

R01B3032

05898 OIL AND GAS LEASE

THIS LEASE, made in duplicate this FIRST day of DECEMBER, 1982, by and between SOUTHERN PACIFIC LAND COMPANY, a California corporation, hereinafter called "Lessor", and SUN EXPLORATION AND PRODUCTION COMPANY. As to an undivided 75% interest, and READING & BATES PETROLEUM CO. as to an undivided 25% interest, hereinafter collectively called "Lessee".

WITNESSETH:

1. That Lessor, in consideration of the observance and faithful performance by Lessee of all the provisions contained herein, does hereby lease to Lessee for the term and purposes hereinafter set forth, all that certain property, sometimes hereinafter referred to as "leased premises", in the County of EUREKA, State of NEVADA, more particularly described on Exhibit "A" attached hereto and made a part hereof.

Subject to easements, leases and restrictions affecting said property.

For the purposes of this lease, Lessee shall have the right (subject to the provisions hereof and to the extent of Lessor's ownership thereof) to explore, drill for and to produce, extract, take and remove all oil and gas hereinafter referred to as 'substances', contained in said property, to store said substances upon said property, to locate, erect, construct, maintain, replace and operate upon and in said property such facilities and structures (except refineries or topping gas plants) as may be necessary in the production, treatment, storage or transportation of said substances from said property, and to appropriate and use such water as may be necessary for the above operations.

Reserving unto Lessor, its successors and assigns, the right to construct, maintain and use ditches, flumes, roads, trails, tracks and pipe, telegraph, telephone, signal, communication and power lines in, upon, over and across said property and the right to use said property for any and all other purposes consistent with the rights herein leased to Lessee.

2. The term of this lease shall be for twenty-five (25) years, from and after the FIRST day of DECEMBER, 1982, unless sooner terminated or forfeited, either in whole or in part, as hereinafter provided.

3. Lessee agrees to pay to Lessor a cash rental of \$ 5,082.00 in advance on the date of delivery of this lease for the first year of the term hereof, and annually thereafter, on or before the first day of each successive year of the term hereof a cash rental of \$ 2.00 an acre per annum in advance, provided that rental shall not accrue or be payable for:

(a) each "drilling unit" upon which there is a producing oil or gas well on the date when rental is payable,

- (b) each 640 acre subdivision within the boundaries of the leased premises on which drilling is in progress on the date when rental is payable, or
- (c) each 640 acre subdivision upon which there is a producing gas well on such date if no oil has been discovered in paying quantities on the leased premises or within offset distance, as provided in paragraph 16, and Lessee has determined, as provided in paragraph 15, that conditions are not such as to indicate a reasonable probability of the discovery of oil on the leased premises, or
- (d) each "drilling unit" on which there is a producing oil or gas well, for any period during which Lessee is prohibited by law, or by the orders, rules or regulations of a competent administrative authority, constituted by law and not by voluntary agreement, from producing said substances therefrom.

Unless otherwise designated in an official drilling and spacing order of a regulatory authority having jurisdiction of the state in which the leased premises are located, a "drilling unit" as used in this lease shall be:

- (1) a twenty acre subdivision, or less, if the average depth of the producing interval of wells drilled for oil shall not be more than four thousand (4,000) feet;
- (2) a forty acre subdivision, or less, if the average depth of the producing interval of wells drilled for oil shall be greater than four thousand (4,000) feet.

Subject to the terms and provisions of Sections 14 and 26 of this lease, a twenty (20) acre subdivision as used herein shall be either the North, South, East or West half of a legal Government forty (40) acre subdivision, a forty (40) acre subdivision as used herein shall be a legal Government forty (40) acre subdivision, and a one hundred sixty (160) acre subdivision as used herein shall be a legal Government one hundred sixty (160) acre subdivision, all according to the United States survey.

4. Except as herein otherwise provided specifically including Section 19 of this lease, the Lessee shall commence drilling an oil or gas well on the leased premises on or before five years from date hereof (referred to in Section 4 as "said date"), and shall continue the work of drilling such well with due diligence until completion. After completion of the first well, Lessee shall commence drilling another well on said leased premises within one hundred twenty (120) days and shall continuously operate at least one string of tools in drilling wells on the leased premises, allowing one hundred twenty (120) days between the completion of one well and the commencement of the next succeeding well until one oil or gas well producing from each productive zone has been completed to each drilling unit; provided, however, that if any well completed before said date shall prove to be a dry hole and there is then no producing well on the leased premises, Lessee may commence drilling the next well at any time before said date. Nothing herein shall limit the number of wells which Lessee may, at Lessee's option, drill in excess of the number herein specified, or the depth to which any well may be drilled if Lessee should elect to drill below the depth specified. If Lessee has not commenced drilling of an oil or gas well on the leased premises on or before five years from the date hereof, the rights, duties and obligations of Lessor and Lessee under this lease shall ipso facto terminate.

5. A well shall be deemed completed when (a) formations or mechanical difficulties are encountered which, in Lessee's judgement, would render further drilling of said well unprofitable or unsuccessful, and because of such fact active drilling operations therein are discontinued, or (b) it has been drilled to basement rocks, and active drilling operations thereon are discontinued, or (c) Lessee has ceased drilling operations thereon and it has been put on regular production and is producing oil or gas in quantities deemed by Lessee sufficient to pay to pump or otherwise secure and save.

6. Except as hereinafter provided, Lessee shall deliver to Lessor, as royalty, one-sixth (1/6th) of the net oil, petroleum and other hydrocarbon substances, produced and saved from said leased premises in each calendar month.

Said royalty shall be subject to deduction from the gross product; the quantity that may be consumed in the Lessee's operations hereunder, and after making deductions for temperature at 60° Fahrenheit, bottom settlings and moisture according to the American Petroleum Institute methods.

7. Lessee agrees to pay to Lessor as royalty one-sixth (1/6th) of the value of natural gas produced and sold from the leased premises, and one-sixth (1/6th) of the value of residual dry gas sold after the processing of the wet gas produced in wells on the leased premises, but nothing in this agreement shall require the Lessee to save or market natural gas or residual dry gas unless there shall be a surplus above fuel requirements, and a market at the well therefor. Such value shall be determined by deducting from the gross proceeds of sales of natural gas and residual dry gas the cost of compressing and delivering the same to the pipe line of the purchaser on the leased premises. Lessee shall not be required to pay royalty for any natural gas or residual dry gas used in Lessee's operations on the leased premises. Lessee shall not use any natural gas or residual dry gas off the leased premises unless and until the Lessor and the Lessee shall first agree upon the price to be paid to the Lessor for its one-sixth (1/6th) share of such gas.

8. (a) If the wet gas produced from said premises is processed for the purpose of manufacturing natural gasoline and/or other petroleum products then Lessee shall pay to Lessor one-sixth (1/6th) of the total value of all natural gasoline and/or other petroleum products recovered and saved from said gas, less the cost of producing and selling the same, which cost shall include the expense of operating and maintaining the plant and facilities used in the gathering and processing of said wet gas and the storage and shipping of said gasoline and/or other petroleum products. In no event, however, shall the total of said cost of producing and selling exceed fifty (50) percent of the total value of all natural gasoline and/or other petroleum products recovered and saved from said wet gas computed in the manner hereinafter set forth. In computing the value of said gasoline and/or other petroleum products the gasoline and/or other petroleum products shall, if sold by Lessee to third parties, be valued at the respective net ex-tax prices received by Lessee from the sale thereof at the plant or plants where produced. If said gasoline and/or other petroleum products are retained by Lessee for Lessee's own use, such products shall be valued at the respective ex-tax prices posted or established for natural gasoline of like Reid vapor pressure and/or for other petroleum products of the same quality produced in the same field during the same calendar month.

(b) If any wet gas produced from said premises is sold by Lessee for the purpose of manufacturing natural gasoline and/or other petroleum products on a basis whereby a royalty therein is reserved to Lessee, payable in money, then the Lessee shall pay to the Lessor one-sixth (1/6th) of the total amount of the royalty so reserved to Lessee, provided, however, that the amount of royalty to be paid to Lessor hereunder shall be not less than one-sixth (1/6th) of fifty (50) percent of the total value of such products so manufactured.

(c) In the event wet gas produced from said premises is sold for the purpose of manufacturing natural gasoline and/or other petroleum products on a basis whereby a quantity of the natural gasoline and/or other petroleum products recovered therefrom is reserved to the Lessee as royalty payable in kind, then Lessee shall pay to the Lessor one-sixth (1/6th) of the total value of said natural gasoline and/or other petroleum products so reserved to Lessee, provided, however, that the total amount to be paid to Lessor hereunder shall be not less than one-sixth (1/6th) of fifty (50) percent of the total value of such products so recovered.

(d) The value of the natural gasoline and/or other petroleum products manufactured and recovered under paragraphs (b) and (c) above shall be established in the same manner as outlined in paragraph (a) above.

9. Unless Lessor shall elect to receive its royalty oil in kind, the Lessee will purchase the royalty oil from the Lessor (a) at the highest posted available market price of the oil at the well, or in the field in which the wells are situated (effective at the time of removal from lease tanks) of all such oil so produced and saved by the Lessee from said wells and removed therefrom during the preceding calendar month, or (b) in the absence of a posted market price for such oil, the prevailing market price at the well or in

the field (effective at the time of removal from lease tanks) of such oil, or (c) in the absence of a prevailing market price the actual price received by Lessee for such oil as said wells, or (d) in the absence of sales by the Lessee at the wells the reasonable value of such oil; provided, however, that if the Lessee disposes of such oil at a price, including bonus, in excess of the posted or prevailing market price, the price to be paid for such royalty oil by the Lessee shall be the same price, including bonus, received by Lessee.

10. At Lessor's option, exercised not oftener than once in any one (1) calendar year, and upon sixty (60) days' previous written notice, the Lessee will deliver the kind, free of cost to Lessor, the said royalty oil. Should Lessor require that royalty oil be delivered in kind, Lessee, if requested by Lessor, will, without cost to Lessor, provide storage tanks on the leased premises sufficient to hold an accumulation of not to exceed thirty (30) days' production of royalty oil and will place said royalty oil in storage for the Lessor in said tanks as and when it is produced. Lessee shall be in no manner responsible or held liable for loss or destruction of such stored oil belonging to Lessor from causes over which Lessee has no control. Lessor agrees to remove the royalty oil so stored from said tanks as often as may be necessary to keep sufficient space available in said tanks for current accumulations of royalty oil. No royalty shall be due the Lessor for or on account of oil lost through evaporation, leakage or otherwise prior to the removal of same or delivery to Lessor, if royalty oil shall be delivered in kind. If Lessee purchases the royalty oil, the Lessee may deduct therefrom a proportionate part of the actual reasonable cost of treating unmerchantable oil produced from the leased premises to render the same merchantable only in the event, however, that such oil is treated by the Lessee on or in the immediate vicinity of the leased premises. If the Lessor shall elect to receive royalty oil in kind, such royalty oil shall be of the same quality as that removed from said leased premises for the Lessee's own account, and if Lessee's own oil shall be treated before removed, Lessor's oil will be treated therewith before delivery thereof to the Lessor, and Lessor in such event, shall pay a proportionate part of such reasonable cost of treatment.

11. All royalties payable and the price for all such substances which shall be sold to the Lessee hereunder, under the terms hereof, shall be paid by Lessee to Lessor on or before the twentieth day of the calendar month next succeeding that in which delivery of such substances shall have been made to the Lessee under such sale, and all royalty paid in kind shall be delivered to the Lessor from time to time as the same is obtained on said premises and stored and handled as herein provided.

12. The rental and royalties hereinbefore provided for shall be in lien upon any and all of said substances removed from or stored upon the leased premises, and upon any improvements and personal property of the Lessee upon said leased premises.

13. Subject to the terms and provisions of Section 43 of this lease, each producing well, as soon as completed by the Lessee, shall be placed upon production and shall thereafter be operated by Lessee diligently and continuously, and in accordance with sound oil field practice. Lessee, from time to time as necessary, shall clean out the wells and do any and all other work required to keep them in condition for production and the extraction of oil and gas therefrom to best advantage. Except as herein otherwise provided, the Lessee will keep each well drilled on the properties covered by this lease producing to capacity consistent with good operating practice.

14. This Lease shall be subject to all laws, statutes, rules and regulations heretofore or hereafter enacted or promulgated to control, suspend or conserve oil or gas and oil or gas operations, and, also to any general agreement which Lessee may in good faith enter into with other operators in the field in which the leased premises are situated, for a like purpose; and if compliance by the Lessee with such laws, statutes, rules or regulations or with any such agreement shall hinder, delay or interfere with the carrying out of any provisions of this lease, Lessee shall not be considered in default or be liable to Lessor for any damage or injury suffered or sustained on account thereof, nor shall Lessee's rights be subject to forfeiture by reason thereof, notwithstanding any provisions of this lease; provided, that such agreements affecting the leased premises shall not be for periods greater than one (1) year without the Lessor's written consent, and provided, further, that no such agreement shall authorize Lessee to discriminate against said leased premises in favor of any other properties owned, leased or operated by the Lessee in the same field, nor excuse such discrimination either in the drilling or producing obligations of the Lessee hereunder. Lessee will furnish Lessor with copies of any written agreement for the voluntary curtailment of said production, and if there are no such agreements, Lessee shall furnish Lessor with copies of orders of the Oil Umpire, or any other authority having the power to make orders for voluntary curtailment. The Lessee shall not be considered in default because of any acts done pursuant to or in reliance of any law or statute, rule or regulation, hereafter declared unconstitutional or void prior to a determination of such unconstitutionality or invalidity by a court of last resort.

15. If gas is discovered in any well in paying quantities and Lessee shall determine that conditions are not such as to indicate a reasonable probability of the discovery of oil on the leased premises, then the Lessee shall operate the leased premises for the production of gas. In such event, the drilling obligations shall be reduced so that the Lessee shall be required to drill not more than one well to each one hundred sixty (160) acres, or major fraction thereof. For the purpose of this lease, a gas well shall be any well producing gas only or producing at a gas-oil ratio in excess of ten thousand (10,000) cubic feet per barrel, and an oil well shall be any well producing at a gas-oil ratio of ten thousand (10,000) cubic feet per barrel or less; provided, however, that any well, the liquid production from which is a result of retrograde condensation, shall be considered a gas well regardless of the gas-oil ratio. If, at any later period, oil shall be discovered in paying quantities on the leased premises or in the event that oil is discovered in paying quantities in any well within offset distance, as provided in paragraph 16, of the boundary lines of the leased premises, then this lease shall revive as an oil lease, and all of the conditions herein stipulated as to drilling for oil shall become effective commencing with such discovery of oil. Provided, however, the foregoing terms and provision of this Section 15 shall be subject to (i) the applicable rules and regulations of the regulatory authority having jurisdiction of the state in which the leased premises are located, and (ii) Section 3, 14 and 26 of this lease.

16. Subject to the terms and provisions of Section 14 and 26 of this lease, in the event an oil well is drilled on adjoining property which is not unitized with Lessor lands and completed in a zone the average depth of which is less than four thousand (4,000) feet and within three hundred thirty (330) feet, or is completed in a zone the average depth of which is greater than four thousand (4,000) feet and within six hundred sixty (660) feet, or in the event that a gas well is completed on adjoining property which is not unitized with Lessor lands within thirteen hundred twenty (1,320) feet of the exterior limits of any property at the time embraced in this lease in each instance and oil or gas is produced therefrom in paying quantities for a period of thirty (30) days, and the drilling requirements under this lease are not fully complied with, and the owner of such well shall operate the same and market the oil or gas therefrom, then, unless there is a well then being drilled or on production on the leased premises within the applicable offset distance from the common boundary line, the Lessee agrees to offset such well by the commencement of drilling operations within sixty (60) days thereafter in the leased premises, and complete it at approximately the same distance from the common boundary line as said well on the adjoining property is completed, and proceed diligently and continuously to drill and complete said offset well to the zone from which such well on the adjoining property is producing; provided, however, that in the event Lessee is drilling an oil or gas well upon the leased premises at the time of discovery of oil or gas on the adjoining property, the time for commencing the drilling of an offset well shall be extended until ninety (90) days after the completion or abandonment of said well then being drilled by Lessee on the leased premises; provided, however, that in no event shall said time be extended beyond six (6) months after the completion of the well on the adjoining property. For the purpose of satisfying drilling obligations hereunder, offset wells shall be considered as other wells required to be drilled hereunder, provided, always that Lessee agrees to space oil or gas wells on the leased premises according to the same spacing of oil or gas wells on the adjoining property in order property and effectively to offset production from wells on such adjoining property and prevent drainage from the leased premises.

17. Drilling and producing operations hereunder may be suspended while the price offered generally to producers in the same field for oil of a gravity of 14° American Petroleum Institute Scale, or of any higher gravity, at 60° Fahrenheit shall fall below One Dollar (\$1.00) per barrel at the wells; provided, however, that drilling or production from offset wells shall not be suspended on the leased premises unless the offsetting wells on the adjoining premises also discontinue producing.

18. Any obligations, covenants or conditions imposed upon the Lessee shall be suspended only while Lessee's compliance is prevented by the elements, declared or undeclared war, fire, accidents, strikes, lockouts, riots, delays in transportation, inability to secure materials, labor, drilling equipment or transportation in the open market, or interference by Governmental action, or any other cause beyond the reasonable control of the Lessee, whether similar or dissimilar to the causes specifically mentioned. If such suspension occurs, the payment of any delay rental during such suspension shall be excused and the lease term shall be extended for a period of time equal to the period of such suspension and any such extension of the lease term. Lessee may resume the payment or tender of rentals in accordance with Paragraph 3 hereof after the period of suspension the proportionate part of the rental for the rental year remaining after such period of suspension. Lessee's obligation to pay royalty on oil and gas production produced, saved and marketed shall never be suspended under this paragraph. Whenever Lessee would otherwise be required to surrender any of the leased premises as an alternative to the performance of any obligation under this lease and such obligation is so suspended, then so long as such performance is suspended under this paragraph or other provision of this lease, Lessee shall not be required to surrender any portion of the leased premises.

If the permission or approval of any governmental agency is necessary before drilling or other operations can be lawfully commenced on the leased premises, then if such permission or approval has been applied for at least thirty (30) days prior to the date upon which such operations must be commenced under the terms hereof, the obligation to commence such operations shall be suspended until thirty (30) days after the governmental permit is granted or approval given. If such permit or approval is denied initially or at any time during the approval or permitting process or is revoked after issuance, then so long as Lessee in good faith appeals from such denial or revocation or conducts further proceedings in an attempt to secure such permit or approval, the obligation to commence such operations shall be suspended until thirty (30) days after such governmental permit is granted or approval given.

19. The Lessee may, at Lessee's option, at any time surrender and quitclaim this lease as to all of the leased premises or as to any one or more twenty (20) acre subdivisions thereof as herein defined, and shall be released from all obligations thereafter arising with respect to the premises surrendered and quitclaimed, and in the case of a partial surrender and quitclaim all of the rental and drilling obligations shall be reduced pro rata. At any time after the completion of the first well, or any subsequent well on the leased premises, Lessee may cease further drilling and if the full number of wells shall not have been drilled Lessee shall thereupon surrender, and this lease shall thereupon terminate as to all of the leased premises, except drilling units occupied by producing oil or gas wells, each of which drilling units the Lessee may hold subject to the terms of this lease until abandoned or until the end of the term thereof, and the extended term, if renewed as hereinafter provided. Each of said drilling units shall, in each instance, conform to subdivisions as defined in paragraph 3 hereof. Lessee shall have the right to do such things as may be necessary to keep such drilling units in the highest productive state, including the right to ream, clean out, deepen, re-work, re-drill, and to drill new wells thereon to other zones in order to maintain or increase production, or to restore production if it shall cease from any cause.

20. Upon the violation by Lessee of any of the terms, covenants or conditions of this lease, and failure to remedy the default within thirty (30) days after receipt of written notice from Lessor so to do, then at the option of the Lessor this lease shall forthwith cease and terminate, and all rights of the Lessee in and to said property shall be at an end as to all said properties, except that the Lessee shall have the right to retain and hold under this lease the area surrounding each well producing or being drilled, with respect to which it is not in default to the same extent and with the same rights as provided in paragraph 19 hereof in the event of a surrender by the Lessee. The waiver by Lessor of any breach of any covenant or condition hereof shall not be a waiver of any other or subsequent breach hereof, nor of any other covenant or condition hereof.

21. Upon surrender by the Lessee of said leased premises in whole or in part or upon the termination of the Lessee's rights and interests in and to the leased premises, or any part thereof, in any manner herein provided, the Lessee will quietly and peaceably surrender possession thereof to the Lessor and agrees to release to the Lessor, its successors or assigns, all right, title and interest of the Lessee in the leased premises, or the portion thereof in which the Lessee's rights have terminated as herein provided. In the event of a partial release of the property so released shall be subject to the easements and rights of way herein provided for and appurtenant to any part of the leased premises retained by the Lessee, and the Lessee shall furnish to the Lessor a map showing the location of such easements and rights of way. If there are any rights, interests, claims, liens or encumbrances conveyed, created, done, made or suffered by the Lessee, or anyone claiming under Lessee at the time of the release, Lessee shall take such actions, steps and proceedings as may be necessary to terminate and extinguish any such rights, interest, liens and encumbrances, failing in which, Lessor may do so at the sole expense of the Lessee, which expense, plus reasonable attorney's fees, Lessee agrees to pay to Lessor on demand. Upon request by Lessor, Lessee shall advise Lessor in writing that to the best of Lessee's information, knowledge and belief no such rights, interests, claims, liens or encumbrances affect the lease premises released by Lessee.

22. Derricks, buildings and other structures, improvements, equipment, machinery and appliances placed by the Lessee on or in the demised premises shall be and remain the personal property of the Lessee, and provided no default shall at such time exist in respect of any payments or rentals or in respect of any covenants, agreements or conditions to be kept or performed by the Lessee, the Lessee shall have the right during the term hereof, or at any time within sixty (60) days after the date of termination of this lease to remove from the leased premises all such personal property, except casing in water wells purchased by Lessor; provided, further, that the Lessee may extend the time within which such personal property may be removed for a period not exceeding six (6) months from such date of termination by paying to the Lessor monthly in advance a rental of Ten Dollars (\$10.00) an acre a month for each twenty (20) acre subdivision upon which any such personal property remains. Any such personal property not removed from said premises within said six (6) months' period shall become the property of Lessor.

23. The Lessee agrees to keep full records of the operations upon and production and sales of said substances from said leased premises independently of and separate from any other premises operated by the Lessee; to notify Lessor promptly of discovery of any of said substances in the leased premises and to furnish to the Lessor on or before the twentieth day of each month a true statement, in triplicate, of all production, deliveries and deductions in a form satisfactory to the Lessor. All records of the operations and productions and sales of said substances from said leased premises shall, at all reasonable times, be open to the inspection of Lessor's agents and representatives.

24. Lessee will keep an accurate log and casing record showing the progress of drilling, character of formations encountered or drilled through, and casing in each well in which drilling shall have been done on the leased premises, and furnish Lessor a copy thereof upon the completion of or the abandonment of each well, and a true copy of all surface and subsurface surveys made of each well drilled under this lease. Lessee will furnish all reasonable facilities for making such observations, measurements and records as the Lessor may desire and Lessor's duly appointed agents and representatives shall have free and full access at their sole cost, risk and expense to all of the wells and works and to all property in and upon said leased premises.

25. Lessee agrees to conduct Lessee's operations so as to interfere as little as is consistent with the economical and ordinary use of the premises for the purposes herein reserved by the Lessor; to lay and maintain all pipe lines not less than thirty-six inches (36") below the surface of the ground; to fence all sump holes and excavations to safeguard livestock grazing on said land; to provide substantial gates at points where fences are cut by the Lessee; and to use reasonable care and diligence to prevent the overflow of oil or water which may be detrimental to vegetation on those portions of the leased premises which are suitable for grazing, agricultural or horticultural purposes.

26. Lessee shall carry on Lessee's operations hereunder in a careful and workmanlike manner. Lessee shall comply with any and all applicable valid statutes, ordinances and governmental orders and regulations pertaining to the exercise of rights leased hereunder and shall furnish such evidence of Lessee's compliance therewith as may be required by Lessor. Lessee shall furnish evidence satisfactory to Lessor that abandoned wells have been properly abandoned in compliance with applicable statutes, ordinances and governmental orders and regulations.

27. Upon termination of this lease in any manner, or if any well is abandoned the Lessee agrees to relavel the surface of the property involved, and to fill all abandoned sump holes and excavations made by Lessee; to remove all derricks, tanks and tank supports, and if there are any pipe lines running from any abandoned well, or any other place on the property, the same shall be removed if the Lessor desires, and ditches opened up by removal of the pipe line and the ground made to conform to the natural contour. Lessee will also remove all cement blocks or foundations which may have been placed on the leased premises, and any and all other supports placed by Lessee or permitted by Lessee to be placed on said leased premises and which, in any manner, interfere with the use thereof.

28. Lessee agrees to release and to indemnify and save harmless Lessor, the surface owner of said property, the heirs, personal representatives, successors and assigns of the surface owner, and any corporation affiliated with, owned or controlled by Southern Pacific Company, a corporation, from and against any and all claims, causes of action, liability, costs and expenses arising out of injuries to, or deaths of, all persons whomsoever, and loss of, or damage to, all property whatsoever, directly or indirectly resulting from or caused by the occupancy of, or operations of Lessee on, the leased premises or property adjacent thereto, or the existence of oil wells, gas wells, derricks, pipe lines or tanks or appurtenances thereof, used by the Lessee on said leased premises or property adjacent thereto, including, without limiting the generality of the foregoing, the breakage of pipe lines, tanks or other equipment or the escape or loss of oil, petroleum products, gas, water or fire therefrom.

29. Lessee agrees to pay before delinquency all taxes and assessments which have been or shall be levied and assessed on the mineral rights in the leased premises, and on the buildings, structures, equipment and other personal property or improvements placed, maintained or used by Lessee on the leased premises, and on the mineral substances stored thereon and not belonging to Lessor. Lessee may deduct up to one-sixth (1/6th) of the taxes and assessments on mineral rights in the leased premises in each fiscal year, paid by Lessee, from the royalties due and payable to Lessor for production during each successive twelve months' period subsequent to the day and month in such fiscal year on which the first installment of such taxes and assessments become delinquent. The above amount of the taxes and assessments for a particular fiscal year so paid shall be deductible only from the royalties due and payable during the twelve months' period which immediately succeeds the date of delinquency of the first installment in such fiscal year. Lessee agrees to pay to Lessor annually, within fifteen days after demand, an amount equal to five-sixths of the real property taxes and assessments paid by Southern Pacific Land Company on the land overlying or occupied by the leased premises (except on buildings, structures and other improvements thereon not owned, maintained or used by Lessee) for the fiscal year beginning July 1, 1982, prorated from DECEMBER 1, 1982 to June 30, 1983 and for each fiscal year thereafter during the term of this lease. Lessee shall pay any production or severance tax computed or based upon production of oil, gas or other mineral substances which may be imposed by the Federal Government, the State of California, or any of its political subdivisions, and Lessor shall reimburse Lessee for the same proportion of said taxes as Lessor's shares of the taxes on the mineral rights.

30. Either party may pay the entire amount of any delinquent taxes or assessments which shall constitute a lien on said leased premises and which should have been paid before delinquency by the other party as herein provided, and penalties and interest thereon, and shall be entitled to reimbursement from the other party of the part of the taxes and assessments herein agreed to be paid by such other party, and of the entire amount of the penalties and interest. Penalties and interest on delinquent taxes and interest on payments made pursuant to this paragraph shall not be apportioned with the principal amount of taxes and assessments in making such annual adjustments, but shall be borne entirely by the party obligated to pay the tax or assessment before delinquency.

31. Lessee shall not commence drilling into or through the leased premises or construct, alter or repair structures or improvements of any character, except emergency repairs, upon said property until after written notice thereof is given to Lessor. Lessor may post and maintain upon the leased premises notices of non-responsibility as provided by law. Lessee agrees to pay in full all persons who perform labor or services on, furnish materials joined or affixed to, or provide equipment for, said property, or the construction, re-construction, repair or placement of any structure improvement on said property, at Lessee's instance or request. Lessee shall not permit or suffer liens of any kind or nature to be enforced against said property for such labor, services, materials or equipment. Lessor shall have the right to pay any amount required to release any such lien or liens, or to defend any action brought thereon, and to pay any judgment entered therein and the Lessee shall be liable to the Lessor for all costs, damages and reasonable attorney's fees, and any amounts expended in defending any proceedings, or in the payment of any of said liens or any judgement obtained therefor.

32. Lessee agrees to pay to Lessor interest at the rate of 10% per annum upon any and all amounts whatsoever due under this lease to Lessor from the date payment of each such amount is due and owing to Lessor or from the date of each breach by Lessee of an obligation hereunder, as the case may be, to the date of receipt by Lessor of each payment of said amounts, unless such payment is tendered or paid to Lessor within 30 days after the date a payment is due and owing hereunder to Lessor or the date of such breach, as the case may be.

33. If Lessor shall bring suit to compel performance of, or to recover for breach of any covenant or condition herein contained, or for declaratory relief, and prevails therein, Lessee agrees to pay to Lessor reasonable attorney fees in addition to the amount of judgment and costs.

34. All payments to the Lessor shall be made to it at One Market Plaza, San Francisco, California 94105, but Lessor may at any time by notice to Lessee change the place of payment.

35. Any demand, notice or statement herein requested or required to be given by one party to the other shall be in writing. Delivery of such written notice or statement to Lessor shall be conclusively taken as sufficient if and when deposited in the United States Mail, with postage thereon fully prepaid, certified or registered, addressed to Lessor at One Market Plaza, San Francisco, California 94105, and delivery of such notice or statement to the Lessee shall be conclusively taken as sufficient if and when deposited in the United States Mail, with postage thereon fully prepaid, certified or registered, addressed to Lessee at 1000 Trinity Building, 1801 Broadway, Denver, Colorado 80202. Any party hereto may, by written notice, change his or its address to which such demands, notices or statements may be sent.

36. This instrument is a lease and is not and shall not ever be held or interpreted to be a mining partnership or partnership of any kind, or in any sense whatsoever; the intention of the parties hereto being to establish and create hereby between themselves only the relationship of Lessor and Lessee in accordance with the terms, provisions, conditions, covenants, reservations and agreements herein set forth.

37. It is agreed that in case Lessee shall, except by Lessor, be lawfully deprived of the possession of said premises, or any part thereof, Lessee shall notify Lessor in writing setting forth in full the circumstances in relation thereto, whereupon the Lessor may, at its option, either reinstall Lessee in possession of the leased premises or terminate this lease as to the premises or the part thereof, the possession of which Lessee is so deprived, by giving notice in writing to the Lessee to that effect and at the same time paying, or tendering with such notice, to the Lessee the sum of One Hundred Dollars (\$100.00), plus the pro rata amount of any rental, theretofore paid in advance by the Lessee under the provisions of paragraph 3 hereof and applicable to said premises, or such portion, for the unexpired rental period, whereupon no claims for damages of whatsoever kind or character incurred by Lessee by reason of such dispossession shall be chargeable against Lessor.

38. If Lessee is adjudicated a bankrupt, or shall make an assignment for the benefit of creditors, or file a voluntary petition

under any law (having for its purpose the adjudication of Lessee a bankrupt, or the extension of time of payment, composition, adjustment, modification, settlement or satisfaction of the liabilities of Lessee), or a receiver be appointed for the property of Lessee by reason of the insolvency of Lessee, notwithstanding anything to the contrary elsewhere in the lease, Lessor shall have the immediate right to terminate this lease and to take exclusive possession of the leased premises. The acceptance of rent or other payments for the use of the leased premises shall not constitute a waiver of Lessor's right to terminate this lease as above set forth. If there are two or more Lessees hereunder, or if Lessee is a partnership, then the right of Lessor to terminate the entire lease shall be exercisable in case any one of the Lessees or partners is adjudged a bankrupt or becomes subject to or participates in any other proceedings or procedure herein mentioned.

39. If, at the expiration of the term of this lease, any wells are being drilled by Lessee on the leased premises, or any existing wells are producing or capable of producing oil or gas in paying quantities, but are not being produced for reasons authorized under this lease, Lessee shall have the option of renewing this lease as long thereafter as such substances are produced or capable of being produced to include drilling units as defined in paragraph 3 hereof, occupied by wells producing in paying quantities or wells in process of being drilled on the same acreage specified in paragraph 3 hereof, together with the same rights provided for in paragraph 19, on and subject to the same royalties, terms, covenants and conditions as are herein specified; provided, written notice from Lessee of such renewal shall be received by Lessor not more than six (6) months nor less than thirty (30) days prior to the expiration of the original term hereof.

40. This lease shall inure to the benefit of and be binding upon the respective heirs, administrators, executors, successors or assigns of the parties hereto, but no assignment of this lease, or any sub-lease or agreement affecting this lease, or the leased premises, or any interest therein, shall be valid, unless made with the consent of Lessor in writing, and no change in ownership in the land or in the rentals or royalties shall be binding on Lessee until Lessee shall have received written notice of such transfer or assignment. All covenants, agreements and stipulations herein contained shall run with the property.

41. If there be more than one Lessee named herein the term "Lessee" shall designate the plural number, and the obligations of the Lessee hereunder shall be joint and several.

42. Time is of the essence of this lease.

43. Where there is a gas well or wells on the leased premises or acreage unitized therewith at any time during which this lease is in effect, and such well or wells are shut-in, Lessee shall pay as royalty to Lessor the sum of \$1,280. per well per year. Said payment is due on or before ninety (90) days from the date of shut-in or the date on which the leased premises or a portion thereof are unitized with lands on which there is a shut-in gas well, and thereafter on or before the anniversary date of such payment during the period such well or wells are shut-in. Upon said payment it shall be considered that such well or wells are producing gas in commercial quantities for all purposes hereunder.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed as of the day and year first hereinabove written.

SUN EXPLORATION AND PRODUCTION COMPANY READING & BATES PETROLEUM CO.
By: A. A. Berger By: Charles R. Mangum By: R. C. Little
GENERAL MANAGER Agent and Attorney-in-Fact
Attest: R. A. BERGER OIL & GAS CHARLES R. MANGUM Its: R. C. Little, Vice President-Lands

SEAL Affixed
Stephen R. Medicus, Asst. Secy.

STATE OF OKLAHOMA
COUNTY OF TULSA

The foregoing instrument was acknowledged before me on this 18th day of February, 1983, by R. C. Little as VICE PRESIDENT, LANDS of READING & BATES PETROLEUM CO.

WITNESS my hand and official seal.

My Commission Expires: March 7, 1985

SEAL Affixed

Lynne E. Plumlee
Lynne E. Plumlee - Notary Public
1100 Mid-Continent Bldg., 409 S. Boston Ave.
Tulsa, Oklahoma 74103

STATE OF Colorado
COUNTY OF Denver

The foregoing instrument was acknowledged before me on this 17th day of January, 1983, by CHARLES R. MANGUM, as AGENT AND ATTORNEY-IN-FACT of SUN EXPLORATION AND PRODUCTION COMPANY.

WITNESS my hand and official seal.

My commission expires: March 3, 1985

SEAL Affixed

W. H. Black
Notary Public
1801 Broadway, Suite 1000
Denver, Colorado 80202
BOOK 110 PAGE 253

EXHIBIT "A"

Attached to and made a part of that certain agreement
 No. 05898 dated December 1, 1982 between
 SOUTHERN PACIFIC LAND COMPANY and SUN EXPLORATION AND PRODUCTION
 COMPANY and READING & BATES PETROLEUM CO.

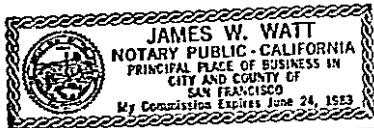
Subdivision	MDM			Acres
	Sec.	Twp.	Rqe.	
* All	7	29N	50E	621.42
* All	9	29N	50E	640.00
* All	11	29N	50E	640.00
* All	15	29N	50E	640.00
TOTAL				2,541.00

STATE OF CALIFORNIA }
 City and County of San Francisco } s.s.

On this 20th day of December in the year One Thousand Nine Hundred and Eighty Two
 before me, JAMES W. WATT, a Notary Public in and for the City and County of San Francisco, State of California, personally appeared
 (One Market Plaza)

R. A. Berger
Vice President and General Manager

personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who
 executed the within instrument as president (or secretary) or on behalf of the Corporation therein
 named and acknowledged to me that the Corporation executed it.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my
 office in the City and County of San Francisco, the day and year in this certificate first above
 written.

Corporation
 My Commission Expires June 24, 1983

James W. Watt
 Notary Public in and for the City and County of San Francisco, State of California.

RECORDED AT REQUEST OF
 Sun Exploration and Production Co.
 BOOK 110 PAGE 242
 83 APR 15 11:15
 OFFICIAL RECORDS
 EUREKA COUNTY, CALIFORNIA
 H.H. REBALANI, RECORDER
 FILE NO. 87405
 FEE \$ 16.00

BOOK 110 PAGE 254