

PRODUCERS 88-PAID UP

## OIL AND GAS LEASE

AGREEMENT, Made and entered into the 1st day of February, 2010  
by and between

Stephen James Swinney, a Single Man

whose post office address is 8961 Harvest Hill Way, Elk Grove, California, 95624

hereinafter called Lessor (whether one or more) and GFL & ASSOCIATES, LLC, whose post office address is 19751 East Mainstreet, Suite 387, Parker, CO 80138

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, 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 9 North-Range 60 West, 6<sup>th</sup> P.M.**

Section 34: E1/2E1/2SE1/4

Section 35: SW1/4

**Wherever the term 1/8<sup>th</sup> Royalty appears in this lease, it shall by this reference be amended to read 15% Royalty.**

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 200.00 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:

1<sup>st</sup>. 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 (1/8th) part of all oil produced and saved from the leased premises.

2<sup>nd</sup>. 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 (1/8th) 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 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. If Lessor, during the primary term of this lease, receives a bona fide offer from a third party to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with such lease to become effective upon expiration of this lease, which Lessor is willing to accept from the offering party, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen (15) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein covered by the offer at the price and on the terms and conditions specified in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this paragraph 14. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail, telefax, or telegram prior to expiration of said fifteen (15) day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution by Lessor along with Lessee's sight draft payable to Lessor in payment of the specified amount as consideration for the new lease, such draft being subject to approval of title according to the terms thereof. Upon receipt thereof, Lessor shall promptly execute said lease and return same along with the draft through Lessor's bank of record for payment.

15. 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.

16. Notwithstanding anything to the contrary contained herein, Lessee has the option to extend the primary term an additional Three (3) years with the payment of an amount equal to 50% the original amount paid per net acre for the lands not already held under other terms of this lease, such amount being paid to Lessor at the address set forth above on or before the expiration of the primary term set forth above in paragraph 1. Such payment shall be considered tendered by Lessee and received by Lessor when deposited, postage paid, in the United States mail, or with a nationally recognized carrier service.

17. 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.

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

  
Stephen James Swinney, a Single Man

STATE OF California }  
COUNTY OF Sacramento } ss

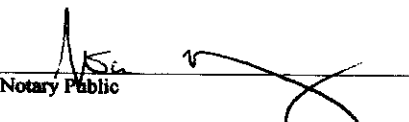
ACKNOWLEDGMENT—INDIVIDUAL

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this 9 day of February, 2010 personally appeared Stephen James Swinney, a Single Man

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 He duly executed the same as His free and voluntary act and deed for the 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 6/4/12

  
Notary Public

Return to:  
GFL & Associates, LLC  
19751 E. Mainstreet, Suite 387  
Parker, CO 80138

