

OIL AND GAS LEASE

THIS AGREEMENT, made and entered into the 29th day of August, 2005 by and between Dennis E. Drake (a married man), individual and as general partner of Drake Family Partnership LLLP, whose address is 11567 Highway 14, Ault, CO 80610 hereinafter called Lessor (whether one or more) and Transcontinent Oil Company, whose post office address is 621 17th Street, Suite 1201, Denver, CO 80293, hereinafter called Lessee:

WITNESSETH:

1. That the Lessor, for and in consideration of Ten and more dollars (\$10.00+) in hand paid, receipt and sufficiency of which is hereby acknowledged, and of the agreements of Lessee hereinafter set forth, hereby grants, demises, leases and lets exclusively unto Lessee the lands described below for the purpose of investigating, prospecting, exploring (by geophysical and other methods), drilling, mining, operating for producing oil or gas, or both (as defined below), together with the right to construct and maintain pipelines, telephone and electric lines, tanks, ponds, roadways, plants, equipment and structures thereon to produce, save and take care of said oil and gas (which right shall include specifically a right-of-way and easement for ingress to and egress from said lands by Lessee, or its assignees, agents or permittees, necessary to or associated with the construction and maintenance of such pipelines, telephone and electric lines, tanks, ponds, roadways, plants, equipment, and structures on said lands to produce, save and take care of the oil and gas), and the exclusive right to inject air, gas, water, brine and other fluids from any source into the subsurface strata and any and all other rights and privileges necessary, incident to, or convenient for the economical operation of said land, alone or conjointly with neighboring land, for the production, saving and taking care of oil and gas and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said lands being situated in the County of Weld, State of Colorado, described as follows, to-wit:

TOWNSHIP 7 NORTH, RANGE 66 WEST, 6TH P.M.

Section 18: Lots 1(54.41), 2(55.48), and those parts of Lot 3 and the E/2NW that lie north and west of the south line of the Pierce lateral, less Tract 7, and containing 188.40 acres, more or less.

Section 18: A 4.138 acre parcel along the north part of the N/2NW, as described by metes and bounds in Book 1485, Page 427.

Section 18: That part of the NW/4 that lies south and east of the Pierce lateral, containing 18.50 acres, more or less.

Section 18: That part of the E/2SW that lies north and west of the Pierce lateral, containing 2.50 acres, more or less.

and containing 213.54 acres, more or less, hereinafter called "leased premises". In addition to the land described above, Lessor hereby grants, leases and lets exclusively unto Lessee, to the same extent as if specifically described, lands which are owned or claimed by Lessor by one of the following reasons: (1) all lands and rights acquired or retained by Lessor by avulsion, accretion, reliction or otherwise as the result of a change in the boundaries or centerline of any river or stream traversing or adjoining the lands described above; (2) all riparian lands and rights which are or may be incident, appurtenant, related or attributed to Lessor in any lake, stream or river traversing or adjoining the lands described above by virtue of Lessor's ownership of the land described above; (3) all lands included in any road, easement or right-of-way traversing or adjoining the lands described above which are or may be incident, appurtenant, related or attributed to Lessor by virtue of Lessor's ownership of the land described above; and (4) all strips or tracts of land adjacent or contiguous to the lands described above owned or acquired by Lessor through adverse possession or other similar statutes of the state in which the lands are located.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of five (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced from the leased premises or drilling operations are continuously prosecuted. For purposes of this lease, "drilling operations" shall include operations for the drilling of a new well and operations for the reworking, deepening or plugging back of a well or hole or other operations conducted in an effort to establish, resume or re-establish production of oil and gas; drilling operations shall be considered to be "continuously prosecuted" if not more than one hundred twenty (120) days shall elapse between the completion and abandonment of one well or hole and the commencement of drilling operations on another well or hole; the Lessee shall be "engaged in drilling operations" or shall have commenced drilling operations for a new well at such time as Lessee has begun the construction of the wellsite location or the road which provides access to the wellsite location; and Lessee shall be "engaged in drilling operations" or shall have commenced drilling operations with respect to reworking, deepening, plugging back or other operations conducted in an effort to resume or re-establish production of oil and gas at such time as Lessee has the requisite equipment for such operations at the wellsite. In addition, for coal seam gas wells, the term drilling operations shall specifically include the dewatering and associated testing of the well, and while the Lessee is conducting such dewatering and testing, this lease shall not terminate but remain in force and effect until such dewatering and testing is complete and the well is either abandoned or deemed to be capable of producing oil and gas.

3. This is a PAID-UP LEASE. In consideration of the above cash 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 or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

4. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be 12.5% of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be 12.5% of the net proceeds realized by Lessee (after deducting the taxes and costs set forth in subsection 4(c) hereof) from the sale thereof, provided the Lessee shall have the continuing right to sell such production to itself or an affiliate at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements entered into on the same or nearest preceding date as the date on which Lessee or its affiliate commences its purchases hereunder; and (c) in calculating royalties on production hereunder, Lessee may deduct Lessor's proportionate part of any ad valorem, production and excise taxes, and any costs incurred by Lessee in treating (including without limitation, dehydrating and sweetening), processing, gathering, transporting, compressing, delivering and otherwise marketing such production, without regard as to any judicial determination as to when or where such gas may be deemed to be marketable.

Where gas from a well or wells capable of producing gas only is not sold or used for a period of one year, Lessee shall pay or tender as royalty, One Dollar (\$1.00) per year per net royalty acre retained hereunder payable annually on the anniversary date of this lease following the end of each such year during which such gas is not sold or used, and while said royalty is so paid or tendered this lease shall be held as a producing property under Paragraph 2 hereof.

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled or unitized therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 8 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking, deepening or plugging back an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled or unitized therewith within one hundred twenty (120) days after completion of operations on such dry hole or within one hundred twenty (120) days after such cessation of all production, or, should the lease be within the primary term, if Lessee commences such further operations; provided that should completion of operations on the dry hole or cessation of all production occur during the last year of the primary term no further operations shall be required to maintain this lease for the remainder of the primary term. If during or after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no interruption of more than one hundred twenty (120) consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled or unitized therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled or unitized therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to reservoirs then capable of producing in paying quantities on the leased premises or lands pooled or unitized therewith, or (b) protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

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

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

8. Lessee shall have the right but not the obligation to pool or unitize all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of drilling or production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The creation of a unit by such pooling shall be based on the following criteria (hereinafter called "pooling criteria"): A unit for an oil well (other than a horizontal completion) shall not exceed 40 acres plus a maximum acreage tolerance of 10%; and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil and/or gas well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit, which includes all or any part of the leased premises, shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the

