PRODUCERS 88 CW 503 (D 10/4)

OIL AND GAS LEASE

Pammel Prospect
BW-18

THIS AGREEMENT, made and entered into as of the 5th day of July 19 84, by and between

James D. McDonald & Beverly J. McDonald, husband & wife
Rt. 3, Box 65
Winterset IA 50273

, hereinafter called "Lessor" (whether one or more) and

Outerbridge & Associates, Inc., 621 17th St., Ste. 1050, Denver CO 80293 , hereinafter called "Lessee," WITNESSETH:

1. Lessor, for and in consideration of the sum of Ten & More DOLLARS ($ 10.00 & more), in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, demises, leases and lets exclusively unto Lessee the land hereinafter described, for the purpose of investigating, exploring, drilling and mining for, producing, saving, taking, owning, transporting, storing, handling and treating oil, gas and all substances produced therewith, herein called leased substances, together with all rights, privileges and easements useful for Lessee's operations hereunder on said land and on lands in the same area or field, including but not limited to the following rights: to lay pipelines, to build roads, railroads and canals; and to construct tanks, pump and power stations, power and communication lines, houses for its employees, and other structures and facilities. The phrase "gas" as used in this lease shall embrace all gases whether hydrocarbon gas, CO_2, helium or other. The said land included in this lease is situated in the County of Madison , State of Iowa , and is described as follows, to wit:

Township 76 North, Range 28 West, 5th PM
Section 16: SW/4
Section 17: East 7 ac. of S/2 of NE/4 SE/4
Section 21: W/2 SW/4

Township 75 North, Range 28 West, 5th PM
Section 2: SE/4 SW/4, E/2 SE/4
Section 11: E/2 NW/4

IND. ✓
REC. ✓
PAGE ✓

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MARY E. WELTY
RECORDER
Fee $10.00 MADISON COUNTY, IOWA

including all leased substances underlying lakes, streams, roads, streets, alleys, easements and rights-of-way which traverse or adjoin said land; and including all lands owned or claimed by Lessor as a part of any tract above described; and containing 447 acres of land more or less. As to the estate created hereby, Lessor hereby relinquishes, releases, and waives all rights under and by virtue of the laws of this state providing for homestead exemption, dower, curtesy and other rights substitutive thereof. This lease shall cover all the interest in said land now owned by or hereafter vested in Lessor, even though greater than the undivided interest (if any) described above. For the purpose of calculating any payments based on acreage, Lessee, at Lessee's option, may act as if said land and its constituent parcels contain the acreage above stated, whether they actually contain more or less. Lessee may inject water, gas or other substances into any zone or stratum underlying said land and not productive of fresh water.

2. Subject to the other provisions herein contained, this lease shall remain in force for a period of ten years from the date hereof, herein called "primary term," and thereafter so long as leased substances or any one or more of them is being produced from said land or any operation permitted hereunder is being conducted on said land or this lease is continued in force by reason of any of the other provisions hereof.

3. Royalties on leased substances to be paid by Lessee are: (a) on oil, one-eighth (1/8) of that produced and saved from said land, to be delivered at the wells or to the credit of Lessor into the pipeline to which the wells may be connected; Lessee may from time to time purchase any royalty oil, paying therefor the market value in the field where produced on the day it is run to the pipeline or storage tanks; (b) on gas, including casinghead gas, produced from said land and sold or used off the premises, the market value at the well of one-eighth (1/8) of the gas so sold or used, provided that on gas sold at the well the royalty shall be one-eighth (1/8) of the amount realized from such sale; (c) on sulphur, one dollar ($1.00) per long ton produced and marketed; (d) on all other leased substances, five percent (5%) of their value at the well. If Lessee shall discover gas hereunder on said land or on land unitized with any of said land, Lessee may at any time or times during or after the primary term and at Lessee's election, pay as royalty (herein called shut-in gas well payment) a sum equal to the rental hereinafter provided on the acreage then held by Lessee hereunder, whereupon it shall be considered for all purposes of this lease that a leased substance is being produced hereunder from said land for a period of one year; such year to commence on the anniversary of this lease next preceding such payment, unless the rental, if any, which accrued on such anniversary was paid, in which event such year shall commence on the anniversary of this lease next following such payment. Any such payment may be made in the same manner as provided elsewhere in this lease for the payment of rental, and shall be in lieu of the rental covering the same period of time; but shall not be in lieu of any royalty based on actual production. Lessee may use, free of royalty, leased substances and water developed from said land by Lessee for all operations hereunder.

4. If operations are not commenced on said land on or before one year from the date hereof, this lease shall terminate as to both parties unless Lessee, on or before the expiration of said period, shall pay or tender to Lessor or to Lessor's credit in Union State Bank (Acct. # 189877 9) Bank at Winterset IA 50273 or any successor, herein called "depository bank," the sum of Four Hundred Forty Seven and no/100ths---------- DOLLARS ($ 447.00), herein called "rental," which shall extend for twelve (12) months the time within which operations may be commenced. Thereafter, annually, in like manner and upon like payments or tenders this lease may be maintained in force and such operations again deferred for successive periods of twelve months each during the primary term; provided, however, that if during the primary term hereof any leased substance is produced hereunder or any operations conducted hereunder within a period of time three (3) months prior to any anniversary of this lease, the rental accruing on such anniversary shall be excused and this lease shall continue in force as though such rental had been paid. Operations shall be deemed to be commenced when the first material is moved in or the first work done. Payments or tenders of rental or any other payment due or payable under the terms of this lease, other than royalties on actual production, may be made by mailing or delivering cash or Lessee's check or draft to Lessor or to the depository bank on or before such date of payment. If any depository bank shall fail or refuse to accept the payment, this lease shall not terminate and Lessee shall not be held in default for failure to pay unless Lessee shall fail to pay or tender such payment for thirty (30) days after Lessor has delivered to Lessee a recordable instrument designating another depository bank. Any bank herein or hereafter designated as depository shall continue as such and as Lessor's agent, regardless of changes in ownership of Lessor's interest. Lessee may pay or tender such payments jointly to the credit of all parties having any interest hereunder. If Lessee shall, in good faith and with reasonable diligence, attempt to pay any rental, shut-in gas well payment or other payment but shall fail to pay, or incorrectly pay some portion thereof, this lease shall not terminate unless Lessee, within thirty (30) days after written notice of its error or failure, shall fail to rectify the same. Lessee may at any time or times surrender this lease as to all or any portion of said land by mailing or tendering to Lessor or to the depository bank or by filing for record a release or releases, and be relieved of all obligations thereafter accruing as to the acreage surrendered. The rental shall be reduced in the same proportion that the acreage covered hereby is reduced.

5. If any operations or production of a leased substance or any combination of such activities shall occur hereunder and if at any time or times after the primary term or within three (3) months before expiration of the primary term such operations or such production or any combination of such activities shall cease for any cause so that none of such activities continues, such cessation shall not cause this lease to terminate and this lease shall remain in force if and so long as (a) payments are made under paragraph 3 (if applicable) or (b) any operation or production of a leased substance is commenced or resumed hereunder during a period for which any such payment was made or within three (3) months after cessation of the last of the operations or production that had occurred hereunder or (c) the cause of cessation is covered by paragraph 8 hereof. Wherever used in this paragraph 5, or wherever else used in this lease unless the context requires otherwise, the meaning of the word "operations" shall without limitation include: drilling, digging and boring operations, producing operations, the drilling of a dry hole or successive holes before or after production is obtained, plugging back, reworking operations, deepening operations and remedial operations in connection with either drilling or producing operations.

6. Lessee shall pay for damages caused by Lessee's operations to growing crops, buildings, irrigation ditches, feed lots and fences. When so requested by Lessor, Lessee will bury pipelines below ordinary plow depth at the time of installation when crossing cultivated land owned or operated by Lessor. No well shall be drilled on said land within two hundred (200) feet of any residence or barn now on said land without the consent of the surface owner. Lessee shall have the right at any time to remove all Lessee's property and fixtures, including the right to draw and remove all casing. Lessee shall drill any well which a reasonably prudent operator would drill under the same or similar circumstances to prevent substantial drainage from said land by wells located on adjoining land not owned by Lessor when such drainage is not compensated by counter drainage. No default of Lessee hereunder with respect to any well or portion of said land shall impair Lessee's rights with respect to any other well or portion of said land.

7. The rights of Lessor and Lessee hereunder may be assigned in whole or in part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee and Lessee may continue to make payments precisely as if no change had occurred. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee and Lessee's operations may be conducted without regard to any such division. If all or any part of Lessee's interest hereunder shall be assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner, and failure by one to pay rental shall not affect the rights of others, rentals being apportionable in proportion to acreage.

8. Whenever as a result of any cause beyond Lessee's control (such as fire, flood, storm, or other Act of God, governmental law, order, or regulation, labor disputes, war, or inability to secure men, materials, permit(s), or transportation) Lessee is prevented or hindered from exercising any of its rights hereunder, complying with any of the terms hereof or carrying out any of its obligations hereunder, and such prevention or hindrance first occurs during the primary term hereof, the obligations of Lessee hereunder (excluding only its obligation to pay royalties hereunder on actual production), the conditional requirement for payment of rental under paragraph 4 hereof to perpetuate this lease and the conditional requirement for shut-in gas well payments under paragraph 3 hereof to perpetuate this lease, shall be suspended during the period of such prevention or hindrance and for 90 days thereafter. The primary term shall be extended for a period of time equal to the period of such suspension and this lease shall remain in full force and effect during such period of suspension and during any such extension of the primary term. Lessee may commence or resume the payment or tender of rentals or shut-in gas well payments after the period of suspension by paying or tendering the proportionate part thereof for the lease year remaining after such period of suspension.

If such prevention or hindrance first occurs after the primary term hereof, Lessee's obligations and the conditional requirement for shut-in gas well payments under paragraph 3 hereof to perpetuate this lease shall be suspended while Lessee is so prevented or hindered and for a reasonable time thereafter. This lease shall remain in full force and effect during any such prevention or hindrance and for a reasonable time thereafter provided that within such time, i.e., a reasonable time after the period of such prevention or hindrance, Lessee commences or resumes operation hereunder or commences or resumes the payment or tender of shut-in gas well payments by paying or tendering the proportionate part thereof for the lease year remaining after such period of suspension.

9. In connection with operations for the production of oil and gas or either of them, Lessee may at any time or times pool or unitize this lease insofar as it covers the lands covered hereby, in whole or in part, as to any stratum or strata, with other lands and leases in the same area or field so as to constitute a unit or units whenever, in Lessee's judgment, necessary or advisable to comply with a law, rule, order or regulation of a governmental authority having jurisdiction, to reduce or prevent economic waste, to protect correlative rights, or to promote, encourage or accomplish the conservation of natural resources, by filing for record an instrument so declaring subject to the following: (a) Units formed to establish or comply with an orderly or uniform well spacing pattern for the production of oil or gas shall allocate to the portion of this lease included in any such unit a fractional part of all production from any part of such unit in the proportion that the total number of acres covered by this lease included in such unit bears to the total number of acres included in such unit, and such units shall not exceed 80 acres if for the production of oil and shall not exceed 640 acres if for the production of gas, plus a tolerance of 10% in each instance, except that if the governmental authority having jurisdiction by appropriate rule, order or regulation prescribes or permits or, based on prior action of the applicable governmental authorities, may reasonably be expected to prescribe or permit units of a larger size, the unit or units may be increased to the maximum so prescribed or permitted or so reasonably expected to be prescribed or permitted; (b) Units formed to accomplish a cycling, pressure maintenance, repressuring or secondary recovery program, or any other cooperative or unit plan of development or operation involving multiple wells must be approved by the governmental authority having jurisdiction and shall allocate to the portion of this lease included in any such unit a fractional part of production from any part of such unit on one of the following bases: (i) the ratio between the quantity of recoverable production allocable to the portion of this lease included in such unit and the total of all recoverable production allocable to such unit; or (ii) such other basis as may be approved by the governmental authority having jurisdiction thereof. Any such unit so established may be enlarged to include acreage believed to be productive or may be diminished by excluding acreage believed to be nonproductive or may be diminished by excluding acreage the owners of which fail or refuse to participate in the unit and, in the absence of current production therefrom, any such unit may be abolished and dissolved by filing for record an instrument so declaring. Instruments filed for record hereunder shall be filed in the public notice records of the county in which the land is situated. Upon production from any part of any such unit, Lessor herein shall be entitled to the royalties provided for in this lease on only that fractional part of unit production allocated to that portion of this lease included in such unit. Operations upon any such unit or projected to any part of any such unit from an off-unit drillsite or production from any part of such unit shall be treated and considered for all purposes of this lease, except payment of royalties, as operations upon or production from this lease.

10. Lessor warrants and agrees to defend the title to said land or to the undivided interest therein (if any) specifically described in paragraph 1 hereof. The royalties hereinabove provided are determined with respect to the entire estate in leased substances and if Lessor owns a lesser interest therein, the royalties to be paid Lessor shall be reduced proportionally. Lessee at its option may purchase or discharge in whole or in part any tax, mortgage or other lien upon said land, or may redeem the same from any purchaser at any tax sale or adjudication, and may reimburse itself from any rentals and royalties accruing hereunder and shall be subrogated to such lien with the right to enforce same.

11. This lease shall be binding upon all who execute it, whether or not they are named in the granting clause hereof and whether or not all parties named in the granting clause execute this lease. All the provisions of this lease shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors and assigns of Lessor and Lessee.

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

LESSOR SIGN HERE

484 38 5755
Social Security or ~~XXXXXXXXX~~

James D. McDonald

Beverly J. McDonald

ACKNOWLEDGMENTS

STATE OF Iowa
COUNTY OF Madison ss.

On this 18 day of July in the year 1984, the foregoing instrument was acknowledged before me, the undersigned, a Notary Public, by James D. McDonald & Beverly J. McDonald, husband & wife
who personally appeared before me and are known to me to be the identical person(s) described in and who executed the within and foregoing instrument, and acknowledged to me that they executed the same as their free and voluntary act and deed for the purpose and consideration therein expressed.
IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal the day and year first above written.

My commission expires September 30, 1984 Notary Public, residing at Winterset, Iowa

STATE OF _____
COUNTY OF _____ ss.

On this _____ day of _____ in the year _____, the foregoing instrument was acknowledged before me, the undersigned, a Notary Public, by _____
who personally appeared before me and _____ known to me to be the identical person(s) described in and who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the purpose and consideration therein expressed.
IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal the day and year first above written.

My commission expires _____ Notary Public residing at _____

STATE OF Iowa NO. 744
COUNTY OF Madison

This instrument was filed for record on the 19 day of November, 1984 at 4:02 o'clock, P M., and duly recorded in Book 36, Page 165, of the records of this office.

Mary E. Welty
County Clerk – Register of Deeds

By _____ Deputy

Return to OUTERBRIDGE & ASSOCIATES, INC.
621 17th STREET SUITE 1050
DENVER, COLORADO 80293