

PRODUCERS 88-PAID UP

## OIL AND GAS LEASE

AGREEMENT, Made and entered into the 18th day of October, 2009, by and between Lois F. Freemyer f/k/a Lois F. Gracik, a single woman whose post office address is 803 6<sup>th</sup> Street Kersey, CO 80644 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 9 North, Range 62 West, 6<sup>th</sup> P.M.  
Section 4: Lot 4(39.94), SWNW and W2SW4  
a/k/a W2W2

  
 3659641 11/13/2009 04:28P Weld County, CO  
 1 of 2 R 11.00 D 0.00 Steve Moreno Clerk & Recorder

and containing 159.94 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 Five (5) 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 re-working 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 re-working 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 one-eighth of the cost of compressing, dehydrating and otherwise treating such gas or casinghead gas to render it marketable or usable and one - eighth 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 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 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 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 actor 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.



3659641 11/13/2009 04:28P Weld County, CO  
2 of 2 R 11.00 D 0.00 Steve Moreno Clerk & Recorder

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.

  
Lois F. Freemyer f/k/a Lois F. Gracik

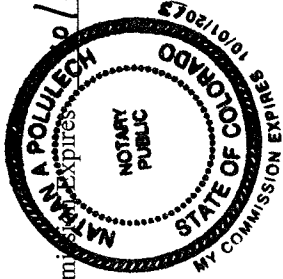
STATE OF Colorado } ss. Oklahoma, Kansas, New Mexico, Wyoming, Montana, Colorado, Utah,  
COUNTY OF weld Nebraska, North Dakota, South Dakota


ACKNOWLEDGMENT--INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 19<sup>th</sup> day of October, 2009, personally appeared Lois F. Freemyer, 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 she duly executed the same as her 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 Comm. Expires 10/1/2013



  
Notary Public

Address: 7521 W. 19th St.

Granley, CO 80634