad valorem, production and excise taxes, and any costs incurred by Lessee in treating, processing, delivering and otherwise marketing such production. If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled or unitized therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled or unitized therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

**4. Depository Agent.** All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit at

, or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft, and such payments or tenders to Lessor or to the depository by deposit in the U.S. Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

**5. Operations.** If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled or unitized therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled or unitized therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at any point within 90 days immediately prior to the end of the primary term, or if at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no interruption of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled or unitized therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to reservoirs then capable of producing in paying quantities on the leased premises or land pooled or unitized therewith, or (b) protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

**6. Pooling.** Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or



zones and as to any or all substances covered by this lease, either before or after the commencement of drilling or production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The creation of a unit by such pooling shall be based on the following criteria (hereinafter called "pooling criteria"): a unit for an oil well (other than a horizontal completion) shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil or gas well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical completion component in the reservoir thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. In the event a unit is formed hereunder before the unit well is drilled and completed, so that the applicable pooling criteria are not yet known, the unit shall be based on the pooling criteria Lessee expects in good faith to apply upon completion of the well; provided that within a reasonable time after completion of the well, the unit shall be revised if necessary to conform to the pooling criteria that actually exist. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. To revise a unit hereunder, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

**7. Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

**8. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are



entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part, Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**9. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

**10. Ancillary Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises, or other lands in which Lessor now owns or hereafter acquires an interest, as may be reasonably necessary for such purposes, including but not limited to, geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport such production and other products from the leased premises or from other lands in which Lessor now owns or hereafter acquires an interest. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled or unitized therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises, or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

**11. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of this lease when drilling, production or other operations are so prevented or delayed.

**12. Breach or Default.** No litigation shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any breach or default by Lessee hereunder for a period of at least 90

days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

**13. No Warranty.** Lessor warrants the title to the leased premises against persons who lawfully claim title to the leased premises or any part thereof, by, through or under Lessor, but not otherwise, and Lessor assigns the Lessee the warranties of title that were made to Lessor and Lessor's predecessors. However, if this Lease covers a lesser interest in the oil or gas in any part of the Land than the entire and undivided fee simple estate, then the royalty, shut-in royalty, and other payments accruing to such part thereof shall be paid only in the proportion which the interest therein covered by this Lease bears to the whole and undivided fee simple estate therein.

**14. Unitization.** Lessee shall have the right but not the obligation to commit all or any part of the leased premises or interest therein to one or more unit plans or agreements for the cooperative development or operation of one or more oil and/or gas reservoirs or portions thereof, if in Lessee's judgment such plan or agreement will prevent waste and protect correlative rights, and if such plan or agreement is approved by the federal, state or local governmental authority having jurisdiction. When such a commitment is made, this lease shall be subject to the terms and conditions of the unit plan or agreement, including any formula prescribed therein for the allocation of production.

**15. Notices.** All notices, payments, documents, or other instruments required or permitted to be delivered hereunder shall be delivered in person, by U.S. Mail, by certified U.S. Mail, or by overnight delivery (Federal Express or equivalent) to Lessor or Lessee at the addresses set forth in the initial paragraph hereof, or at such other address as either party may designate in writing. Notice shall be effective only as of the date it is received.

**16. Binding Effect.** The terms and provisions of this Lease are binding upon Lessor and Lessee, their partners, directors, employees, agents, contractors, licensees, heirs, devisees, executors, successors, and assigns, and may be modified only by an instrument in writing, fully executed by the Lessor and Lessee. The Lease shall be governed by the laws of the State of New Mexico.

**17. Extended Term.** At the expiration of the primary term, as determined herein, the lease shall expire as to all lands not contained within the eight (8) sections contiguous to any section(s) with a spacing unit for a well producing in paying quantities or capable of producing in paying quantities as determined by the rules and regulations of the New Mexico Oil Conservation Division. As to the Extended Term Lands, the Lease shall terminate as to these lands three years from the expiration of the primary term except for the section where a well is drilled and one adjacent section as determined in writing by the Lessee thirty days prior to the end of the three-year period delivered by certified mail to the Lessor. In exercising these rights, the Lessee must have authority to account for one hundred percent of the working interest ownership in making the designation of the additional section. However, in the event Lessee is unable to account for one hundred percent of the working interest, the operator of a well, as determined by the New Mexico Oil Conservation Division, may make the designation on behalf of the Lessee.

**18. Section(s).** All references to the words "section" or "sections" shall be based on the projected or imputed survey of the Leased Premises described in Exhibit A attached hereto.

**IN WITNESS WHEREOF,** this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.