

13456A

PRODUCERS 88-PAID UP

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 2nd day of November, 2005, by and between
Gerald P. Grunski, Carol D. Grunski, and Gerald R. Grunski, as Joint Tenants
whose post office address is 7700 County Road 306, Parachute, CO 81635 hereinafter called Les-
sor (whether one or more) and Apollo Energy, LLC whose post office address
is 1557 Ogden Street, Suite 300, Denver, CO 80218 hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and more (\$10.00+) DOLLARS 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, store and transport said products, all that certain tract of land situated in the County of Garfield, State of Colorado, described as follows, to-wit:

SEE EXHIBITS "A" AND "B" ATTACHED HERETO AND MADE A PART HEREOF

together with any reversionary rights therein, and together with all strips or parcels of land, (not, however, to be construed to include parcels comprising a regular 40-acre legal subdivision or lot of approximately corresponding size) adjoining or contiguous to the above described land and owned or claimed by Lessor, and containing 35.29 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of three (3) years from this date 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 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.

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 pipeline 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 for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom one-eighth (1/8) of the actual amount received by the Lessee, said payments to be made monthly.

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 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 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 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 include 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 on 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 on 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,

Returnall
to Apollo Energy

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3511

EXHIBIT "A"

Attachment to that certain Oil and Gas Lease dated November 2, 2005, by and between Gerald P. Grunski, Carol D. Grunski, and Gerald R. Grunski as Joint Tenants, as Lessor, and Apollo Energy, LLC, as Lessee.

A parcel of land situated in the SW $\frac{1}{4}$ and the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 35, Township 7 South, Range 96 West of the Sixth Principle Meridian, County of Garfield, State of Colorado; said Parcel being more particularly described as follows:

Commencing at the Southwest corner of Section 35, said Corner being Lava Stone found in place;

thence N. 00°29'48" W. along the Westerly line of said Section 35 a distance of 1384.51 feet to the South Sixteenth Corner of Section 34 and 35, a $\frac{1}{4}$ " x 30" bar and 3 $\frac{1}{4}$ " Cap L.S. #19598 set in place;

thence leaving said Westerly line S. 81°18'14" E. a distance of 1203.08 feet to a Rebar & Cap L.S. #19598 set in place, the True Point of Beginning;

thence N. 12°15'42" W. a distance of 1600.57 feet to a point on the North line of the SW $\frac{1}{4}$ of said Section 35, a Rebar & Cap L.S. #19598 set in place;

thence S. 89°50'50" E. along the Northerly line of the SW $\frac{1}{4}$ of said Section 35 a distance of 448.97 feet to the West-Center Sixteenth Corner of said Section 35, a $\frac{1}{4}$ " x 30" bar and 3 $\frac{1}{4}$ " Cap L.S. #19598 set in place;

thence N. 00°58'18" W. along the Westerly line of the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of said Section 35 a distance of 505.93 feet to a point in the Centerline of an existing draw, said point being a Rebar & Cap L.S. #19598 set in place;

thence the following six courses along the Centerline of said draw;

1. S. 61°33'21" E. 21.04 feet
2. S. 43°21'09" E. 218.50 feet
3. S. 50°12'39" E. 316.84 feet
4. S. 47°27'34" E. 283.63 feet
5. S. 43°52'19" E. 334.29 feet
6. S. 55°59'14" E. 368.11 feet to a Rebar & Cap L.S. #19598 set in place;

Thence leaving said Centerline S. 49°55'47" W. a distance of 1644.16 feet to the True Point of Beginning.

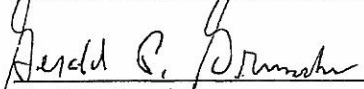
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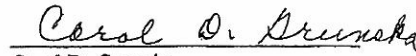
Lot 4


FYRWALD EXEMPTION PLAT

COUNTY OF GARFIELD
STATE OF COLORADO

SIGNED FOR IDENTIFICATION


Gerald P. Grunski


Carol D. Grunski


Gerald R. Grunski

APOLLO ENERGY, LLC

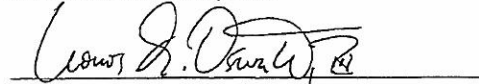

By: Louis A. Oswald, III
Its: Operations Manager

EXHIBIT "B"

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Attachment to that Certain Oil and Gas Lease Dated November 2, 2005 by and between Gerald P. Grunski, Carol D. Grunski, and Gerald R. Grunski, as Joint Tenants, as Lessor AND Apollo Energy, LLC, as Lessee

1. As to royalty, the term "one-eighth (1/8)" in the printed form Lease shall be amended to read eighteen and three-fourths percent (18.75%). [Lessee shall pay royalties on all gas of whatsoever nature and kind, produced from the Leased Premises, of eighteen and three-fourths percent (18.75%) of their value. Value is: (a) Their gross selling price, if sold under a contract of sale, or (b) If they are not so sold, the fair and reasonable value thereof at the place where sold or used, however, that the fair and reasonable value of gas used or sold off the Leased Premises shall be the value at the place sold or used (but not less than the highest price obtainable for an annual contract which is freely and currently offered for products of like kind, quality, and characteristics in similar quantities produced and sold from any field located within Garfield County). 12.75%
1/8
2. In no event shall shut-in payments maintain this Lease in force for a cumulative period exceeding three (3) years.
3. No part of this Lease shall be committed to a federal unit. Lessee shall not be allowed to pool this acreage without first obtaining the written consent of the Lessor, said consent shall not be unreasonably withheld, providing, however, that Lessor shall not be required to commit to a cooperative plan of development exceeding 40 acres.
4. Lessee agrees that all royalties accruing under the Lease shall be free and clear of all of the costs and expenses of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, marketing and/or otherwise making the oil, gas and other products produced hereunder ready for sale or use, and no deduction shall be made for any such costs and expenses in computing any payment to be made to Lessor. NO
TRANSPORT
AT 12.5%
PPH 12.5%
5. If oil and gas are discovered and produced during the primary term of the lease, then five (5) ^{DEEP} years after the end of the primary term herein, this Lease shall expire as to all depths one ^{2.6-7.5} hundred (100) feet below the stratigraphic equivalent of the deepest productive zone of any ^{PUGH OUT} well drilled on the leased lands or on any lands pooled or unitized therewith.
6. In the event of a conflict between the terms of this Lease Addendum and the terms of the printed form Lease, the terms of this Lease Addendum shall control.
7. Notwithstanding anything to the contrary contained in this Lease, it is specifically understood that no right to use or occupy any portion of the surface of the lands is conveyed hereby. Any surface operations whatsoever of any kind, including, but not limited to drilling sites, pipeline locations, roads, electric or utility lines, and equipment, shall not be located in or upon the Leased Premises without the express written permission of Lessor and shall only be allowed after negotiation of an additional written agreement with Lessor, the terms of which shall be determined in the sole discretion of Lessor, including damages and/or compensation for the impact of surface activities on property values. 1150
1/2
8. To the extent that Lessee is the Lessee of other undivided mineral interests in the lands, or acquires such interests in the future, Lessee agrees to be bound to the surface use provisions hereof with regard to those previously reserved mineral interests.

EXHIBIT "B"

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9. Lessee agrees that upon ten (10) business days written notice giving details of the periods and items to be audited, Lessor, or its agents, shall be provided at Lessee's offices in Denver, Colorado, or such other place as such records are normally maintained, with the necessary documents and records to audit all amounts due Lessor under this Lease, including, but not limited to: quantities produced and any adjustments or conversions thereof, gross proceeds, all charges deducted, if any, to calculate proceeds, product sales and royalties paid under this Lease. Lessor agrees that any information given Lessor by Lessee is confidential in nature and will not be given to third parties, except consultants, engineers, attorneys, accountants or other experts employed by Lessor, without express written consent from Lessee, or pursuant to Court Order. *RIGHT TO AUDIT*
10. Lessee shall have the right to use, free of cost, gas, oil and water (excluding water from surface aquifer or sources) produced on said lands for Lessee's operations on the lands only, but only from wells drilled or operated by Lessee.
11. This Lease shall not be binding on any Lessor until executed by all Lessors named herein.
12. No wells may be drilled from locations on the leased premises to downhole locations in which Lessor does not have a royalty participation without prior written consent of Lessor, which consent may be withheld for any reason.
13. The prevailing party in any litigation arising out of this Lease or Lessee's activities on the lands, shall be awarded its costs, expenses and reasonable attorney's fees.
14. Lessee shall conduct its operations in compliance with all applicable laws, rules and regulations. Lessor shall be deemed a third party beneficiary of any such laws, rules and regulations and be entitled to enforcement thereof in its own right.
15. Lessee agrees to furnish Lessor copies of abstracts, supplemental abstracts, title opinions and surveys that Lessee may own or hereafter acquire, as may be required to determine the accuracy of: (i) division orders tendered to Lessor, and (ii) all royalties paid or delivered to Lessor. Lessee shall not be liable for any errors or omissions in any such documents. *FURNISH ABSTRACTS TITLE OPINIONS ETC.*
16. Lessee shall conduct all operations hereunder at its sole cost, risk, and expense and shall be and remain fully responsible for all such operations. Lessee assumes all risks and liability of any kind and nature incident to, occasioned by, or resulting in any manner, directly or indirectly, from Lessee's operations hereunder, and Lessee agrees to keep the Leased Premises duly and fully free from and protected against liens of every character arising in connection with, or resulting from, such operations. Lessee agrees to protect, indemnify, defend, and hold harmless Lessor, its officers, agents, and employees from every kind and character of liens, damages, losses, expenses, demands, claims, and causes of action claimed by or arising in favor of any person, firm or corporation whatsoever, including without limitation Lessee, its officers, agents, employees, and its contractors or subcontractors, or of their officers, agents, or employees, on account of personal injuries, death claims or damages to property of any persons arising from any course whatsoever (including but not limited to pollution of air, water, land, minerals, animal and botanical life and any other natural resource and the violation or claimed violation of any and all federal, state and local pollution control or other environmental laws now in effect or which may hereafter become effective) growing out of or incident to the operations conducted by Lessee or its contractors

EXHIBIT "B"

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or subcontractors, or to the entrance of Lessee or its officers, agents or employees on the Leased Premises under color of this Lease, whether such injuries, death or damage result from or are claimed to have resulted from the sole or concurrent passive or active negligence of Lessor, its officers, agents or employees or the sole or concurrent passive or active negligence of Lessee, its officers, agents or employees or of Lessee's contractors or subcontractors, their officers, agents, or employees.

17. Lessee, at its own expense, shall defend any suit or action brought against Lessor based on any such alleged injury, death, or damage, and shall pay all damages, costs, and expenses, including attorney's fees in connection therewith or in any manner resulting therefrom; but Lessor shall have the right to participate in such suit or action if it so elects. Such damages shall include all damages to or by livestock, and claims and demands with respect thereto, including all damages as a result of fences, gates and gaps left open or insecurely closed; and shall include, but not be limited to, injuries or damages occasioned by the failure of or use or misuse of any and all kinds of equipment, whether owned or rented by Lessee or furnished by any contractor or subcontractor.
18. Lessee shall provide at Lessee's expense all necessary protective measures to prevent any loss or damage to the property of Lessor on account of any operations by Lessee whether on-site or off-site, including protection for power lines, pipelines, telephone lines and water wells. Lessee shall pay for all damages to Lessor's real and personal properties of any kind arising out of operations under this Lease, including but not limited to damage caused by salt water or other effluent or by fires caused by its operations and originating on the Leased Premises or on any adjacent or contiguous premises under the control of, or being operated by, Lessee.
19. As soon as reasonably practicable, Lessee shall seek approval from the Colorado Oil and Gas Conservation Commission for well density of no more than twenty (20) acres and to prosecute said petition to decision in a prompt manner.
20. Lessee agrees to assume liability for any damage caused by Lessee's operations to Lessor's water well(s) or the aquifer serving the Leased Premises. In order to ensure the continued quality and quantity of Lessor's ground water resources, Lessee shall implement a ground-water sampling program of the properly permitted water well(s) serving the Leased Premises which shall be conducted by an independent licensed professional engineer at Lessee's sole expense to determine pre- and post-operating conditions. Water well owners must provide all available data regarding the drilling, completion and water quality information from their well. Prior to drilling activities within 1,300 feet of any water well(s) serving the Leased Premises, an annular space vapor screening will be conducted with field instruments sensitive to methane. Static water levels and qualitative estimates of yield based on sampling flow rates shall be determined by pumping the water well(s) at the highest rate possible using currently installed equipment for a period of one hour. Flow rates shall be recorded every ten minutes and evidence of pumping off, methane vapor or sediment production shall be noted. Any other unusual characteristics such as discoloration, cloudiness, odors and effervescence shall also be recorded. Water samples shall be collected from the point in the water system nearest the well. Field parameters of dissolved oxygen (dO), pH, temperature, turbidity, and conductivity will be recorded at the time water samples are collected for subsequent laboratory analysis. The sample shall be analyzed in the laboratory for dissolved methane, benzene, toluene, ethylbenzene, xylenes (BTEX), major cations/anions, total dissolved solids, pH, and specific conductance. If BTEX compounds are found, then additional analysis for oil and grease AND for total volatile petroleum

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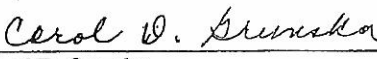
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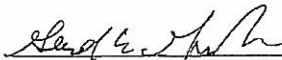
hydrocarbons will be included to ascertain the origin of BTEX compounds. MTBE analysis shall be conducted as well. If dissolved methane is detected at 2 mg/L or greater, the composition and the ratio of stable carbon and deuterium isotopes in the methane shall be analyzed to determine gas type (thermogenic, biogenic or mixture). If the testing results indicate biogenic gas, then no further isotopic testing shall be required. If the results indicate thermogenic gas or a mixture of biogenic and thermogenic gas, further monitoring shall be conducted of the well in question. The post-drilling activity test shall be conducted within 90 days of cessation or completion of activities at the well site and on an as needed basis thereafter during the term of this Lease. Water samples will also be tested for enteric bacteria, and BARTs (Biologic Activity Reaction Tests) which tests for the presence of sulfate-reducing bacteria (SBR), iron-related bacteria (IBR) and slime-forming bacteria. Such sampling shall be conducted in a manner as identical as possible to the tests conducted prior to the activity. Copies of all test results described above shall be provided to Lessor.

SIGNED FOR IDENTIFICATION:

LESSOR:


Gerald P. Grunski


Carol D. Grunski


Gerald R. Grunski

APOLLO ENERGY, LLC

By: 
Louis A. Oswald, III, Operations Manager