

OIL AND GAS LEASE

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THIS AGREEMENT, is made and entered into this ¹⁴/_{th} day of August, 2008, by and between **Roger L. Kegerreis and Virginia L. Kegerreis**, h/w, whose address is P.O. Box 204, Severance, Colorado 80546, and **Daniel L. White and Mary E. White**, h/w, whose address is 2605 64th Avenue, Greeley, Colorado 80634, hereinafter called Lessor(s) (whether one or more) and **Blue Chip Oil, Inc.**, a Colorado Corporation authorized to do business in the State of Colorado, whose address is 155 East Boardwalk Drive, Fort Collins, Colorado 80525, hereinafter called Lessee on the following terms and conditions:

Lessor, for and in consideration of the payment of \$Ten and more (\$10.00 +) and the payment of other amounts to Lessor as herein provided, leases to the said Lessee, the land hereinafter described, with the right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing there from oil and gas of whatsoever nature or kind, with limited rights of way and easements for surveying and re-surveying, constructing, laying, repairing, replacing and removing in whole or in part, a pipe line and related equipment including, without limitation, gauges, metering and communication equipment and valve sets, and limited access over and across the lands described for said purposes, laying one pipe line, and erection of only the structures thereon approved by Lessor that are necessary or convenient 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 6 North, Range 67 West, 6th P.M.

Section 12: NE/4, excluding a 4.52 acre tract in the NE/4 described as Lot A

And containing 155 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of 2 years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased promises 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 re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased promises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than Sixty (60) 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 Sixty (60) 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 promises or acreage pooled therewith.
2. Lessee may at any time or times during or after the primary term surrender this lease by filing for record a release or releases.
3. In consideration of the premises the said Lessee covenants and agrees:

A: To pay Lessor, as royalty, 18% of all oil produced, saved and marketed from the leased premises, or to deliver to the credit of Lessor, free of cost, in the pipeline to which Lessee may connect wells on said land, 18% part of all oil produced and saved from the leased premises.

B: To pay to Lessor, as royalty, 18% of the market value for gas of whatsoever nature or kind, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the leased premises. The term "market value" shall be deemed to mean the net value realized at the wellhead for gas after deducting any gas used on the leased premises and any reasonable and necessary costs to transport, compress, dehydrate, gather, process, condition or to otherwise bring the gas into a marketable condition. It is agreed, however, that no such costs shall exceed what is reasonable and necessary to bring the gas into marketable condition. Such costs shall be deemed to be reasonable if they are found to be approximately the same as similar costs charged or paid for gas produced in the vicinity of the leased lands of like kind, quality and quantity.

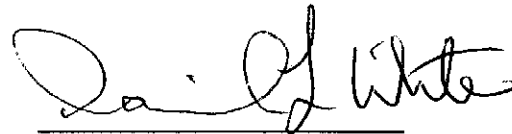
4. Where gas from a well capable of producing gas is not sold or used, Lessee shall pay or tender as royalty to the royalty owners one hundred dollars (\$100.00) per acre per year net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of ten 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 said Lessor owns a less interest in the above-described land than the entire 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. Lessor shall have the right to use, free of cost, gas, oil and water produced on said land for Lessor's farm operation only at Lessor's cost and risk, which include any commercial buildings that exist as of the date of this lease.
7. Lessee shall bury Lessee's pipe line to a depth of four feet from the surface.
8. No well shall be drilled nearer then 200 feet to the house or barn now on said premises without written consent of Lessor.
9. 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 as long as Lessee is not in default under this lease.
10. The rights of Lessor and Lessee hereunder may be assigned in whole or part.
11. 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 drilled hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in accordance with Colorado law.. For purposes of this paragraph it is understood that pooling of this lease shall be limited to the NE/4 of Section 12, T6 North R67 West.
12. 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.

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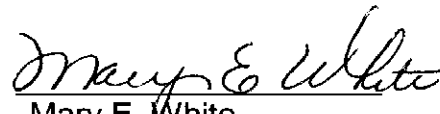
13. Lessor does not warrant title to the lands herein described, and Lessee shall perform any title search to confirm the title of Lessor.
14. The parties have agreed to the terms of Exhibit "A" attached hereto.

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


Roger L. Kegerreis


Daniel L. White


Virginia L. Kegerreis


Mary E. White

Notary Public

Address:


THE STATE OF COLORADO)
COUNTY OF ~~WELD~~ Larimer)

The foregoing instrument was acknowledged before me this 6th day of August, 2008 by Roger L. Kegerreis, Virginia L. Kegerreis, Daniel L. White and Mary E. White

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

My commission expires: Sep. 14, 2011

(Seal)

Notary Public 
Address: 155 E. Boardwalk Dr. FT Collins, CO 80525
After recording return to:



MY COMMISSION EXPIRES:
September 14, 2011

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


TIMOTHY S. HAGER
PRESIDENT BLUE CHIP OIL, INC.

Notary Public

Address:

THE STATE OF COLORADO)
COUNTY OF LARIMER)


The foregoing instrument was acknowledged before me this 6th day of August, 2008 by Timothy S. Hager

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 - 02 - 2008



Notary Public


Address: 155 E. Boardwalk, #400
Ft. Collins, Co 80525

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EXHIBIT "A"

Attached hereto and made a part hereof to that certain Oil And Gas Lease dated , 2008, by and between Roger L. Kegerreis and Virginia L. Kegerreis, h/w, and Daniel L. White and Mary E. White, h/w, as Lessor(s), and Blue Chip Oil, Inc. a Colorado Corporation authorized to do business in the State of Colorado, as Lessee:

1. Lessee may have only one vertical drill site described below on Lessor's property which shall be located 460 feet from the Far East line and 467 feet from the far North line of Section 12, Township 6 North, Range 67 West as shown on the attached map. Any additional well bores which may be drilled pursuant to the rules and regulations of the Colorado Oil and Gas Conservation Commission will be directionally drilled from the rectangular shaped parcels on the attached site plan
2. All tanks, separators, flow lines and other equipment reasonably appropriate for the operation and production of all well(s) shall be located in the surface rectangular shaped parcels described on the attached site plan.
3. Any provision of the lease to the contrary notwithstanding, the royalty payment to be made by Lessee to Lessor shall be 18% of all oil, gas, casinghead gas, and other hydrocarbons associated therewith, produced. Lessee shall have the duty to transport and market the produced minerals without expense ["expense" shall include but not be limited to gathering, processing, compressing, transporting, marketing, taxes, overhead, sales costs or hedging costs or losses, and any administrative costs] to Lessor for the full fair market value of Lessor's share of the foregoing. It is expressly understood by Lessor that Lessor will be paid on the same basis and at the same price that is paid to Lessee by the crude oil and natural gas purchaser.
4. Lessee agrees to make its best effort to obtain the highest market price for the oil, gas or both produced from any well drilled on said land, or unitized with said lands. The same shall apply for casinghead gas, casinghead gasoline, and all other gases and their respective constituent vapors.
5. Lessee shall provide monthly production records of any well that is producing royalties for Lessor. Lessee shall provide any other information concerning the subject matter of this lease to Lessor upon Lessor's request.
6. At such time that Lessee decides to plug and abandon a well that has been producing on Lessor's land, or pooled with Lessor's interest, Lessor may, at Lessor's sole election, have the option to take over the operations of the well and pay Lessee a reasonable value for all equipment, surface installations, leases, contracts, easements, and other related facilities and property rights. Lessor shall assume full responsibility for all costs, and expenses and for compliance with all governmental rules and regulations subsequent to the transfer of ownership of such property and rights of the well. Lessor shall have sixty days from notification from Lessee of Lessee's intent to plug and abandon the well, including a statement of Lessee to Lessor of the value of the property and rights of the well, within which to advise Lessee whether or not Lessor desires the property and rights of the well. Failure of Lessor to so notify Lessee that Lessor desires to exercise this option shall release Lessee of all further obligations under this paragraph of the Addendum. Lessor may dispute the value of the property and rights stated by the Lessee, in which case a fair value of the property and rights shall be determined by arbitration. Lessee shall choose one arbitrator, Lessor shall choose one arbitrator, and the two arbitrators shall choose a third; and the three arbitrators shall determine the reasonable value of the property and rights of the well. The arbitration shall be

concluded within ninety days after Lessee's notice of intent is received by Lessor. Lessor shall have thirty days after the date of receipt of the arbitrators' decision on the reasonable value of the property and rights of the well to decide whether to exercise this option.

7. In the event this lease is extended beyond its primary term in accordance with the terms and conditions contained herein, this lease shall remain in force so as long as operations are being continuously prosecuted on the leased premises or acreage pooled therewith. Thereafter Lessee agrees to release to Lessor any part of the lease not at that time contained within a spacing unit for well(s) drilled on this lease or on lands pooled therewith. For purposes of this lease provision each well drilled shall be unitized on a forty acre tract (quarter quarter section). By way of example if at the end of two years after the primary term of the lease three wells have been drilled by Lessee and been placed on production, each well shall be unitized on a forty acre drilling and spacing unit. The balance of this leasehold (or two forty acre tracts) shall be released to Lessor.
8. This Lease shall be binding on the successors and assigns of the Lessee, and each successive assignor shall remain liable to Lessor under the terms of this Lease. Lessee shall notify, in writing, by certified mail, Lessor of any assignments of any interest of Lessee herein within thirty days after such assignment. In the event that such notification does not occur, the assignment shall be void.
9. Lessee indemnifies Lessor and holds Lessor harmless from any and all liens, claims, damages, liabilities and demands based upon or arising out of any oil and gas activities on said lands or under the terms of this Lease from whatever cause. Lessee shall be liable for the defense of all such matters at Lessee's expense.
10. Lessee shall not commence drilling operations on Lessor's land until Lessee has notified Lessor of proposed drilling site, surveyed and marked the acreage needed for drilling site, and location of access roads and pipe line easement, and Lessor has agreed, in writing, to all those matters.
11. All permanent pipelines shall be backfilled; water settled and packed in a manner which will cause no problem to Lessor in subsequent operations. The location of all pipe lines, telephone lines, electric lines, tanks, ponds, roadways, plants, equipment and structures shall be approved in writing by Lessor prior to commencement of construction or installation.
12. Surface damages for the initial vertical well will be \$4,000.00. Surface damage payments will be paid 14 days in advance of the rig moving onto location. This amount will also serve to be full compensation for the use of the rectangular shaped parcels as shown on the attached site plan. Surface damage payments of \$1500 shall be required to be paid to Lessor for any of the directional wells to be drilled. Surface damage payments to be paid 14 days in advance of the rig moving on location.
13. Lessee shall contact Lessor prior to the installation of any pumping unit and agrees that Lessee agrees that if a pumping unit is necessary to produce a well on Lessor's land, that said pumping unit shall be compatible with any irrigation system that may exist or be thereafter constructed on Lessor's land and such pumping unit shall be compatible with the installation of such irrigation system.
14. Lessee may only drill and produce any formation from surface down to the base of the Dakota formation estimated to be 8500' deep. A separate lease is required to drill deeper than the base of the Dakota formation.
15. Lessee, at Lessor's written request, shall pay for the supplemental pages to Lessor's abstract from the recording date of said lease to the date of release of said lease, insofar as said pages are a result of the activities related to this lease.

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16. Lessor(s) and Lessee agree to enter into a Joint Operating Agreement. Blue Chip Oil, Inc. will be the Operator to the Contract Area, T6N, R67W Section 12, NE/4. In the event that a successor Operator is required Lessor(s), collectively, shall be deemed to have the majority vote to select the successor Operator.

Part Of The Northeast Quarter Of Section 12,
Township 6 North, Range 67 West Of The 6th P.M.,
Town Of Severance, County Of Weld, State Of Colorado



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650 E. Garden Drive | Windsor, Colorado 80550
phone: (970) 686-5011 | fax: (970) 686-5821

DATE: 06/04/2008
FILE NAME: 2002SPCUR
SCALE: 1" = 50'
DRAWN BY: CSK/NEW/ALCO
CHECKED BY: NEW/ALCO