

# OIL AND GAS LEASE

AGREEMENT, Made and entered into the 28<sup>th</sup> day of October, 2008, by and between Randolph J. Cass and Judy Cass, husband and wife whose post office address is 43251 Hwy 392, Briggsdale, Colorado 80611 hereinafter called Lessor (whether one or more) and DeClar Oil and Gas, Inc., whose address is 13500 Road W, Weldona, Colorado 80653, hereinafter called Lessee:

WITNESSETH, that the Lessor, for and in consideration of --Ten and More-- DOLLARS (\$10.00 & More) cash in hand paid, the receipt and sufficiency of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the lands hereinafter described, with the exclusive right for the purpose of drilling for, exploring by geophysical and other methods, and operating for and producing therefrom oil, gas of whatsoever nature or kind (including gas associated with coal bearing formations), and associated hydrocarbons, with such rights of way and easements reasonable and necessary for access to the lands for the purposes hereof and for laying pipelines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Weld, State of Colorado, described as follows:

Township 8 North, Range 62 West, 6<sup>th</sup> PM  
Section 25: W 1/2

and containing 320.00 acres, more or less, together with any and all strips or parcels of land adjoining or contiguous in anyway to the above described lands, along with any and all mineral rights on, in and under any county roads lying across and/or adjacent to said lands, and now or hereafter owned or claimed by Lessor. This lease shall specifically include coalbed gas and occluded gas from coal seams.

1. It is agreed that this lease shall remain in force for a term of Three (3) years and as long thereafter as oil or gas of whatsoever nature or kind is produced or is capable of being produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or reworking operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith. Operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or reworking operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith. In the event a well or wells are drilled and completed on the lands, or on the lands pooled therewith, for the purpose of developing coalbed gas, this lease shall be considered to be producing leased substances at any time that: (1) operations are being conducted to remove water or other substances from the coalbed (dewatering), or to dispose of such water or other substances, or (2) any well is shut-in or production is otherwise discontinued from said wells to allow for surface or underground mining affecting the drillsite or wellbore.

2. This is a PAID-UP LEASE. In consideration of the down 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.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor on gas and casinghead gas produced from said land (1) when sold by Lessee, one-eighth of the net proceeds derived from such sale, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth (1/8) of such gas and casinghead gas, Lessor's interest, in either case, to bear such costs as permitted under Colorado law to transport and process gas and casinghead gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas only is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

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

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the Lessor's wells and/or ponds.

7. When requested by Lessor, Lessee shall bury Lessee's pipe lines below plow depth.

8. No well shall be drilled nearer than 500 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or 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. 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 all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the lands described herein and as to any one or more of the formations there under, to pool or unitize the leasehold estate and/or the mineral estate covered by this lease with other lands or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgement it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such pooling or unitization or reformation, which declaration shall describe the unit so formed. However, failure by Lessee to record such declaration shall not affect the validity of this Lease in any way provided the units established and operated by Lessee are in accordance with the then orders, rules and regulations of the Colorado Oil and Gas Conservation Commission, or such other governmental agency as may have jurisdiction over the lands. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool or combine all or any part of the above described lands as to one or more of the formations thereunder 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 development requirements 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. In the event that said above described 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.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, 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. Furthermore, Lessee's obligations hereunder shall be suspended if performance is prevented by any act of God, strike, labor dispute, or the inability, after good faith and reasonable efforts, to secure equipment or materials.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall inure to the benefit of and be binding on the heirs, successors and assigns of Lessor and Lessee, and this lease shall cover and bind all interest of the Lessor which may be acquired subsequent to the date of this lease which Lessor may hereafter acquire by way of reversion or otherwise.

See Exhibit A attached hereto and by reference made a part hereof for additional terms and conditions.

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

Cass Farms Co., a Colorado Corporation

Randolph J. Cass

Judy Cass

3588143 11/05/2008 12:19P Weld County, CO  
1 of 3 R 16.00 D 0.00 Steve Moreno Clerk & Recorder

STATE OF COLORADO

Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah,

COUNTY OF WELD

Nebraska, North Dakota, South Dakota

ACKNOWLEDGMENT—INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 28<sup>th</sup> day of October, 2008, personally appeared Randolph J. Cass and Judy Cass, husband and wife, to me known to be the identical persons, described in and who executed the within and foregoing instrument of writing and acknowledged to me that they duly executed the same as their free and voluntary act and deed for the uses and purposes therein set forth.

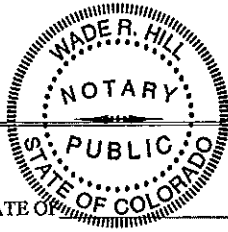
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires

12-8-2010

Address:

Notary Public



STATE OF

Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah,

COUNTY OF

Nebraska, North Dakota, South Dakota

ACKNOWLEDGMENT—INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this \_\_\_\_\_ day of \_\_\_\_\_, 2008, personally appeared \_\_\_\_\_, to me known to be the identical person(s), described in and who executed the within and foregoing instrument of writing and acknowledged to me that he/she duly executed the same as \_\_\_\_\_ free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires \_\_\_\_\_

Notary Public.

Address: \_\_\_\_\_

STATE OF

ACKNOWLEDGMENT  
(For use by Corporation)

COUNTY OF

On this \_\_\_\_\_ day of \_\_\_\_\_, 2008, before me personally appeared \_\_\_\_\_, to me personally known, who, being by me duly sworn did say that he is the \_\_\_\_\_ of \_\_\_\_\_ corporation and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said \_\_\_\_\_ acknowledged said instrument to be free act and deed of said corporation.

Witness my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

(SEAL)

Address:

Notary Public

My Commission Expires \_\_\_\_\_


3588143 11/05/2008 12:19P Weld County, CO  
2 of 3 R 16.00 D 0.00 Steve Moreno Clerk & Recorder

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated October 28, 2008, by and between Randolph J. Cass and Judy Cass, husband and wife, Lessor, and DeClar Oil and Gas, Inc., Lessee.

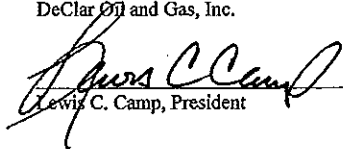
ADDITIONAL PROVISIONS:

1. In the absence of any other condition which may extend this Lease beyond its Primary Term, Lessor hereby grants to Lessee, its successors and assigns, the exclusive right and option to extend the Primary Term of this lease, as to part or all of the lands covered hereby, for an additional period of two (2) years by payment to Lessor of an additional bonus of \$20.00 per net mineral acre then owned by Lessor, payable on or before the expiration of the initial Primary Term. Should Lessee, its successors or assigns, exercise its option to extend the Primary Term of this lease, then this lease and all its provisions shall remain in full force and effect as to the lands to which the extended lease applies. Upon exercise of such option by Lessee, Lessor agrees to execute, in recordable form and in favor of Lessee, a statement of extension.
2. Prior to commencement of operations for the drilling of a well, Lessee shall tender to Lessor as full and final payment for damages caused by Lessee's operations the sum of \$2,000.00 per acre for each well site location and surface equipment appurtenant thereto. Nothing contained herein shall prevent Lessee from drilling multiply wells from a single well site location. In addition, wherever possible and reasonably practical, Lessee will use existing roads. Lessee shall tender to Lessor the sum of \$1,000.00 per mile, or fraction thereof, for use of existing access roads used by Lessee in Lessee's operations over lands owned by Lessor ~~maintained as pasture/grasslands, and the sum of \$500.00 per mile, or fraction thereof, for access roads over other lands owned by Lessor~~  
*RJC*
3. Lessee shall use reasonable efforts, subject to geologic considerations and the orders, rules and regulations of the Colorado Oil and Gas Conservation Commission, to locate all well sites on lands owned by Lessor which are not maintained as pasture/grasslands.
4. In the event Lessor locates surface equipment for the production of oil and/or gas (e.g. tank batteries, treaters and separators) on any part of the leased premises then subject to a Conservation Reserve Program contract, Lessee agrees to reimburse Lessor up to an amount not to exceed \$ 40.00 per acre per year for the remaining term of such contract, but not to exceed 20 years, for the lands removed or taken out of the Program and occupied by such equipment, and for which Lessor is required to pay a penalty or reimbursement under the terms of the Contract. Payment shall be made to Lessor with 30 days of receipt by Lessee of evidence of such penalty or reimbursement.
5. In the event after examination of title it is determined that the Lessor owns less than 25% of the mineral interest underlying the leased lands, Lessee agrees to release this lease in full, and no consideration shall be paid to Lessor.

  
Randolph J. Cass

  
Judy Cass

DeClar Oil and Gas, Inc.

  
Lewis C. Camp, President

  
3588143 11/05/2008 12:19P Weld County, CO  
3 of 3 R 16.00 D 0.00 Steve Moreno Clerk & Recorder