



OIL AND GAS LEASE

AGREEMENT, entered into the 26th day of January, 2011 by and between **Patricia Stanley, formerly known as Patricia Hergert, a married woman dealing in her sole and separate property**, whose address is **205 Pelican Cove, Windsor, CO 80550** hereinafter called Lessor and **RAR Energy LLC** whose address is **PO Box 2984, Denver, CO 80201** hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of **Ten and more Dollars (\$10.00+)** cash in hand paid, the receipt 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 land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, specifically including coalbed methane and any and all substances produced in association therewith from coal-bearing formations, with rights of way and easements for laying pipe lines, 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, to-wit:

Township 7 North, Range 67 West, 6th P.M.

Sections 35: That part of the SE as more specifically described in Warranty Deed dated 4/2/1965, recorded at reception no. 1460486 on 4/6/1965, and that part of the NE as more fully described in Warranty Deed dated 12/9/1967, recorded in book 589 as Reception no. 1511303 on 12/27/1967

Containing 150.63 acres, more or less

including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise. Notwithstanding any particular description, it is nevertheless the intention of Lessor to include within this lease, and Lessor does hereby lease, not only the land so described but also any and all other land owned or claimed by Lessor in the herein named survey or surveys, or in adjoining surveys, and adjoining the herein described land up to the boundaries of the abutting landowners, including 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, as well as all riparian lands and rights which may be incident, appurtenant, related or attributed to Lessor in any lake, reservoir, stream or river traversing or adjoining the lands described above, and further, 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 lands described above. For the purpose of determining the bonus or any other payments hereinafter provided for, said land is estimated to comprise **150.63 acres**, whether it actually comprises more or less.

1. It is agreed that this lease shall remain in force for a term of **Three (3) years from September 27, 2011** and as long thereafter as oil or gas of whatsoever nature or kind, specifically including coalbed methane and any and all substances produced in association therewith from coal-bearing formations, is 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 thereof, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than one hundred eighty (180) 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 one hundred eighty (180) 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. **Lessor and Lessee acknowledge that the lands described in this Lease are presently subject to an Oil and Gas Lease dated 9/27/2006, at Reception No. 3423148 in the Records of Weld County, Colorado, from Patricia Hergert as Lessor, to Petro-Canada Resources Inc, as Lessee (the "Prior Lease"). The primary term of the Prior Lease expires on 9/27/2011. Lessor covenants and agrees not to extend, renew, amend, or modify the Prior Lease. If the Prior Lease is extended beyond its primary term by drilling operations, reworking operations, or production from the lands covered by the Prior Lease, or on land with which the Prior Lease has been pooled, this Lease shall not become effective and Lessee shall be relieved of all obligations provided for in this Lease. If the Prior Lease terminates at the end of its primary term, this Lease shall immediately become effective upon the Prior Lease's termination. Lessor warrants there are no other leases or top leases on any of the lease premises and agrees that no other top leases covering all or any part of the lease premises will be executed by Lessor.**

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 pay, as royalty, or deliver to the credit of Lessor, free of cost, except for severance and other applicable federal, state, or local taxes, in the pipeline to which Lessee may connect wells on said land, the equal **20%** 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, **20%** of the net proceeds derived from such sale, or 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 **20%** of such gas and casinghead gas. Lessor's interest, in either case, to bear **20%** of the cost of compressing, dehydrating, processing, and otherwise treating such gas or casinghead gas to render it marketable or usable and **20%** of the cost of gathering and transporting such gas and casinghead gas from the mouth of the well to the point of sale or use.

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 **20%** of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, Lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net acre covered hereby, 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 the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made, it will be considered that gas is being produced within the meaning of the entire lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then

the royalties (including any shut-in gas royalty) herein provided for shall be paid to 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 wells of Lessor.

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

8. No well shall be drilled nearer than 200 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 and livestock 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 land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease, or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment 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 unitization or reformation, which declaration shall describe the unit. 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 number 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 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 for 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.

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 be binding on the heirs, successors, and assigns of Lessor and Lessee.

16. Extension of Primary Term. For the consideration herein recited, Lessor hereby grants to Lessee the exclusive right and option to extend the primary term of this lease for one (1) additional year by mailing to Lessor at the address listed on this lease, on or before the end of this primary term, a bonus consideration equal to one hundred percent (100.00%) of the bonus consideration originally paid for this lease, which payment shall represent payment in full of consideration for this extension.

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

Patricia Stanley
Patricia Stanley

Patricia Stanley

STATE OF Colorado
COUNTY OF Weld

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 7th day of February, 2011, personally appeared Patricia Marie Stanley 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 they 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: 12/18/2013 Shirvan C. Safarik

Notary Public