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# OIL AND GAS LEASE

AGREEMENT, Made and entered into the 30<sup>th</sup> day of August, 2007, by and between Hilda Kaiser, a widow, hereinafter called Lessor (whether whose address is 3312 Carson Ave., Evans, CO 80620, whose address is one or more) and Apollo Operating, LLC, hereinafter called Lessee: 1557 Ogden St., Suite 300, Denver, CO 80218

WITNESSETH, that the Lessor, for and in consideration of \_\_\_\_\_, 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, with the exclusive right for the purpose of drilling, mining, exploring by geophysical and any 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 surveying and re-surveying, constructing, laying, repairing, replacing, upgrading and removing the whole or in part, pipelines and related equipment including, without limitation, gauges, metering and communication equipment and valve sets, and access over and across the lands described for said purposes, and erection of any structures thereon necessary 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 ("Leased Premises"):

Township 6 North, Range 65 West, 6<sup>th</sup> P.M.  
Section 10: W/2NW/4; NE/4

This lease is subject to that certain Surface Damage and Release Agreement dated August 30, 2007 by and between the parties hereto.

This lease is subject to that certain Letter Agreement dated August 30, 2007 by and between the parties hereto.

and containing 240.00 acres, more or less.

Lessor also intends to include in this lease to Lessee, and by this reference hereby does lease to Lessee under the terms and consideration herein recited, any right, title and interest Lessor may have in and to any and all mineral rights on, in and under any and all streets, county roads, highways, railroad strips and/or any and all other easements and rights of way whatsoever, canals, ditches, and any other waterways laying across and/or adjacent and/or in any way appertaining to the lands hereinabove described, including, without limitation, any lands acquired previously or in the future by adverse possession, after acquired title to the lands hereinabove described, and by accretion through meander or waterways or any recession of shoreline whether specifically described hereinabove or not. Lessor further agrees to execute and deliver such other and additional instruments, notices, oil and gas leases, and other documents, and to do all such other and further acts and things, as may be reasonably necessary to more fully and effectively grant, lease, and assign to Lessee, the rights and interests, leased or intended to be leased hereby.

1. It is agreed that this lease shall remain in force for a term of Two (2) years 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 including, without limitation, water 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, gas, or any other substance provided for herein 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 ("drilling operations" shall include, without limitation, surface inspections conducted by Lessee or its agents, surveying and staking of well sites, construction of well pads and related access roads, and post construction well pad preparation), 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 or re-working 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 one hundred eighty (180) days from date of cessation of production or from date of completion of dry hole. If oil, gas, or any other substance provided for herein 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, gas, or any other substance provided for herein 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, the word "operations" shall mean, in addition to those matters covered in the preceding sentence, (1) operations of said wells to remove water or other substances from the coalbed, or to dispose of such water or other substances, even though such operations do not result in the production of hydrocarbons in paying quantities, (2) shutting-in or otherwise discontinuing production from said wells to allow for surface or underground mining affecting the drillsite or wellbore, or (3) any bona fide effort to restore production this is considered "usual and customary" in the industry. These procedures and events are explicitly considered "operations" and will perpetuate this lease as herein provided.

2. This is a PAID-UP LEASE. \_\_\_\_\_ 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 or strata 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, \_\_\_\_\_ 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 \_\_\_\_\_ 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, \_\_\_\_\_, less \_\_\_\_\_, Lessor's interest, in either case, to be \_\_\_\_\_ of compressing, dehydrating, processing, and otherwise treating such gas and casinghead gas to render it marketable or usable and \_\_\_\_\_ 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 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 is not sold or used, Lessee may pay or tender as royalty to the royalty owners \_\_\_\_\_ 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 said Lessor(s) owns 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 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 water wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line 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 on the Leased Premises.

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 utilize 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 and will be effective from the date of first production. In lieu thereof, or forming or reforming of any unit or pooled area shall be deemed automatically accomplished if the state governing body which has the authority to establish drilling and production units therein has designated such in any rule, regulation, or order, or such unit or pooled area has been describe in any application for permit to drill or other document filed by Lessee with said governing body and will be effective from the date of first production. 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

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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 utilize, 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 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. In the event any sections, clause, sentence, or part of this lease be adjudged by any court or competent jurisdiction to be unconstitutional or invalid this lease shall not be terminated as a whole, or any part thereof other than that part so declared to be unconstitutional or invalid.

14. This lease shall not be terminated in whole or in part, nor Lessee held liable in damages, because of a temporary cessation of production or of drilling operations due to breakdown of equipment or due to the repairing of a well or wells, or because of failure to comply with any of the express or implied provisions of this lease if such failure is the result of the exercise of governmental authority, war, lack of market, act of God, strike, fire, explosion, flood, or any other cause or force majeure reasonably beyond the control of Lessee. If Lessee shall be prevented during the last six (6) months of the primary term hereof, or during any extension hereof under paragraph 1, from drilling a well hereunder by the order of any constituted authority having jurisdiction thereover, or if Lessee should be unable during said period to drill a well hereunder due to equipment necessary in the drilling thereof not being available on account of any cause beyond the control of Lessee, the primary term of this lease shall continue until six (6) months after said order is suspended and/or said equipment is available.

15. If Lessee is allegedly in default of any of the terms of this lease it shall not be deemed to automatically terminate as to the whole or any part. Lessor shall give Lessee written notice of such alleged default by certified mail and Lessee shall have 30 business days in which to investigate and/or cure any such alleged default.

16. 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.

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, 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.

This lease is subject to that Addendum to Oil and Gas Lease dated August 30, 2007.  
 IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

Hilda Kaiser  
 Hilda Kaiser

STATE OF COLORADO }  
 COUNTY OF WELD }

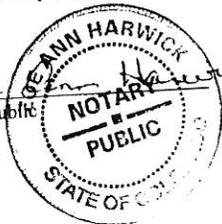
} ss

ACKNOWLEDGMENT—INDIVIDUAL

The foregoing instrument was acknowledge before me this 30<sup>th</sup> day of Aug 2007 by Hilda Kaiser.

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

My Commission Expires: Feb. 8, 2010

Zoe  
 Notary Public  


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### ADDENDUM TO OIL AND GAS LEASE

This Addendum to Oil and Gas Lease is by and between Hilda Kaiser, as "Owner" and Apollo Operating, LLC, a Colorado limited liability company, as "Operator", and amends that certain Oil and Gas Lease entered into the 30<sup>th</sup> day of August, 2007, and regarding the West Half of the Northwest Quarter and the Northeast Quarter of Section 10, Township 6 North, Range 65 West, 6<sup>th</sup> P.M., Weld County, Colorado. The provisions hereof shall supersede any contrary provisions of such oil and gas lease.

1. Operations shall be limited to those customarily associated with the exploration, development and production of oil and gas and associated hydrocarbons in Weld County Colorado and shall exclude production of coalbed methane. There shall be no mining.

2. The shut-in gas royalty provisions of paragraph 4 of the Lease shall be limited to one year following completion.

3. The words "or on acreage pooled therewith" in paragraph 1 of the Lease shall extend the primary term of the lease only with regard to the West Half of the Northwest Quarter of Section 10.

4. Lessor shall have no obligation to warrant or defend title to the lands herein described. Lessee has independently investigated title to the lands and is not relying on any representation of Lessor with regard thereto.

The address of Hilda Kaiser for purposes of this lease shall be 34533 WCR 45, Eaton, Colorado 80615.

Signatures below indicate approval of the provisions hereof.

Lessor

Hilda Kaiser  
Hilda Kaiser

Lessee, Apollo Operating, LLC

By: Jesse L. White  
Jesse L. White, Manager

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**RATIFICATION AND CORRECTION OF DESCRIPTION  
IN OIL AND GAS LEASE**

WHEREAS, on the 30th day of August, 2007, Hilda Kaiser, a widow, as lessor, whose address is 3312 Carson Ave., Evans, CO 80620, executed a certain Oil, Gas and Mineral Lease in favor of APOLLO OPERATING, LLC, as lessee, whose address is 1557 Ogden St., Suite 300, Denver, CO 80218, which lease is recorded at Reception No. 3500847, of the records of Weld County, Colorado and which lease covered certain lands situated in said Weld County, Colorado and described therein as follows, to wit:

**Township 6 North, Range 65 West, 6<sup>th</sup> P.M.**  
**Section 10: W/2NW/4; NE/4**

AND WHEREAS said description is incomplete and indefinite, and the lands intended to be covered by said lease, and situated in said County and State, are more accurately described as follows, to-wit:

**Township 6 North, Range 65 West, 6<sup>th</sup> P.M.**  
**Section 10: E/2NW/4; NE/4**

NOW, THEREFORE, in consideration of TEN DOLLARS (\$10.00) cash in hand paid by the Lessee, the receipt whereof is hereby acknowledged, and other good and valuable considerations, and for the purpose of making said lease definite and certain in respect to the identity of the lands intended to be covered thereby, we do hereby acknowledge that it was the intention of the lessor in the aforesaid lease to lease for oil and gas mining purposes all of the lands last above described; and we hereby amend said lease in respect to the description of the lands included therein, and ratify, confirm, approve, and adopt said lease as amended.

WITNESS our hands and seals this 18 day of Oct., A.D., 2007.

Hilda Kaiser  
Hilda Kaiser

STATE OF COLORADO }  
COUNTY OF WELD } ss

ACKNOWLEDGMENT—INDIVIDUAL

The foregoing instrument was acknowledge before me this 18<sup>th</sup> day of October 2007 by Hilda Kaiser.

WITNESS hand and official seal.

My Commission Expires 4-6-08



Jean E Rowley