

## OIL AND GAS LEASE

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THIS AGREEMENT, Made and entered into the 8th day of August, 2005, by and between **Leroy E. Waag and V. Elaine Waag, husband and wife**, whose address is **620 N. County Rd 5, Ft. Collins, CO 80524**, hereinafter called Lessor (whether one or more) and **Petro-Canada Resources (USA) Inc.**, whose address is **1099 18<sup>th</sup> Street, Suite 400, Denver, CO 80202**, hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of [REDACTED] 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, with rights of way and easements for surveying and re-surveying, constructing, laying, repairing, replacing, upgrading and removing in 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, laying pipelines, and erection of any other structures thereon 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 7 North, Range 66 West, 6<sup>th</sup> P. M.**

**Section 25: 169.00 acres more or less, as more fully described by metes and bounds in that certain Mineral Deed, dated February 26, 1987, Book 1148, Reception No. 2090211, recorded on March 2, 1987**

and containing **169.00** acres, more or less.

Lessor also intends to include in this lease and to lease to Lessee 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 lying 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 and by accretion through meander of waterways or any recession of shoreline.

1. It is agreed that this lease shall remain in force for a term of [REDACTED] from this date and as long thereafter as oil or gas of whatsoever nature or kind 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 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; 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 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.

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 pay Lessor, as royalty, [REDACTED] 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, [REDACTED] part of all oil produced and saved from the leased premises.

2nd. To pay to Lessor, as royalty, [REDACTED] 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 may pay or tender as royalty to the royalty owners [REDACTED] 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 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 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.

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.

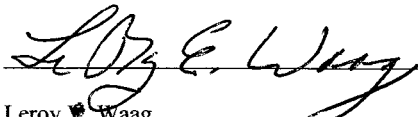
14. If Lessee shall fail to pay any royalty, rental or other payment when due, and if such default shall continue for a period of fifteen (15) days after receipt by Lessee of written notice thereof from Lessor, then at the option of Lessor, Lessor may terminate this lease as to those lands as to which Lessee is in default; provided, however, that if there be a bona fide dispute as to the amount due and all undisputed amounts are paid, said fifteen (15) day period shall be extended until five (5) days after such dispute is settled by final court decree, arbitration or agreement. If Lessee shall be in default in the performance of any of its obligations under this lease other than the payment of rentals, royalties or other payments, and if, for a period of ninety (90) days after receipt by Lessee of written notice thereof from Lessor, Lessee shall fail to commence and thereafter diligently and in good faith to prosecute the remedy of such default, Lessor may terminate this lease as to those lands which Lessee is in default.

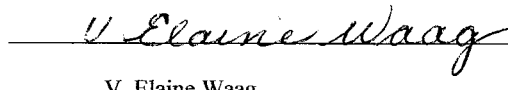
15. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above-described lands, in the event of default of payment by Lessor and be 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. 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 personal representatives, heirs, successors and assigns of Lessor and Lessee.

17. This lease is subject to the terms and conditions of the Surface Damage Agreement between Lessor and Lessee, executed the same date herein.

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

  
Leroy E. Waag  
E. Waag

  
V. Elaine Waag

STATE OF Colorado

COUNTY OF Larimer

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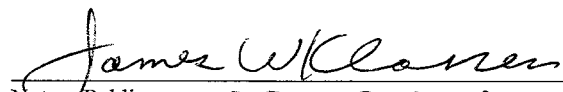
(INDIVIDUAL ACKNOWLEDGMENT)

The foregoing instrument was acknowledged before me this 15<sup>TH</sup> day of August, 2005, by **Leroy E. Waag and V. Elaine Waag** husband and wife, known to me, and who acknowledged that he or she executed the foregoing instrument as his or her free and voluntary act and deed for the uses and purposes therein set forth.

I, James W. Klassen, Notary Public, State of Colorado, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires 04/30/2008

(seal)

  
Notary Public: 12328 W. BERRY AVE  
Address: LITTLETON, CO 80127

Return to:

James W. Klassen  
12328 W. Berry Avenue  
Littleton, CO 80127