

164738
OIL AND GAS LEASE

THIS AGREEMENT, made and entered into September 27th, 1996

, between

Wallace Hale Bailey and Donna Ray Bailey, husband and wife, Pine Valley,
Carlin, Nevada, 89822

hereinafter called Lessor (whether one or more), and
Lakewood, Colorado 80228

Foreland Corporation, 12596 West Bayaud, Ste. 300,

Lakewood, Colorado 80228

hereinafter called Lessee (whether one or more), WITNESSETH:
1. Lessor, in consideration of the sum of TEN OR MORE DOLLARS, in hand paid, receipt of which is hereby acknowledged, of the royalties provided herein, and of the agreements of Lessee herein contained, hereby grants, demises, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas and other hydrocarbons and including all other products produced therefrom; laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in

Township 30 North, Range 52 East, MDB&M

Eureka County, Nevada

Section 32: All of SE $\frac{1}{4}$; NE $\frac{1}{4}$ NW $\frac{1}{4}$; NW $\frac{1}{4}$ NE $\frac{1}{4}$; S $\frac{1}{2}$ NE $\frac{1}{4}$

Township 29 North, Range 52 East, MDB&M

Section 4: W $\frac{1}{2}$ NW $\frac{1}{4}$

Section 5: Fractional E $\frac{1}{2}$ NE $\frac{1}{4}$

Including all minerals hereinabove named, underlying lakes, streams, roads, easements and rights-of-way, which traverse or adjoin said lands, owned or claimed by Lessor, or which may hereafter be established to be owned by Lessor, and also in addition to the above described land and rights, any and all strips or parcels of land, other than those constituting regular governmental subdivisions, adjoining or contiguous to the above described land and owned or claimed by Lessor, all of the foregoing land being hereinafter referred to as said land or leased premises. For all purposes of this Lease, said land is estimated to contain 479.58 acres, whether it contains more or less.

2. Subject to the other provisions herein contained, this Lease shall be for a term of ~~ten~~ ^{Three} years from this date (called primary term) and as long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them, is produced therefrom; or as much longer thereafter as Lessee in good faith shall conduct drilling operations or reworking operations thereon, and should production result from such operations, this Lease shall remain in full force and effect as long as oil, gas, casinghead gas or other hydrocarbons shall be produced therefrom.

3. The royalties to be paid to Lessor are: (a.) Lessee shall deliver to the credit of Lessor as royalty, free of cost, in the pipeline to which Lessee may connect its wells, the equal one-eighth part of all oil produced and saved from the leased premises, or Lessee may from time to time, at its option, purchase any royalty oil in its possession, paying the market price thereof prevailing for oil of like grade and gravity in the field where produced on the date of purchase. (b.) Lessee shall pay Lessor, as royalty, on gas, including casinghead gas or other gaseous substances, produced from the leased premises and sold or used off the leased premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth of the gas sold or used, provided that on gas sold the royalty shall be one-eighth of the amount realized from such sale. The amount realized from the sale of gas shall be the price established by the gas sales contract entered into in good faith by Lessee and a gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. If Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee, in computing royalty hereunder, may deduct from such price a reasonable charge for each of such functions performed. If a well capable of producing gas or gas and gas-condensate or distillate in paying quantities located on the leased premises (or on acreage pooled with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut-in and no gas or gas-condensate or distillate therefrom is sold or used off the premises for the manufacture of gasoline or other products, nevertheless such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this Lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessee shall use reasonable diligence to market gas or gas-condensate or distillate capable of being produced from such shut-in well, but shall be under no obligation to market such products under terms, conditions or circumstances which, in Lessee's judgement, exercised in good faith, are unsatisfactory. Lessee shall be obligated to pay or tender to Lessor within 45 days after the expiration of each period of one year in length (annual period) during which such well is so shut-in, as royalty, an amount equal to one dollar per net royalty acre retained hereunder as of the end of such annual period; provided, that if, gas or gas-condensate or distillate from such well is sold or used as aforesaid before the end of such annual period, or if, at the end of such annual period, this Lease is being maintained in force and effect otherwise than by reason of such shut-in well, Lessee shall not be obligated to pay or tender, for that particular annual period, said sum of money. Such payment shall be deemed a royalty under all provisions of this Lease. Such payment may be made or tendered to Lessor at the address above specified. Royalty ownership as of the last day of each such annual period as shown by Lessee's records shall govern the determination of the party or parties entitled to receive such payment.

4. This is a PAID-UP LEASE. In consideration of the down payment, 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 execute and deliver to Lessor, or place of record, a release or releases covering any portion or portions of the leased premises and thereby surrender this Lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

5. If prior to discovery of oil or gas on said premises Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas all wells thereon should become incapable of producing for any cause, this Lease shall not terminate if Lessee commences operations for additional drilling or for reworking within sixty days thereafter. If at the expiration of the primary term there is no well upon the leased premises capable of producing oil, gas, casinghead gas or other hydrocarbons, but Lessee has commenced operations for drilling or reworking thereon, this Lease shall remain in force so long as operations are prosecuted with no cessation of more than sixty days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil, gas, casinghead gas or other hydrocarbons, so long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them is produced from the leased premises.

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

7. Lessee shall have the free use of oil, gas, casinghead gas and water (regardless of the source) from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas and casinghead gas shall be computed after deducting any so used. When requested by Lessor, Lessee shall bury Lessee's pipelines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of Lessor. Lessee shall pay for damages caused by its operations to growing crops on said land. Lessee shall have the right at any time (but not the obligation) to remove all improvements, machinery, and fixtures placed or erected by Lessee on said premises, including the right to pull and remove casings.

8. The rights of either party hereunder may be assigned in whole or part, and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto. Notwithstanding any actual or constructive knowledge of or notice to Lessee, no change or division in the ownership of the lands or royalties, however accomplished, shall be binding upon Lessee (except at Lessee's option in any particular case), until sixty days after Lessee shall have been furnished with the original, a copy certified by the official recorder of the county where the land or some part thereof is located, or a photostatic of the recorded instruments evidencing the change or transfer, including any intermediate transfer from Lessor or his assigns not theretofore furnished to Lessee, and such change or transfer shall not affect any payments made prior to said date whether or not due. In case of death of any person entitled to receive royalties the evidence of change in ownership shall consist of letters of administration or final decree of distribution of the estate of the decedent issued by a court of competent jurisdiction of the decedent's estate including his interest in the lands above described. Lessee may until such date continue to pay such royalties as if such change or transfer had not been made, or may pay the same according to the interest of record as disclosed by the last certification of an abstract in Lessee's possession subsequent to the date of the Lease, or at Lessee's option, may suspend the payment thereof until sixty days after such evidence is received. No change or division in the ownership of the land or royalties shall operate to enlarge the obligations or diminish the rights of Lessee. No division of royalties shall be made effective except at the end of a calendar month. If the ownership of royalties becomes changed into separate divided portions of said land and the owner of any such royalty desires separate gauges for production from such separate tracts, he shall request Lessee to set separate measuring and receiving tanks and pay to Lessee, in advance, Lessee's estimated cost of procuring and setting such tanks and making the connections therefor; and unless and until such is done, Lessee may pay such royalties to the separate owners jointly or may suspend payment until such time as said separate owners shall agree in writing upon an apportionment of such royalties and furnish Lessee with the original agreement. Whether or not this Lease be owned by one party or by two or more different parties, production under the terms of this Lease, or drilling or reworking operations on any portion of the land above described, shall keep this Lease in effect upon all the land herein leased. Lessee shall not be liable for the failure of any subsequent owner of this Lease, in whole or part, to perform the terms, conditions and obligations of this Lease, express or implied. Offsetting shall never be required to protect one portion of the leased premises against drainage through a well or wells on another portion of the leased premises. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating a trustee to receive payment for all.

9. Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands 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 developments 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. If said 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.

10. In addition to and not in limitation of the rights granted in paragraph 9 hereof, Lessee is hereby granted the right and option to consolidate, pool or combine the lands covered by this Lease, or any portion or portions thereof or any stratum or strata thereunder, with other lands of like strata thereunder for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons, or any or all of said products, when in Lessee's discretion and judgement it is advisable to do so for proper development or operation of the leased premises, or to conform to spacing or zoning rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as Lessee may elect provided that any such unit when completed shall be composed of tracts each of which is contiguous to, touches or corners with some one or more of the other tracts in the unit in such manner as to form one connected tract or unit, and provided, further, that any tracts included in any such unit separated only by a street, alley, road, railroad, canal, stream, right-of-way or other similar strip or parcel of land shall be considered as contiguous, cornering or touching within the meaning of this paragraph. Any unit formed under this paragraph for production of oil and casinghead gas shall not exceed 160 acres in surface area, and for production of dry gas or gas well gas or dry gas well gas and condensate or distillate shall not exceed 680 acres in surface area. If some larger unit for the production of oil and casinghead gas or dry gas or gas well gas or dry gas well gas and condensate or distillate is permitted or prescribed by lawful authority, then in such event such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this Lease, the size of any units mentioned herein may be increased to the size of the there existing governmental survey unit nearest in size to the unit acreage prescribed herein. The right and option herein granted to Lessee may be exercised at any time or from time to time, whether before or after production is secured and whether or not a unit may theretofore have been created for some other product, by executing in writing an instrument identifying and describing the unit created, and by delivering a copy thereof to Lessor or by recording a copy thereof in the county where the land is located. The lands in any such unit shall be developed or operated as one tract and any operations for the drilling of a well on or production from such unit, whether or not from lands described in this Lease, shall be deemed to be drilling operations on or production secured on lands subject to this Lease for all purposes except for the purpose of payment of royalty hereunder; provided, further, that any operations for drilling and completing a well on any such unit shall be deemed to be operations on the lands described in this Lease and under the terms thereof regardless of whether said operations result in a well of the type covered in the instrument declaring such unit or a well of a type not covered by such instrument. In lieu of the royalties elsewhere herein specified, Lessor shall receive from production of any such unit only such portion of the royalty, at the rate stipulated elsewhere herein, as Lessor's acreage in the unit (or his royalty interest therein) bears to the total acreage of the unit.

11. In the interest of conservation, the protection of reservoir pressures and recovery of the greatest ultimate yield of oil and/or gas, Lessee shall have the right to combine the leased premises with other premises in the same general area for the purpose of operating and maintaining repressuring and recycling facilities, and for such purpose may locate such facilities, including input wells, upon the leased premises, and no royalties shall be payable hereunder on any gas used for repressuring and recycling operations benefitting the leased premises.

12. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that Lessee, at its option, may pay and discharge any taxes, mortgage, or other liens existing, levied, or assessed on or against the above described lands, and if Lessee does so, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty accruing hereunder.

13. If Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this contract. Lessee shall then have sixty 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 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.

14. If Lessor, during the primary term of this Lease, receives a bona fide offer which Lessor is willing to accept from any party offering 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 the lease becoming effective upon expiration of this Lease, Lessor 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 15 days after 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 according 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 or telegram prior to expiration of said 15 day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution on behalf of 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 only to approval of title according to the terms thereof. Upon receipt thereof, Lessor shall promptly execute said lease and return same along with the endorsed draft to Lessee, a representative or through Lessor's bank for payment.

15. All express and implied covenants of this Lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this Lease shall not be terminated, in whole and in part, nor Lessee held liable in damage 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, or if such compliance is prevented by or failure is the result of inability of Lessee through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

16. This Lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of Lessor and Lessee.

17. With respect to and for the purpose of this Lease, Lessor, and each of them if there be more than one, hereby releases and waives the right of homestead.

18. This Lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor.

IN WITNESS WHEREOF, this agreement is executed on the date first above written.

Donna Ray Bailey

Wallace Hale Bailey

NEVADA INDIVIDUAL ACKNOWLEDGEMENT

STATE OF Nevada ss.

COUNTY OF Elko

On this 27th day of September, in the year 1996, before me Dallas Cunningham Notary Public, personally appeared Donna Ray Bailey & Wallace Hale Bailey, known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

My Commission expires: 5-17-1997

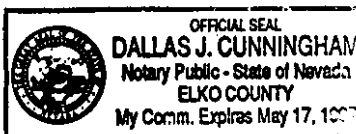
NEVADA CORPORATE ACKNOWLEDGMENT

STATE OF _____ ss.

COUNTY OF _____

On this _____ day of _____, in the year _____, before me _____, known to me to be the _____ President of the corporation that executed the within instrument and acknowledged to me that such corporation executed the same.

My Commission expires: _____



Notary Public

Place of Residence

BOOK 301 PAGE 322
OFFICIAL RECORDS
RECORDED AT THE REQUEST OF
Shirland Corp.
96 OCT 21 PM 2:02

EUREKA COUNTY NEVADA
M.N. REBALEATI, RECORDER
FILE NO. _____ FEES \$8.00