

## PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 5<sup>TH</sup> day of March, 2012 between ROBERT & TERESA C JONCKOWSKI, whose address is 540 LAKESIDE PL, Windsor, CO as Lessor (whether one or more), and Ranchers Exploration Partners LLC, whose address is 7257 West 4<sup>th</sup> Street, Greeley, Colorado, as Lessee.

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively the Lessee the following described land, hereinafter call the leased premises:

SEE EXHIBIT A ATTACHED HERETO AND MADE A PART HEREOF:

in the County of Larimer, State of Colorado, containing 152.98 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in association therewith ("Oil and Gas Substances"). The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. In addition to the above-described land, this lease and the term "leased premises" also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any payments based on acreage hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **No Surface Occupancy.** Notwithstanding anything contained herein to the contrary, Lessee shall have no rights to occupy or use any portion of the surface of the leased premises regardless of whether such use is temporary, intermittent or for extended periods of time. Such prohibition of surface use and occupation shall include, but not be limited to, conducting any drilling or other operations or locating any production facilities upon or in the leased premises that would require any surface use or occupation and shall also preclude any access to the surface of the leased premises without the express written consent of the Lessor.

3. **Term of Lease.** This lease shall be in force for a primary term of three (1) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

4. **Operations.** If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") from the leased premises or lands pooled or unitized therewith, or if all production (whether or not in paying quantities) permanently ceased from any cause, including a revision of unit boundaries pursuant to the provisions of the lease 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 an existing well or for the drilling an additional well or for otherwise obtaining or restoring production from the leased premises or lands pooled or unitized therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If after the primary term this lease is not otherwise

being maintained in force, but Lessee is then engaged in Operations, as defined below, this lease shall remain in force so long as any one or more of such Operations are prosecuted with no interruption of more than 90 consecutive days, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production in paying quantities from the leased premises or lands pooled or unitized therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. As used herein, the term Operations shall mean (i) drilling; (ii) reworking, plugging back, deepening, treating, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; and (iii) construction facilities related to the production, treatment, transportation and marketing of substances produced from the leased premises.

5. **Shut-in Royalty.** If after the primary term one or more wells producing Oil and Gas Substances from the leased premises or lands pooled or unitized therewith are capable of producing Oil or Gas Substances in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease. The payment shall be made to Lessor on or before the first anniversary date of the lease following the end of the 90-day period and thereafter on or before each such anniversary date while the well or wells are shut in or production therefrom is not being sold by Lessee.

6. **Royalty Payment.** For all Oil & Gas Substances that are physically produced from the leased premises, or lands pooled, unitized or communitized therewith, and sold, Lessor shall receive as its royalty eighteen and  $\frac{3}{4}$  percent of the gross sales proceeds actually received by lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, less only the same percentage share of all production, severance and ad valorem taxes.

If Lessee uses the Oil and Gas Substances (other than fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price, to be used under this provision shall be based upon arm's-length sale(s) to unaffiliated parties for the applicable month that are obtainable, comparable in terms of quality and quantity, and in closest proximity to the leased premises.

7. **Unitization.** Lessee shall have the right but not the obligation to commit all or any part of the leased premises or interest therein to one or more unit plans or agreements for the cooperative development or operation of one or more oil and/or gas reservoirs or portions thereof, if in Lessee's judgment such plan or agreement will prevent waste and protect correlative rights, and if such plan or agreement is approved by the federal, state, or locale governmental authority having jurisdiction. When such a commitment is made, this lease shall be subject to the terms and conditions of the unit plan or agreement, as to any formula prescribed therein for the allocation of production from the unit but, under no circumstances, shall a unit plan or agreement alter the amount of gross sales proceeds used to calculate Lessee's production royalty under this lease or modify or supercede the provisions of Section 2 herein. Upon permanent cessation thereof, Lessee may terminate the unit by filing a record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

8. **Payment Reductions.** If Lessor owns less than the full mineral estate in all or any part of the leased premises, payment of 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 therewith shall be reduced to the proportion that Lessor's interest in such part of leased premises bears to the full mineral estate in such part of 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.

9. **Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or depth zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to in the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by the lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in the lease then held by each.

10. **Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

11. **Title.** Lessor hereby agrees that Lessee at Lessee's option may pay and discharge any taxes mortgages or liens existing, levied to assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any substantiated claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, and deposit the same in an interest-bearing account, until Lessee has been furnished with satisfactory evidence that such claim has been resolved or is determined to be not well-founded; provided, however, that any such suspension of payment shall only be in proportion to the portion or portions of the leased premises where the Lessor's Title thereto is in a good faith dispute. If any such dispute as to title is not resolved within one (1) year, after Lessor receives notice of that title defect from Lessee with a description of all of the title curative work that the Lessee may reasonably require to resolve such an alleged defect, Lessor or

Lessee shall have the option of terminating this lease as to that portion or portion of the leased premises affected by the alleged title defect.

12. **Indemnity.** Lessee will indemnify and hold Lessor, its officers, directors, employees, agents, successors and assigns (hereafter collectively referred to as "Indemnified Parties") harmless from any and all claims, demands, suits, losses, damages, and costs (including, without limitation, any attorney fees) incurred by the Indemnified Parties which may be asserted against the Indemnified Parties by reason of or which may arise out of or which may be related to Lessee's activities on the leased premises (including, without limitation, any claims by any owners or lessees of minerals that Lessee's operations hereunder are either illegal, unauthorized, or constitute an improper interference with their rights).

**IN WITNESS WHEREOF**, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove names as Lessor.

**LESSOR (WHETHER ONE OR MORE)**

**BY:** \_\_\_\_\_  
**ROBERT & TERESA JONCKOWSKI**

**LESSEE: RANCHERS EXPLORATION PARTNERS, LLC**

**BY:** \_\_\_\_\_  
**Michael Ward, Managing Partner**

**ACKNOWLEDGEMENT**

STATE OF \_\_\_\_\_ Colorado \_\_\_\_\_ )  
 )SS.

County of \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, 2012, the foregoing instrument was  
acknowledged before me

My commission Expires \_\_\_\_\_

Ranchers Exploration Partners, LLC  
7257 W 4<sup>th</sup> Street, Suite #3  
Greeley, Co 80634

August 16th, 2011

River West PUD Community Association  
706 S College Ave Suite 202  
Ft. Collins Co

RE: AGREEMENT OF PAYMENT FOR OIL AND GAS LEASE

The enclosed paid up oil and gas lease (“Lease”), dated August 16, 2011, between you as (“Lessor”), and Ranchers Exploration Partners, LLC as (“Lessee”), includes the following lands in Larimer, Colorado:

Cursory Description	Gross Ac	Est. Net Ac													
Legal Description: The East one half of the Northwest Quarter; The West One Half of the North East Quarter; the southeast quarter; and all that part of the east one half of the northeast quarter lying south of the south bank of the cache LaPoudre river all in section 24 township 6 north, range 68 west of the 6 <sup>th</sup> pm county of Larimer, State of Colorado, Except portion thereof conveyed to the department of Highways, state of Colorado by John Brinkman in Deed Recorded February 4 <sup>th</sup> 1959 in book 1085 at page 602 Legal Description: The East one half of the Northwest Quarter; The West One Half of the North East Quarter; the southeast quarter; and all that part of the east one half of the northeast quarter lying south of the south bank of the cache LaPoudre river all in section 24 township 6 north, range 68 west of the 6 <sup>th</sup> pm county of Larimer, State of Colorado, Except portion thereof conveyed to the department of Highways, state of Colorado by John Brinkman in Deed Recorded February 4 <sup>th</sup> 1959 in book 1085 at page 602 more specifically the lands located in	152.98	76.49													
<table><tr><td>Tract D</td><td>0.49</td></tr><tr><td>Tract F</td><td>1.18</td></tr><tr><td>Tract G</td><td>122.05</td></tr><tr><td>Tract H</td><td>5.54</td></tr><tr><td>Tract I</td><td>2.13</td></tr><tr><td>Tract J</td><td>2.48</td></tr></table>	Tract D	0.49	Tract F	1.18	Tract G	122.05	Tract H	5.54	Tract I	2.13	Tract J	2.48			
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Tract F	1.18														
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Tract J	2.48														

Tract K	0.04				
Tract L	0.006				
Tract M	0.067				
Tract N	1.24				
Tract O	0.01				
Lot 185	0.085				
Tract A	6.89				
Tract B	0.28				
Tract C	6.85				
Tract E	3.65				
Total HOA Acres	152.988				
TOTAL		152.98	76.49		

In accordance with our agreement and mutual considerations, Lessee hereby agrees to pay you, subject to approval of title, as the full cash payment, [REDACTED] per net mineral acre. In the event lessor owns 76.49 net mineral acres the payment shall be [REDACTED]. If the interest is more or less the payment will be proportionately adjusted. Due to the complexity of having many different mineral owners the consideration will be paid after Lessee has obtained all mineral interest or successfully forced pooled any non-consenting mineral owners. In addition since the minerals are under a subdivision a permit to drill must be issued by the City or County where the drilling will take place and a drilling permit given by the Colorado Oil and Gas Commission.

Lessor agrees to defend title, not to derogate title, and to execute additional documents necessary to give Lessee marketable title.

Sincerely,

\_\_\_\_\_  
Michael Ward, COO

Acceptance of this agreement by Lessor:

By: \_\_\_\_\_

By: \_\_\_\_\_

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