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GRANT CANYON

**Eureka County - NV**

**Mike Rebaleati - Recorder**

Fee: \$47.00

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0223662

**OIL AND GAS LEASE**

## OIL AND GAS LEASE

This Oil and Gas Lease ("Lease") is made this 1st day of December, 2012, by and between SLAGOWSKI RANCHES, INC., whose address is Pine Valley Route, Carlin, Nevada, 89822 ("Lessor" whether one or more) and GRANT CANYON OIL & GAS, LLC, whose address is 717 Seventeenth Street, Suite 1400, Denver, CO 80202 ("Lessee").

WITNESSETH, For and in consideration of TEN DOLLARS, the covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Lessor does hereby grant, demise, lease and let exclusively unto said Lessee, with the exclusive rights for the purposes of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind, and laying pipelines, telephone and telegraph lines, building tanks, plants, power stations, roadways and structures thereon to produce, save and take care of said products, and the exclusive surface or subsurface rights and privileges related in any manner to any and all such operations, and any and all other rights and privileges necessary, incident to, or convenient for the operation alone or conjointly with neighboring land for such purposes, all that certain tract or tracts of land situated in Eureka County, State of Nevada described as follows, to wit:

Township 28 North, Range 52 East

Section 8: W/2, S/2SE

Section 16: W/2, SW/4SE/4

Section 17: E/2, NW/4, NESW

Section 20: NE/4NE/4

Section 21: NW/4, SE/4NE/4, W2NE, N2SE

Section 22: N2SW, SE/4

Section 23: Lots 6, 7, 8, N2SW, SESW, W2SE

Section 24: Lots 7, 8, N2SW

And containing 2400 acres, more or less (the "Premises").

For additional clauses see Addendum "A" attached hereto and made a part hereof and which provisions shall supersede provisions contained in the lease form to the extent they are inconsistent or conflict.

1. It is agreed that this Lease shall remain in full force for a term of Five (5) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever nature or kind is produced from the Premises or on acreage pooled or unitized therewith, or operations are continued as hereinafter provided. If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises therewith but Lessee is then engaged in drilling, reworking operations thereon, then this Lease shall continue in force so long as such operations are being continuously prosecuted. 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 the Premises therewith, the production thereof should cease from any cause after the Primary Term, this Lease shall not terminate if Lessee commences additional drilling, reworking or dewatering operations within ninety (90) days from date of cessation of production or from date of completion of a 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, this Lease shall continue in force so long as oil or gas is produced from the Premises. Lessee shall have the option, at its sole discretion, to extend the Primary Term for an additional Five (5) years by giving notice of such extension to Lessor at any time on or before the original expiration date of the Primary Term and paying or tendering to Lessor an amount equal to 125% of the bonus payment made by Lessee to Lessor upon execution and delivery of this Lease. If Lessee so elects to extend this Lease, all references herein to the "Primary Term" shall be deemed to refer to the original Primary Term, as extended as described above.
2. If no well shall have been commenced on the Premises or on acreage pooled or unitized therewith on or before one year from the date hereof, this Lease shall terminate as to both parties unless Lessee, on or before that date, shall pay or tender to Lessor an amount equal to the bonus payment made by Lessee to Lessor upon execution and delivery of this Lease; provided that, if Lessee exercises its option to extend the Primary Term for an additional Five (5) years as described above, the amount paid by Lessee for such extension shall be deemed to be in lieu of any delay rental payment that would otherwise be payable at the end of the fifth year of the term of this Lease, and delay rental payments for subsequent years shall be increased to an amount equal to 125% of the bonus payment made by Lessee to Lessor upon execution and delivery of this Lease. In consideration of the payment made herewith, 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 the Premises 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 obligations thereafter accruing as to the acreage surrendered.
3. Lessee covenants and agrees to pay royalty to Lessor as follows:
  - (a) On oil, to deliver to the credit of Lessor, free of cost on the lease if sold on the Premises or free of cost into the pipeline to which Lessee may connect wells at first point of sale, the equal Fifteen per-cent (15.00%) part of all oil produced and saved from the Premises.
  - (b) On gas of whatsoever nature or kind, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the Premises ("Gas") Lessee shall pay, as royalty, Fifteen per-cent (15.00%) of the net proceeds realized by Lessee from first point of sale.
  - (c) On products produced from the Premises Lessee shall pay, as royalty, Fifteen per-cent (15.00%) of the net proceeds realized by Lessee from first point of sale.
  - (d) Lessee shall have the right, but not the obligation, to pay Lessor's proportionate share of any required severance, excise or gross production taxes.
4. Where Gas from a well capable of producing Gas is not sold or used after the expiration of the Primary Term, Lessee shall pay or tender as royalty to Lessor at the address set forth above One Dollar (\$1.00) per year per net mineral acre, 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 or dewatering operations are commenced and thereafter on or before the anniversary date of this Lease during the period such well is shut in or dewatering operations are being conducted.
5. If Lessor owns a lesser interest in the Premises than the entire and undivided fee simple estate therein, then the royalties, including any shut-in Gas royalty, herein provided for shall be paid 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 the Premises for Lessee's operations thereon, except water from the wells, streams, lakes and ponds of Lessor.
7. When requested by Lessor, Lessee shall bury Lessee's pipeline below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on the Premises without written consent of Lessor. Lessee shall pay for damages caused by Lessee's operations on the Premises. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.
8. The rights of the 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 the Premises 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.
9. Lessee, at its option, is hereby given the right and power to pool, unitize or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in the immediate vicinity thereof, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of oil, gas or other minerals in and under and that may be produced from said premises, and a unit or units shall not exceed 320 acres each in the event of an oil well, or 640 acres each in the event of a gas well, plus a tolerance of ten percent (10%) to conform to government surveyed sections. Lessee shall execute in writing and record in the records of the county in which the land herein leased is situated an instrument identifying and describing the pooled acreage. Lessee shall also be required to conform to all oil & gas permitting requirements imposed by the State Oil & Gas Commission's Rules and Regulations. The entire acreage so pooled into a tract or unit shall be treated, for all purposes, except the payment of royalties on production, from the pooled unit, as if it were included in this lease. If production is found on the pooled acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere specified, Lessor shall receive on production from a unit so

pooled only such portion of the royalty stipulated herein as the amount of his net royalty interest therein on an acreage basis bears to the total mineral acreage so pooled in the particular unit involved.

10. 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. Any delay or interruption caused by storm, flood, act of God or other event of force majeure shall not be counted against Lessee. If, due to the above causes or any cause whatsoever beyond the control of Lessee, Lessee is prevented from conducting operations hereunder, such time shall not be counted against Lessee, and this Lease shall be extended for a period of time equal to the time Lessee was so prevented, anything in this Lease to the contrary notwithstanding.
11. Lessor 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.
12. Should any one or more the parties named as Lessor herein 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.

Carl Slagowski  
By: Carl Slagowski, President

Billie Sue Slagowski  
By: Billie Sue Slagowski, Secretary

STATE OF NEVADA

COUNTY OF Elko

)  
)ss:  
)

CORPORATE/TRUST/PARTNERSHIP ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this 17<sup>th</sup> day of December, 2012, by

CARL SLAGOWSKI, in his capacity as PRESIDENT of SLAGOWSKI RANCHES, INC. and Billie Sue Slagowski, secretary.

My Commission Expires: 8/26/13

[Signature]  
Notary Public



\*\*\*\*\*OIL AND GAS LEASE RECORDING INFORMATION\*\*\*\*\*

STATE OF \_\_\_\_\_

COUNTY: \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_, at \_\_\_\_\_ o'clock \_\_\_\_\_ M and duly

Recorded in Book \_\_\_\_\_, Page \_\_\_\_\_ of the records of this office.

BY: \_\_\_\_\_  
Clerk and Recorder

When Recorded Return To:  
Grant Canyon Oil & Gas, LLC  
717 17<sup>th</sup> Street, Suite 1400  
Denver, CO 80202



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## ADDENDUM "A"

Attached to and made a part of that certain oil and gas lease dated December 1, 2012, by and between SLAGOWSKI RANCHES, INC., Lessor, and GRANT CANYON OIL & GAS, LLC, hereinafter referred as "GCOG", Lessee.

### Supplemental Lease Terms

A-1 This lease is expressly limited to oil, gas, and hydrocarbons substances recoverable in solution with oil or gas and recoverable only through a well bore. This lease expressly does not include coal, shale, lignite, minerals, geothermal steam, hot water, hot brines, thermal energy, gases (except oil, gas, and said hydrocarbon substances) or minerals in solution in water or steam or recoverable in connection therewith through a well bore, and SLAGOWSKI RANCHES, INC. expressly reserves the right to sell, lease, mine, drill or otherwise transfer, dispose of, recover and market all minerals, coal, shale, lignite, geothermal steam, hot water, hot brines, thermal energy, gases (other than oil, gas, and hydrocarbon substances included in this lease) and minerals or solutions. These rights and estates reserved shall include the use of the surface as necessary to investigate, explore, market, process or produce on the land and sell the substances herein reserved.

A-2 The parties hereby agree that the rights reserved by the SLAGOWSKI RANCHES, INC., in paragraph A-1 will not interfere with any operations while a well is being drilled, or with any producing wells or associated facilities on the lease which are necessary to maintain prudent operations.

A-3 In the event GCOG enters upon the lands of SLAGOWSKI RANCHES, INC. and drills a well which is not productive and which well is plugged and abandoned by GCOG, GCOG shall restore the lands occupied by it and the forage that was on the lands as nearly as is reasonably possible to their condition prior to entry by GCOG. In addition, GCOG shall pay SLAGOWSKI RANCHES, INC. fair market value of any crop damaged or destroyed by GCOG.

A-4 Notwithstanding any provision of the permitted lease to the contrary, the location of all drill sites, structures, buildings, camps, equipment, fences, facilities, transmission lines, power lines, pipelines, utility lines, ditches, drains, culverts, gates, ponds, roads, poles, pipes, and other improvements used, constructed or placed on the leased premises shall be *approved by SLAGOWSKI RANCHES, INC. prior to commencing such construction, placement, or use.* SLAGOWSKI RANCHES, INC. agrees not to unreasonably withhold such approval. SLAGOWSKI RANCHES, INC. will have control over the surface disturbance of the "Meadow Land." These lands are defined in Exhibit 1. Lands equal approximately 800 acres. SLAGOWSKI RANCHES, INC. may allow limited access as to time of year or may disallow access completely. Written consent must be obtained for GCOG prior to any use whether temporary or permanent.



A-5 Upon termination of this lease in any manner or if a well is abandoned, GCOG agrees: to re-level the surface of the land involved; to fill all abandoned sump holes, and excavations made by GCOG; to remove derricks, tanks, tank supports, and other structures and property of GCOG hereon; to remove all cement *blocks, foundations and footings which have been placed by GCOG or permitted by SLAGOWSKI RANCHES, INC.* to be placed on said leased premises; to replant any lands disturbed by GCOG to the forage or crops which were growing thereon before GCOG'S use; to repair and restore all ditches, fences and other improvements on the lands in any way disturbed by GCOG.

A-6 GCOG agrees to indemnify and hold harmless SLAGOWSKI RANCHES, INC. from and against any and all claims, suits, damages, costs, losses, liability and expenses arising or growing out of injuries to or death of persons or loss or damage to property or loss or pollution of water or water zones in any manner directly or indirectly resulting from or caused by operations under this lease on the leased premises, or facilities, pipe lines, utility lines, power lines, transmission lines, hot water, steam, gas derricks, tanks or appurtenances thereof, or other items used or placed on the lands by GCOG or resulting from GCOG'S use, occupancy of or activities on the lands.

A-7 Notwithstanding any other provision contained in this lease to the contrary, SLAGOWSKI RANCHES, INC. does not warrant, either expressed or implied, the rights, title, estate or possessory interest granted GCOG under this lease. It is understood that the rights and privileges granted to GCOG hereunder, are subject to the extent of SLAGOWSKI RANCHES, INC.'S ownership and any and all existing mortgages, deeds of trust, liens, rights of way, easements, oil, gas, mineral and other reservations contained in patents, deeds or other instruments and all other documents of record in the Eureka County Recorder's Office, Eureka, Nevada, as of the date of this lease.

A-8 If any lien, encumbrance or security interest is filed against any of the real or personal property of the SLAGOWSKI RANCHES, INC. caused or incurred by GCOG, then GCOG shall, within thirty (30) days after such filing, remove the same from the SLAGOWSKI RANCHES, INC. upon seven (7) days advance written notice of all construction, repairs (other than repairs of any emergency nature), drilling and other activities GCOG intends to do or cause to be done which could result in a mechanic's or material men's lien being filed against the SLAGOWSKI RANCHES, INC.'S property to that SLAGOWSKI RANCHES, INC. can timely file a written Notice of Non-Responsibility pursuant to N.R.S. 108.234.

A-9 At the expiration of any other termination of this lease, GCOG shall peaceably deliver possession of the premises to the SLAGOWSKI RANCHES, INC. and reconvey all leased property to the SLAGOWSKI RANCHES, INC. by properly executed quitclaim deed in form suitable for recording in the Eureka County Recorder's Office.



A-10 GCOG shall keep the SLAGOWSKI RANCHES, INC.'S property free and clear of all rubbish, garbage, litter and abandoned items of property brought to or placed upon the SLAGOWSKI RANCHES, INC.'S property by GCOG or any of GCOG'S agents, employees, contractors, sub-contractors or assigns.

A-11 Any storage on the SLAGOWSKI RANCHES, INC.'S property of vehicles, materials and other property of GCOG shall be done only upon such locations as are approved in advance by SLAGOWSKI RANCHES, INC. SLAGOWSKI RANCHES, INC. shall not unreasonably withhold such approval except as provided in item A-4 as to the "Meadow Lands."

A-12 GCOG shall promptly repair all damage to fences, gates and cattle guards on the leased premises and in the grazing areas utilized by the SLAGOWSKI RANCHES, INC. arising out of use of the leased premises under this lease or the actions or activities of GCOG on the leased premises.

A-13 The parties understand and agree that the leased premises are used primarily by the SLAGOWSKI RANCHES, INC. for the ranching and raising of livestock which is more important to them than the activities of GCOG under this lease. Accordingly, SLAGOWSKI RANCHES, INC. reserves the right to the use of the surface of all leased lands for all ranching and livestock producing purposes and expressly reserves and excepts from this lease all water rights of SLAGOWSKI RANCHES, INC. and waters being used by SLAGOWSKI RANCHES, INC. and all rights, privileges, preferences, licenses and permits to graze livestock on the public lands and National Forests. GCOG agrees to conduct its operations upon the leased premises in such manner as to cause the least possible amount of interference with and damage to the ranching and livestock operations of the SLAGOWSKI RANCHES, INC. It is agreed that if the acts, omissions, or operations of GCOG, or any person or entity acting by, through or under it, result in the pollution of any of the domestic, irrigation or livestock waters used by the SLAGOWSKI RANCHES, INC., or damage any areas of the SLAGOWSKI RANCHES, INC.'S meadows or other farming or crop producing areas or other lands of the SLAGOWSKI RANCHES, INC. other than those SLAGOWSKI RANCHES, INC. has expressly given prior approval to GCOG for use in drilling operation, or result in the loss, injury or death of more than 0 percent of the SLAGOWSKI RANCHES, INC.'s livestock in any one calendar year, SLAGOWSKI RANCHES, INC. shall have the right to terminate this lease if the condition is not cured with thirty (30) days after the notice is provided in Paragraph A-16.

A-14 GCOG understands that water rights are of paramount interest to the SLAGOWSKI RANCHES, INC. Accordingly, GCOG agrees that it shall not attempt to use, apply for, or appropriate any waters, or water rights which would conflict with the SLAGOWSKI RANCHES, INC.'s water rights, or in any way diminish their present water rights or reduce any ground water that may not or hereafter be available to them for development and appropriation for

domestic irrigation or stock water use. GCOG agrees that it shall not in any way pollute any ground or surface waters useable or being used by the SLAGOWSKI RANCHES, INC. or any other persons relating to GCOG, using the same water sources. GCOG further agrees that no oil, gas, minerals, brine, fluid or surplus water be reinjected into a fresh waters zone and if reinjected it shall be reinjected into the zone from which it came following which GCOG shall cement off or otherwise seal off the zones to prevent their entry into ground or surface water sources which are usable for domestic, agricultural or stock watering purposes. GCOG agrees that it shall not, without prior approval of the SLAGOWSKI RANCHES, INC. interfere with or damage the SLAGOWSKI RANCHES, INC.'s ditches, wells, or irrigation systems or irrigation methods.

A-15 GCOG agrees that it shall, if requested by the SLAGOWSKI RANCHES, INC., fence off any GCOG facilities, storage areas, drill sites, sumps, ditches, camps, housing areas, or other structures or developments on the leased lands with a livestock fence built to Nevada Site State Fence Law standards in the area with such gates and cattle guards as SLAGOWSKI RANCHES, INC. shall specify. The SLAGOWSKI RANCHES, INC. shall designate the area which shall be no more than reasonably necessary to protect SLAGOWSKI RANCHES, INC.'s livestock from GCOG's activities, and the fence lines shall be as designated by the SLAGOWSKI RANCHES, INC. Construction of these facilities shall be completed by GCOG within thirty (30) days after SLAGOWSKI RANCHES, INC.'s request, subject to weather and availability of labor and materials.

A-16 Upon the violation by GCOG to any other terms, covenants or conditions of this lease, and the failure of GCOG to remedy the default within (30) days after written notice from SLAGOWSKI RANCHES, INC. to GCOG specifying the default, then, at the option of the SLAGOWSKI RANCHES, INC. the lease shall forthwith cease and terminate and all rights of GCOG in and to the land shall be at an end as to all said lands, except that GCOG shall have the right to retain and hold under this lease the area surrounding each well producing and being drilled, and any such well contained therein and all the working interest production there from with respect to which it is not in default, subject to payment of all royalties, rentals and other sums herein provide. The waiver by SLAGOWSKI RANCHES, INC. of any breach of any covenant or condition hereof shall not be a waiver of any or subsequent breach hereof, nor of any other covenant or condition hereof.

A-17 GCOG shall keep an accurate log and casing record showing the progress of drilling, character of formations encountered or drilling through, and casing in each well in which drilling shall have been done on the leased premises, and furnish SLAGOWSKI RANCHES, INC. a copy of thereof upon the completion of or the abandonment of each well, and a true copy of all surface location and sub-surface directional surveys made, if any, of each well drilled under the Lease. GCOG will pay all costs in reproducing said logs and records. Said logs and records, etc. will be provided at the time of publicly required release as governed by the Nevada Oil, Gas and



Mining Division. GCOG will furnish all reasonable facilities for making such observations and measurements as the SLAGOWSKI RANCHES, INC. may desire, and SLAGOWSKI RANCHES, INC. is duly appointed agents and representatives shall have free and full access to all of the wells and works and to all property in and upon said leased premises, but SLAGOWSKI RANCHES, INC. must obtain written approval prior to any inspection. Inspection will be withheld only if it may conflict with confidential operations and/or data.

A-18 GCOG agrees to keep full and accurate records of the operations and production and sales of all oil, gas, and other substances from the leased premises, independently of and separate from any other premises operated by GCOG, to notify SLAGOWSKI RANCHES, INC. promptly of discovery of any of said substances in, or on the leased premises and to furnish quarterly to SLAGOWSKI RANCHES, INC. a true statement of all production, deliveries and deductions in a form satisfactory to the SLAGOWSKI RANCHES, INC. All records of the operations and productions and sales of said substances from the leased premises shall, at all reasonable times, be open to inspection of SLAGOWSKI RANCHES, INC.'s agents and representatives.

A-19 Notwithstanding anything to the contrary herein contained, if LESSEE has obtained production on this lease, at the end of the Primary Term from the expiration date of this lease, LESSEE shall release all lands that are not reasonably expected to be drilled.

This lease will terminate at the end of the Primary Term.

If a well or wells are in production at the time of the expiration of this lease, the surface area to be held will be no more than five (5) acres and will be subject to the terms of this lease.

A-20 Wherever the term one-eighth ( $1/8^{\text{th}}$ ) appears in this lease, it is hereby amended to read fifteen percent (15%).

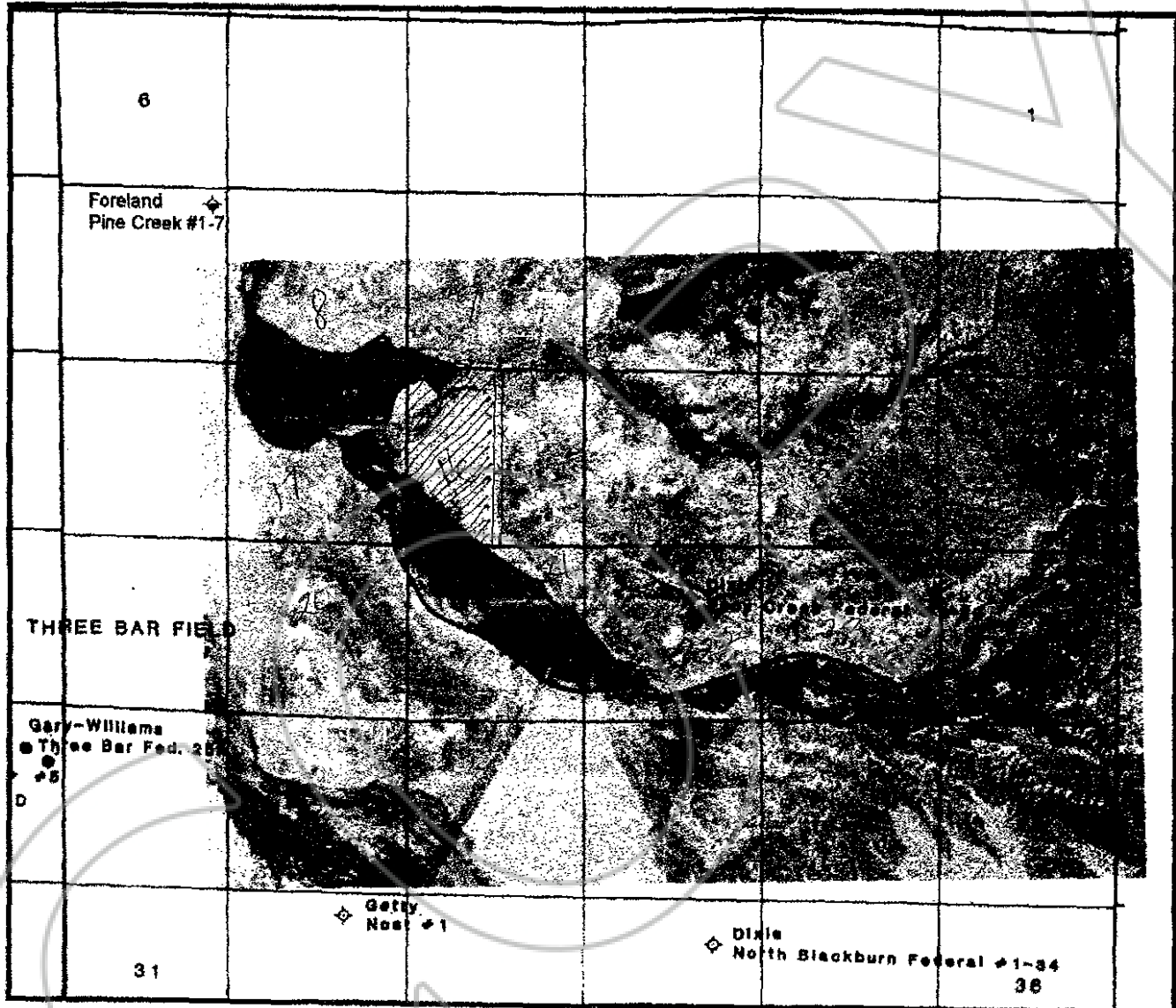
A-21 In the event that GCOG establishes a producing well, or wells that require transportation in excess of two (2) tanker loads per day, GCOG will establish alternative truck access which will not cross the west half of section 16 (see cross-hatched area on Exhibit #1) or, in the alternative establish a production pipeline at a location to be determined by SLAGOWSKI RANCHES, INC.

A-22 Neither this lease, or any rights hereunder shall be assigned, or otherwise be transferred, in whole, or in part by GCOG Corporation, without the prior written consent of SLAGOWSKI RANCHES, INC., which consent will not be unreasonably withheld.



# Exhibit # 1

## R 52 E



## T 28 N



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