

172538

OIL AND GAS SUBLEASE

by and between

PIONEER RESOURCES PRODUCING L.P.

and

FORELAND CORPORATION

Dated

April 26, 1999

Covering an aggregate area of 2,719.40 acres

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OIL AND GAS SUBLEASE (hereinafter called "Pioneer Lease"), made and entered into this 26th day of April, 1999, between PIONEER RESOURCES PRODUCING L.P., a Delaware corporation (hereinafter called "Sublessor"), whose address is 5205 N. O'Connor Blvd., Suite 1400, Irving, TX 75039-3476, and FORELAND CORPORATION, (hereinafter called "Sublessee"), whose address is 143 Union Blvd., Suite 210, Lakewood, CO 80228.

WITNESSETH:

RECITALS:

Catellus Development Corporation ("CDC") and Atchison, Topeka & Santa Fe Railway Company (AT&SF), as Lessor, granted to Santa Fe Energy Operating Partners L.P., ("SFEOP"), as Lessee, that certain Oil and Gas Lease "Railroad Lease" dated July 1, 1991, recorded at Volume 238, Page 370 of the Official records of Eureka County, State of Nevada. On February 4, 1992, AT&SF acquired all of CDC's right, title and interest in and to the portion of the Leases Premises owned by CDC. Said Railroad Lease was amended, effective 7/1/1991, by that certain Amendment of Oil and Gas Lease, dated May 9, 1994, by and between The Atchison, Topeka and Santa Fe Railway Company (now Burlington Northern and Santa Fe Railway Company ("BN&SF") and Santa Fe Energy Operating Partners L.P., and recorded at Volume 269, Page 413 of the Official Records of Eureka County, state of Nevada

Santa Fe Energy Resources Inc. (successor in interest of Santa Fe Operating Partners L.P.), as lessor, subsequently conveyed to Pioneer Resources Producing L.P. (Sublessee), that certain Oil and Gas Lease, dated July 1, 1991, and recorded at Volume 268, Page 411, of the Official Records of Eureka County, state of Nevada.

Sublessee named in this Pioneer Sublease desires to obtain from Sublessor named in this Pioneer Sublease, and Sublessor desires to grant, subject to the terms, covenants and agreements herein contained or contained in the Railroad Lease, an Oil and Gas Sublease covering land which constitutes some portion or all of the land described in and covered by the Railroad Lease and the SFEC Sublease, for the purpose of producing oil and gas and other hydrocarbon produced in conjunction with oil and gas.

AGREEMENT:

1. This Pioneer Sublease, except as herein mutually agreed by and among Sublessor and Sublessee, which agreements, to the extent they do not conflict with the Railroad Lease, shall prevail as to matters by and between Sublessee and Sublessor, is granted expressly subject to the same terms, provisions and conditions as the Railroad Lease herein above referred to, to the same force and effect that these instruments were copied in their entirety in this Sublease at this point and which lease or sublease respectively shall prevail as to matters between Sublessee and Sublessor; provided, however, that nothing in this Sublease does nor shall it be construed in any way to increase the rights of the herein

or sublease respectively shall prevail as to matters between Sublessee and Sublessor; provided, however, that nothing in this Sublease does nor shall it be construed in any way to increase the rights of the herein named Sublessee under either of the Railroad Lease. This Pioneer Sublease may in fact diminish the rights of the herein named Sublessee under said lease or sublease or place additional liabilities, obligations and requirements upon said Sublessee as herein mutually agreed.

2. Sublessor, for and in consideration of the payment by Sublessee of the sum of One Hundred Dollars (\$100.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and of the observance and performance of the covenants, stipulations, conditions and agreements herein contained on the part of Sublessee to be paid, kept and performed, has granted, demised, leased and let and does by these presents grant, demise, lease and let unto the said Sublessee for the sole and only purpose of exploring, mining, drilling for and producing including operations requisite to the continued production thereof, (herein the "Subleased Rights") oil, gas, casinghead gas and all other gaseous or liquid hydrocarbon substances produced in association with "Sublease Substances", includes the right to lay pipelines, build tanks, power stations and requisite structures thereon to produce, save, take care of, treat and transport subleased substances in, on or under certain tracts of land in the county of Eureka, State of Nevada, more particularly described in attached Exhibit "A" ("subleased lands") for a period from the date hereof and until July 1, 2001, the ("primary term") and as long thereafter as subleased substances are produced from the subleased lands or lands pooled therewith in paying quantities, the "Subleased Rights".

3. The royalties reserved unto Sublessor and which shall be paid by Sublessee free of any cost to Sublessor are:

(i) On oil, including condensate, distillate and all other liquid hydrocarbons, 16.085714% of that produced and saved from or attributable to said leased lands, the same to be (I) delivered at the wells into tanks provided by Sublessor, (ii) to the credit of Sublessor in the pipelines or tanks to which the wells may be connected, or (iii) Sublessee may from time to time purchase all royalty oil, paying the market price therefor prevailing in the field where produced on the date of purchase;

(ii) On gas, including casinghead gas and all other gaseous or vaporous substances produced from or attributable to said leased lands and sold or used off the said land, the market value at the well of 16.085714% of the gas so sold or used, provided that when Sublessee shall sell gas at the wells, Sublessor's royalty thereon shall be 16.085714% of the amount realized from such sale. In the event Sublessee shall itself use gas produced from the leased lands in the manufacture of gasoline or other products therefrom, or the residue thereof, the royalty to Sublessor shall be 16.085714% of the market value, as defined in 3 (iii), at the well of the gas so used. As used in this paragraph, the term "market value" shall not be less than the maximum lawful price for gas. Sublessee shall have free use of Sublessor's share of all subleased substances from the subleased lands for its operations on the subleased lands without payment of royalty to Sublessor;

(iii) As royalty on all other subleased substances produced and marketed from the leased lands 16.085714% of the proceeds received by Sublessee from the sale thereof, except that royalty on sulphur shall be \$1.00 per long ton marketed.

(iv) The royalties due Sublessor pursuant to (i), (ii) & (iii) shall be computed and paid on the basis of the maximum price being paid, at the time the subleased substances are sold, for like qualities and quantities of subleased substances, for the field where produced. In the event there is no field price established other than that of Sublessee, then the bench mark for determining royalty shall be the highest price then being paid for similar quality and quantity in the State of Nevada. The royalty shall be paid to Burlington Northern and Santa Fe Railway Company (BN&SF) and to Pioneer Pioneer Resources Producing L.P. (PRPLP) or as may otherwise be directed in writing by them.

4. It is mutually agreed that Sublessor does not warrant the title or the quiet possession of the subleased lands, or of said Subleased Substances, in whole or in part, to Sublessee against the claims of any person or persons claiming or purporting to claim the same or any part thereof adversely to Sublessor; and Sublessor shall in no event be liable to Sublessee because of any lack or failure of title in Sublessor in the same or the eviction of Sublessee therefrom, and it is mutually understood that no covenant or warranty shall be implied from any word or words herein contained. Sublessor agrees that Sublessee at its option may discharge any tax, mortgage or other lien upon said lands, and in the event Sublessee does so it shall be subrogated to said lien with the right to enforce same, and to apply royalties accruing hereunder toward satisfying same. It is agreed that if Sublessor owns an interest in said oil and gas less than the entire and undivided fee simple estate therein, then royalties to be paid Sublessor hereunder shall be paid said Sublessor only in the proportion which its interests bears to the whole and undivided fee. Sublessee shall not contest the validity of the title of Sublessor to any of the leased lands conveyed by patent, grant or other conveyance from the United States Government or any of its agencies to Sublessor or its predecessors, or any title reserved to Sublessor or its predecessor upon the transfer of any interest in the leased lands by them.

5. Sublessee shall comply with all laws, statutes, ordinances, regulations, rules, orders, decisions and other actions promulgated by a governmental authority which have valid jurisdiction over the subleased lands or Sublessee's operations or activities on the subleased lands.

6. Sublessee's exercise of its rights under this Sublease shall not unreasonably interfere with Burlington Northern and Santa Fe Railway Company's, or other Railroad entity's or Sublessor's operations or activities on the leased lands for minerals or substances other than subleased substances.

7. Sublessee shall comply with and perform the obligations of Sublessor under any agreement between Sublessor and the owners of the surface estate of the leased lands as the obligations relate to Sublessee's operations and activities on the leased lands. Any obligation or liability to the

owners of the surface estate arising after the date hereof and not covered by Sublessor's prior agreement with the surface owners shall be the sole obligation of Sublessee.

8. Sublessee shall have the continuing obligation to develop the herein Subleased Lands under this Sublease by the drilling of wells to the maximum density using the minimum acres permitted or to be permitted for full allowable production from a well producing or capable of producing Subleased Substances in paying quantities permitted by lawfully established rules or regulations of the state or federal regulatory body having jurisdiction for the field being produced. In the absence of rules or regulations promulgated by a governmental body of competent jurisdiction, the leased lands shall be drilled to a density of not less than one well for production of oil per forty (40) acres and drilled to a density of not less than one well for the production of gas per one hundred sixty (160) acres, herein a "proration unit".

Failure to drill wells to the required densities shall terminate this Sublease as to all of the subleased lands not then included in a proration unit for a well producing or capable of producing Subleased Substances in paying quantities or upon which Sublessee is then engaged in drilling or reworking a well to establish or reestablish the production of Subleased Substances in paying quantities and as to the area of the subleased lands comprising the proration units as to depths 100 feet below the depth of the deepest perforations from which subleased substances are being or capable of being produced in paying quantities. This Sublease shall not terminate as to easements and rights-of-way necessary for Sublessee's operations on the retained spacing units provided that production from each spacing unit shall be continuous and upon the cessation of production therefrom is restored within (60) days from such cessation by drilling or reworking operations thereon, or otherwise maintained in force provided elsewhere in this Sublease.

At the expiration of the primary term hereof, if Subleased Substances are not being produced but Sublessee is then engaged in drilling or reworking operations on the subleased lands or, if the production of subleased substances in paying quantities during the primary term was established and is producing or capable of producing at the expiration of the primary term and Sublessee is otherwise in compliance with the terms, provisions of this Sublease, this Sublease shall remain in force and effect as to the subleased lands not then included in a proration unit as prescribed above, for the latter to occur of one hundred eighty (180) days from the expiration of the primary term or one hundred eighty (180) days from the date of the cessation of the drilling or reworking operations being conducted at the expiration of the primary term, and as long thereafter as Sublessee does not permit more than one hundred eighty (180) days to elapse between the completion or abandonment of one well and commencement of actual drilling of the next succeeding well.

Upon expiration of the primary term hereof, or the end of the continuous development period, whichever is the latter, this Sublease shall terminate as to all of the subleased premises not then included in a proration unit consistent with that prescribed herein above and to lands within such proration units as to all rights below the stratigraphic equivalent of one-hundred (100') below the base

of the deepest perforations from which subleased substances are then being or capable of being produced in paying quantities from the subleased lands or from acreage with which subleased lands may then be pooled. Further, at the expiration of the primary term or extension thereof by continuous drilling, then this Sublease shall, as to all of the subleased premises and all depths, expire as to oil, gas and other hydrocarbonous substances, liquid, liquifiable and gaseous. Sublessee shall promptly thereafter execute and deliver a release evidencing such termination.

9. Sublessee hereby does indemnify, and warrants that it shall keep, save and hold harmless Sublessor, its affiliated companies and the officers, directors and employees of any of them, the "indemnified group" from and against all claims, demands, actions or causes of action of whatsoever character, including, without limitation, the death of or injury to any person and damage to the subleased lands or any land pooled or unitized therewith, in or on behalf of any person, natural or corporate, including without limitation BN&SF, the basis for which in any way is related to any act of commission or omission or otherwise of Sublessee, including, without limitation, the exercise by Sublessee of any right or obligation under this Sublease. Sublessee shall and here agrees forthwith to assume the defense of such claims, demands, suits, actions or causes of action, and shall protect, keep, save and hold the indemnified group harmless from and against all loss, cost, expense, judgement and liability of whatsoever kind resulting therefrom; provided, however, that Sublessor hereby reserves the right at its sole option, at its own expense and without prejudice to or diminishing the obligations of Sublessee under this indemnity, to participate, with counsel of its choosing, in the defense of any claim, act, action, suit or cause under this indemnity. Sublessee, notwithstanding the indemnities herein contained, shall not effect nor enter into any settlement or compromise of any claim without reasonable notice to Sublessor and without the prior written approval of Sublessor, which written approval will not be unreasonably withheld, unless the settlement or compromise includes a general and complete release of the indemnified group, with respect to all matters that are the subject of such claim, with prejudice, and with no express written or implied admission of liability on the part of the Sublessor or any component member of the indemnified group and with no constraints or limitations with respect to the conduct of the future business of it or them. The withholding of any written permission under this indemnity provision resulting from the failure of the Sublessee's strict compliance shall not be unreasonable.

Without in any way affecting Sublessee's obligations to Sublessor under the remainder of this Section 8. Sublessee shall be liable to Sublessor for all costs and expenses incurred by Sublessor as a result of any subsidence or other change in elevation of the surface of the subleased premises arising from operations under this agreement and for all damages to the subleased premises which are the result of any such subsidence or other change in elevation of the subleased premises.

10. Sublessor, at all reasonable times during Sublessee's office hours, shall have access to Sublessee's records and books of account relating to the production of subleased substances from any unit or units of which the subleased lands or any part thereof constitutes a part. However, only such representatives of Sublessor as are duly authorized by it in writing to examine such records and books of account shall be given access thereto by Sublessee.

11. Sublessee shall pay taxes of every kind levied or to be levied or assessed upon or against subleased substances or the proceeds from the sale thereof from the subleased lands and/or as measured by the production thereof, provided, however, (a) that Sublessee shall not be responsible for any income tax accruing upon Sublessor's income from the production from said subleased lands, (b) that nothing in this Section 11. shall prevent Sublessee or Sublessee's heirs, executors, administrators, successors or assigns, from in good faith contesting the validity of any tax or taxes which they may deem illegal, and (c) that if a legal contest of any such tax or taxes shall be pending upon the date such tax or taxes become delinquent, or if such contest shall be instituted within ten (10) days after such tax or taxes become delinquent, Sublessee shall not be required to pay any such tax or taxes until ten (10) days after the final determination of such contest, whereupon Sublessee shall pay all such tax or taxes that shall not have been eliminated by such contest, together with any and all interest and penalties thereon which may then be due, and all costs and expenses of such contest.

Sublessee at its sole expense shall keep the subleased lands free of all liens and encumbrances which might attach as a result any act of commission or omission of Sublessee. In the event that a lien or encumbrance does attach to the subleased lands, Sublessee shall, at its own expense, take all action necessary to discharge, satisfy, cancel or otherwise remove such lien or encumbrance. In the event that Sublessee fails to commence such action within thirty (30) days after Sublessee has knowledge of the existence of such a lien or encumbrance, Sublessor shall have the option to take all action necessary to discharge, satisfy, cancel or otherwise remove such lien or encumbrance, and Sublessee shall be liable to Sublessor for all costs and expenses incurred by Sublessor in taking such action; provided that Sublessor's option shall not diminish Sublessee's primary obligation under this paragraph.

13. As a consideration of the Sublease, Sublessee hereby agrees to deliver free of cost to Sublessor seismic data shot, or acquired by or on behalf of Sublessee, its successors or assigns, over across the lands.

Sublessor shall provide a license to all seismic data shot across the Lands by or for the benefit of Sublessor or to which Sublessor has any right or interest, together with reasonable tails, free of any cost to Sublessee. Along with such license, Sublessor shall provide Sublessee copies of raw field tapes, shot point maps clearly marked and indexed to and with the seismic data, as well as the same data in a processed format. In addition, Sublessor will provide Sublessee with copies of the original interpretive maps upon their completion, whether based upon seismic data, surface or subsurface geology or any combination thereof, applicable to the lands. The data will be provided to Sublessor within forty-five (45) days of its receipt by Sublessee. Sublessee shall retain sole ownership of any geophysical, or geological data acquired and Sublessor agrees, while the Sublease to which the data is applicable are in effect, to keep all such data confidential and shall not sell, trade or dispose of, or otherwise make the data available to third parties, without the prior written consent of Sublessee, provided, however that Sublessor may, without the consent of Sublessee, make the data available in its

offices to any party to whom Sublessor is attempting to sell the lands, any prospect on the lands or any interest therein.

If Sublessee is restricted from providing Sublessor any seismic data, due to restrictions in third party contracts governing same, Sublessor will be permitted to view and work said seismic data in Sublessee's offices. If required by such third parties agreement(s), Sublessor agrees if it elects to review the data, to execute a confidentially agreement substantially the same in form and substance as the one Sublessee is subject to prior to reviewing this data.

It is understood and agreed by the parties hereto that Sublessee does not make any representations or warranties as to the accuracy or reliability of the interpretations of the seismic data which will be provided, or made available to Sublessor hereunder, and that interpretations of said data shall be used by Sublessor at its sole risk and without any liability whatsoever on the part of Sublessee.

14. All amounts due BN&SF and PRPLP by Sublessee hereunder shall be payable respectively to BN&SF, c/o Catellus Management Corporation, 4545 Fuller Drive, Suite 100, Irving, Texas 75038-6530 and Sublessor, at 5205 N. O'Connor Blvd., Suite 1400, Irving, TX 75039-3746, attention revenue accounting or as may otherwise be directed by any of them in compliance with the Railroad Lease, or this Sublease. Except as provided otherwise in this Sublease, settlement for and payment of all royalties shall be made on or before fifteen (15) days following receipt by Sublessee of the proceeds from the sale of subleased substances produced.

15. Sublessee shall, at the time of abandonment and in accordance with the rules and regulations of any governmental body having jurisdiction, plug any abandoned well on any drilling unit of which the leased lands or any part thereof constitutes a part.

16. Sublessee shall furnish Sublessor as soon as practicable, after receipt and without cost to Lessor, copies of title opinions, location reports, permits to drill, daily drilling reports by mail to the attention of Land Manager, daily reports (daily or weekly), core record reports, core analysis reports, well completion reports, bottom hole pressure measurement reports, directional survey records, all logs showing the result of electrical surveys, gas and oil ratio reports, State or Federal conservation orders or regulations pertaining to the leased premises, and any and all other reports which pertain to the drilling or completing of wells located on the leased premises or on land pooled therewith.

IN WITNESS WHEREOF, this agreement has been duly executed in duplicate by the parties hereto, the day and year first above written.

SUBLESSOR:

PIONEER RESOURCES PRODUCING L..P.
By: Pioneer Resources Inc., General Partner

By:

W.T. Howard
W. T. Howard, Vice President

SUBLESSEE:

FORELAND CORPORATION

By:

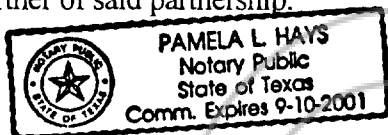
[Signature]

ACKNOWLEDGMENT

THE STATE OF TEXAS

COUNTY OF DALLAS

This instrument was acknowledged before me on the 28th day of June, 1999, by W. T. Howard, Vice President of Pioneer Resources Inc., on behalf of said corporation and as General Partner of said partnership.



Pamela L. Hays
Notary Public, State of Texas

THE STATE OF

Colorado

COUNTY OF

Jefferson

This instrument was acknowledged before me on the 28th day of April, 1999, Al Thomas Steele, President of Foreland Corporation, on behalf of said corporation.



Darlene Brenner
Notary Public, State of Colorado

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Sublease dated April 26, 1999, by and between Pioneer Resources Producing L.P. and Foreland Corporation, covering the below listed lands located in Eureka County, Nevada.

TOWNSHIP 29 NORTH-RANGE 52 EAST

Section 03: W/2

Section 09: E/2

Section 15: W/2

Section 21: E/2, SW/4

Section 33: All

TOWNSHIP 30 NORTH-RANGE 52 EAST

Section 35: All

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OFFICIAL RECORDS
RECORDED AT THE REQUEST OF
Foreland Corporation
99 AUG 20 PM 2:05

EUREKA COUNTY NEVADA
M.H. REBALEATI, RECORDER
FILE NO. FEES 16.00

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