

S & R Compression, LLC

Tulsa, OK

918.447.1947

800.249.7924

www.sandrcompression.com

RENTAL AGREEMENT

STATE OF OKLAHOMA}

COUNTY OF OKLAHOMA}

This Lease Agreement, made this **31st day of December, 2008** between **S & R COMPRESSION, LLC**, an Oklahoma corporation hereinafter called "Lessor", and **STORM CAT ENERGY (USA) OPERATING CORPORATION** hereinafter called "Lessee".

Lessor, in consideration of the payment of the rental hereinafter set out, hereby leases to the Lessee, and the Lessee hires and takes from the Lessor, the following described personal property, hereinafter called "Equipment":

One gas compressor package S/N **8160** consisting of: One Gardner Denver SSF rotary screw compressor V-belt driven by a 68 HP Arrow VRG-330 engine including suction filter/blowcase separator; high pressure oil coalescer, fuel bottle, Murphy electronic panel and the necessary on-skid controls, devices, piping and components for safe operation.

Said unit **8160** is for use on the Lessee's **Kamalmaz 1-13H** location in **Van Buren, AR** for a minimum of **six (6) months** beginning on the earlier of the day the Equipment is shipped or 15 days after Lessor notifies Lessee that the Equipment is available for delivery, and ending **six (6) months** later (the "Term"), in consideration of which Lessor and Lessee hereby agree to perform the terms and conditions hereinafter set out and to pay the following rental:

TERMS AND CONDITIONS

1. Lessee shall pay to the Lessor at its offices in Tulsa, Oklahoma, the following rental, with the payment guaranteed by the Lessee for the Term shown above, plus any holdover period after the Term during which Lessee holds over as provided for hereinafter:

Two Thousand Five Hundred Dollars (\$2,500.00) per month plus any state, county or local sales, use, or property taxes which may be payable. The Equipment's valuation for Lessee's insurance is \$89,357.

2. Lessee agrees to inspect the Equipment upon delivery. Unless the Lessee notifies the Lessor to the contrary, stating the details of any defect, the Lessee shall be conclusively presumed to have accepted the Equipment in its then condition.

3. While in the custodial care of the Lessee, Lessee is responsible for the security of the equipment and agrees to pay for all damages to the equipment whether deliberate or incidental, resulting from abusive use, failure to maintain the equipment in accordance with this agreement, or any act or negligence on the part of the Lessee, its employees, contractors or third parties.

4. Lessee agrees to notify Lessor promptly in the event of a mechanical breakdown, and after Lessor receives such notice, it shall either repair the Equipment or portion thereof in disrepair, or replace it with similar equipment. Given that Lessor has reasonable access to the Equipment for the purpose of making repairs, if Equipment is not repaired or replaced within (24) twenty-four hours after Lessor receives notice of such disrepair, rental payment shall be reduced by an amount equal to the daily rental on the Equipment in disrepair for each day the Equipment is idle commencing with the notice to the Lessor. Lessee must request rental reduction and provide supporting documentation within sixty (60) days of occurrence of disrepair. Claims for rental reductions made more than 60 days after occurrence of disrepair will be considered invalid. Rental payment shall not be reduced for damage and associated downtime resulting from abusive use, failure to maintain the equipment in accordance with this agreement, or any act or negligence on the part of the Lessee, its employees, contractors or third parties. Lessee shall not be entitled to reimbursement or compensation for lubricant, coolant, parts or labor furnished by any party other than Lessor without Lessor's consent prior to the time materials are supplied or repairs are made, or for any loss or damage resulting from Lessee's loss of use of the Equipment following a breakdown thereof. Damage and associated downtime caused by an act of God is not covered under the Lessor's Full Maintenance policy.
5. Lessor agrees to make all repairs to the Equipment needed except those provided for in paragraph 19 of this agreement, to keep same in operating condition, or at its sole option, to replace said equipment with other equipment equivalent in kind and condition, including the furnishing of all labor and materials at its sole expense, provided, however, Lessor shall not be obligated to make such repairs or replacement as resulted from any act, negligence or abusive use of said equipment on the part of the Lessee, its employees, contractors or third parties. Lessor supplies the Equipment with inlet gas filter, screw oil and replaceable separator sufficient for startup and initial operation of the Equipment. Replacement of the inlet gas filter element, screw oil and replaceable separator will be at Lessee's expense.
6. Lessee is responsible for the transportation cost of the Equipment to and from the location described above.
7. The title to the Equipment shall always remain with the Lessor, and Lessee shall not give or attempt to give, create or allow to be created any conveyance, security interest, lien or encumbrance affecting this Equipment. Upon termination of this rental agreement, Lessee shall surrender the Equipment to the Lessor.
8. Lessee shall give Lessor reasonable access during regular business hours to enter upon the premises where the Equipment may be located for the purpose of inspecting or observing its use.
9. No covenant or condition of the Lease Agreement can be waived except by the written consent of the Lessor. Forbearance or indulgence by the Lessor in any regard whatsoever shall not constitute a waiver of the covenant or condition to be performed by the Lessee to which the same may apply, and, until complete performance by the Lessee of said covenant or condition, Lessor shall be entitled to invoke any remedy available to the Lessor under this Lease Agreement or by law or equity despite forbearance or indulgence. Waiver of any default shall not waive any other default.
10. Any holding over the expiration of the Term shall be on a **month to month** basis at the same rental and under the same terms and conditions as the last day of such minimum rental term and may thereafter be terminated by either party upon a **thirty (30) day** notice to the other.

11. Lessee agrees to protect, defend, indemnify and hold the Lessor harmless from and against any and all claims, suits, or causes of action for personal injury, death or property damage (including loss of or damage to the equipment) to the extent that such claim, suit or cause of action is attributable to or arises out of Lessee's negligence or that of Lessee's agents, employees, and invitees. And in turn, Lessor agrees to protect, defend, indemnify and hold Lessee harmless from and against any and all claims, suits or causes of action for personal injury, death or property damage (including loss of or damage to the Equipment) to the extent that such claim, suit or cause of action is directly attributable to or arises out of (1) Lessor's negligence; (2) negligence of Lessor's agents, employees or invitees; or (3) the use, maintenance, condition, and/or delivery of the Equipment described above, whether due to imperfections of the Equipment, latent or patent, or from other causes whatsoever and Lessor shall provide adequate liability insurance at Lessor's own expense.

12. Time is of the essence. Lessor's and Lessee's rights hereunder are cumulative and not alternative.

13. Lessor may assign its rights (and delegates its duties) under the Lease Agreement. Lessor covenants to and with the Lessee that the Lessor is the lawful owner of said equipment free from all encumbrances, except a security agreement which may be executed to the Lessor's assignee by Lessor if the rents herein reserved are assigned by the Lessor, and that, conditioned upon Lessee's performing the conditions hereof, Lessee shall peaceably and quietly hold, possess and use the Equipment during said Term without hindrance.

14. Neither this Lease Agreement nor Lessee's rights hereunder shall be assignable by the Lessee except with the Lessor's written consent, which consent shall not be unreasonably withheld. The conditions hereof shall bind any permitted successors and assigns of the Lessee. The Lessee agrees and affirms;

- a) That information supplied and statements made by it in any financial or credit statement or application for credit prior to this Lease Agreements are materially true and correct;
- b) That the addresses of the Lessee's place of business are those appearing above its signature;
- c) That no financing statement which could be construed to cover the equipment leased herein, or proceeds from the sale thereof, is on file in any public office and there is no adverse lien, security interest, or encumbrances created by Lessee which can attach to said Equipment; and,
- d) There are no expressed warranties unless they appear in writing signed by the Lessor and there are no implied warranties of merchantability or fitness for a particular purpose in connection with the lease of the equipment.

15. The Lease Agreement is irrevocable for the full Term hereof and for the aggregate rental herein reserved, and the rent shall not abate by reason of termination of the Lessee's right of possession and/or taking of possession by the Lessor or for any other reason.

16. "Lessor" and "Lessee" as used in the Lease Agreement shall include the heirs, executors or administrators, successors or assigns of those parties.

17. The law governing this Lease Agreement shall be that of the State of Oklahoma in force at the date of this Lease Agreement.

18. This Lease Agreement contains the full agreement between the parties. No representation or promise has been made by either party to the other as an inducement to enter into this Lease Agreement. Lessor does not in any way or for any purpose become a partner of the Lessee, or a joint venture, or a member of a joint enterprise with the Lessee.

19. Lessor will provide the equipment described in this agreement with Full Maintenance described below.

Lessor will provide:

- (1) On site instruction in the operation of the equipment.
- (2) Start-up and operator instructions including travel time and mileage for up to an 8-hour day.
- (3) All maintenance and repairs, major and minor, due to mechanical failure including all parts and labor. This excludes routine adjustments that are normally the responsibility of the operator.
- (4) Coolant, engine oil and tank for engine oil.
- (5) Initial inlet gas filter, screw oil fill and replaceable separator.

Lessee will provide:

- (1) Transportation of the equipment to and from the lease or location. The equipment ships from Tulsa, Oklahoma and returns to Tulsa, Oklahoma; the rent does not terminate until the equipment is returned to the Lessor's yard in Tulsa, Oklahoma.
- (2) Site preparation including a suitable pad for installation and operation of Equipment.
- (3) Materials and labor for installation.
- (4) Proper hookup of gas suction and discharge lines, appropriate gas bypass lines, and all appropriate drains, dump lines and vents.
- (5) Replacement gas filter elements, screw oil and replaceable separators.
- (6) Compensation in the event of abusive use as provided in Paragraph 3 of this Lease Agreement.
- (7) Daily observation and operation, and routine daily adjustments required for normal operation.

EXECUTED as of the date first above written in duplicate originals:

LESSOR:

S & R COMPRESSION LLC
4234 SO. JACKSON AVE
TULSA, OK 74107

By: _____

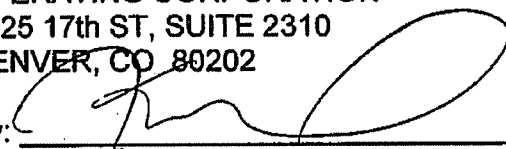
Name: Gary A. Durland

Title: Western Div. Marketing Mgr.

Date: December 31, 2008

LESSEE:

STORM CAT ENERGY (USA)
OPERATING CORPORATION
1125 17th ST, SUITE 2310
DENVER, CO 80202

By:  _____

Name: Keith J. Knapstad

Title: Vice President & Chief Operating Officer

Date: 12/31/08