



KERN BOARD SPECIAL MEETING

July 28, 2014

Immediately before or after the Regular Town Board Meeting
Town Board Chambers or 3rd Floor Conference Room
301 Walnut Street, Windsor, CO 80550

The Town of Windsor will make reasonable accommodations for access to Town services, programs, and activities and will make special communication arrangements for persons with disabilities. Please call (970) 674-2400 by noon on the Thursday prior to the meeting to make arrangements.

AGENDA

1. Call to Order
2. Roll Call of Directors Present
3. Resolution No. 2014-KB02 – A Resolution Approving One No-Surface-Occupancy Oil and Gas Lease and Related Terms between Kern Reservoir and Ditch Company, and Grizzly Petroleum Company, LLC, and Authorizing the President to Execute the Same (one small parcel of land totaling 0.01 NET MINERAL ACRES, all in Section 16, Township 6 North, Range 67 West, in Weld County, Town of Windsor)
4. Communications
5. Adjourn

LO | LIND
& OTTENHOFF, LLP
Attorneys at Law

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Kenneth F. Lind
George H. Ottenhoff

Chrysten S. Linze

Date: July 17, 2014
To: Board of Directors, Kern Reservoir and Ditch Company, a Colorado nonprofit Corporation
From: Kenneth F. Lind, Esq., Special Counsel for Oil and Gas Matters
Re: One Proposed Oil and Gas Lease with Grizzly Petroleum Company, LLC.

Proposed Oil and Gas Lease #4:

Our law firm was contacted by Grizzly Petroleum Company, LLC (a subsidiary or wholly owned Company of Great Western Oil and Gas Company, LLC) to review and present to the Board of Directors of Kern Reservoir and Ditch Company a proposed Oil and Gas Lease. The Lease covers one very small parcel of land located in Section 16, Township 6 North, Range 67 West, of the 6th P.M. in Weld County, Colorado and consisting of a total of 0.01 net mineral acres, more or less. The significant terms of the Lease are as follows:

1. Primary Term: one (1) year;
2. Lease royalty: 20%;
3. Bonus consideration: \$1,200.00 per net mineral acre;
4. The net mineral acreage: 0.01 acres;
5. Initial bonus payment: \$200.00 (a flat fee);
6. Surface use: This Lease is a "No Surface Occupancy" Oil and Gas Lease prohibiting all activities of any type regarding oil and gas development upon the surface of the subject properties;
7. Development plan: This acreage is part of a drilling program by Grizzly Petroleum Company, LLC mainly involving the Windsor Lake area which involves the Town of Windsor and Kern Reservoir and Ditch Company.

Comments on Proposed Oil and Gas Leases:

The recommendation of the proposed Oil and Gas Lease takes into consideration the following:

1. This Lease is generally considered as a “clean up” Lease as it covers one small parcel of land in the vicinity of Windsor Lake. Other adjoining lands were the subject of a Lease entered into between Kern Reservoir and Ditch Company and Grizzly dated September 30, 2011. The royalty and bonus money offered under this Lease has the same terms as approved by Kern Reservoir and Ditch Company on the main Lease in 2011.
2. Our law firm has not contacted any other company due to the fact that surrounding acreage owned by Kern Reservoir and Ditch Company was previously leased to Grizzly in 2011 and it is best to stay with the same company for such small acreage.
3. Additionally, by execution of this Lease, Kern Reservoir and Ditch Company will no longer be considered a non-consent mineral owner and subject to all of the negative aspects of forced pooling. The proposed Lease is substantially better in all aspects than being force pooled.
4. Grizzly Petroleum Company, LLC is associated with Great Western Oil and Gas Company, LLC which is involved with numerous oil and gas operations in and around the Town of Windsor.

Recommendation:

Approval of Oil and Gas Lease.

Attachments:

Letter from Great Western Oil and Gas Company, LLC dated July 9, 2014 and providing additional information for this Oil and Gas Lease

Proposed Kern Reservoir and Ditch Company Lease for Parcel in Section 16

Aerial Photograph showing Parcel

Order of Payment

1801 Broadway
Suite 400
Denver, Colorado 80202



Great Western
OIL & GAS COMPANY

Lee Michael
Contract Landman
Tel: 303-534-3628 ext. 107
lee@baselineminerals.com

July 9, 2014

Kern Reservoir and Ditch Company
C/O Town of Windsor
301 Walnut Street
Windsor, CO 80550

RE:

Township 6 North, Range 67 West of the 6th P.M.

Section 16: A part of Lot 13, Block 3, Lake View Addition as more particularly described as follows:
Beginning at the Southeast corner of said Lot 13 and assuming the East line of said Lot 13 as bearing North
40°51'14" West, being a Grid Bearing of the Colorado State

County of Weld, State of Colorado
Containing **0.01 acres**, more or less.

Dear Mineral Interest Owner,

Great Western Oil and Gas Company, LLC, is interested in leasing the above described lands for Oil and Gas purposes. Our Leases are taken under the name of Grizzly Petroleum Company, LLC. A review of public records indicates that you own a mineral interest under the said lands. The enclosed Lease, dated July 9, 2014, covers your interest in Minerals under the above described tract(s), located in Weld County, Colorado, and provides for a **one (1) year primary term**, and **20.00% Royalty** in the event of production, subject to proportionate reduction.

Great Western Oil and Gas Company, LLC, is one of the top Oil and Gas operators in Weld County, and is very conscientious of your rights as a land owner. You may visit our website, www.gwogco.com to find out more information about us.

Please find enclosed, **Oil and Gas Lease** covering your land(s), an **Order for Payment**, representing the Total Bonus Payment for the Lease, in the amount of **\$200.00**, subject to approval of Title, and **W-9 forms** for Tax Purposes.

1. Please sign the Lease and all documents **Exactly** as your name appears, in the presence of a Notary Public.
2. Return the signed and notarized Lease, along with your completed W-9 form and your signed Order for Payment, to 1801 Broadway, Suite 400, Denver, CO, 80202, in the enclosed pre-addressed, stamped envelope.
3. ***Note** – All Required & Acknowledged Documents should be received by Lessee within Thirty (30) days from the Date of the attached Lease, or Lease Offer will be considered Terminated and Withdrawn, unless contacted by Lessors(s).

Thank you for your time and consideration regarding this matter, and if you should have any questions regarding this Lease Package, please feel free to contact me at the phone number or email listed above.

Sincerely,

Lee Michael
Contract Landman

OIL AND GAS LEASE

THIS AGREEMENT, dated the 9th day of July, 2014, is made and entered into by and between **Kern Reservoir and Ditch Company, a Colorado non-profit Corporation**, whose address is c/o Town Of Windsor, 301 Walnut Street, Windsor, CO 80550, hereinafter called Lessor (whether one or more) and **Grizzly Petroleum Company, LLC**, whose address is 1801 Broadway, Suite 500, Denver, CO 80202, 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 drilling, 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 roads, 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:

FOR DESCRIPTION, SEE EXHIBIT "A" ATTACHED HERETO AND BY THIS REFERENCE MADE A PART HEREOF:

NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, THIS IS A NO SURFACE OCCUPANCY LEASE. IT IS AGREED THAT LESSEE, ITS SUCCESSORS AND ASSIGNS SHALL NOT CONDUCT ANY DRILLING OPERATIONS OR LOCATE ANY PRODUCTION FACILITIES UPON THE LEASED LANDS, NOR WILL ANY ACCESS TO THE SURFACE OF THE LEASED LANDS BE PERMITTED WITHOUT EXPRESS WRITTEN CONSENT OF LESSOR.

1. It is agreed that this lease shall remain in force for a term of **One (1) year** 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.

In the event a well or wells is 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 paragraph, (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, or (2) shutting-in or otherwise discontinuing production from said wells to allow for surface or underground mining affecting the drillsite or wellbore.

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 deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal **Twenty per-cent (20%)** part 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 Lessee, **Twenty per-cent (20%)** of the net proceeds 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, of **Twenty per-cent (20%)** of such gas and casinghead gas, Lessor's interest, in either case, to bear **Twenty per-cent (20%)** of the cost of compressing, dehydrating and otherwise treating such gas or casinghead gas to render it marketable or usable and **Twenty per-cent (20%)** of 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 **Twenty per-cent (20%)** 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 **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 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.

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 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. When operations or production are delayed or interrupted by lack of water, labor or material, or by fire, storm, flood, war rebellion, insurrection, riot, strike, differences with workmen, or failure of carriers to furnish transport or furnish facilities for transportation or lack of market in the field for the minerals produced, or as a result of any cause whatsoever beyond the control of Lessee, the time of such delay or interruption shall not be counted against Lessee and this lease shall remain in force during such delay or interruption and ninety (90) days thereafter, anything in this lease to the contrary notwithstanding.

14. Lessor hereby 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 Lessor, for itself and its 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.

15. 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.

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

By: _____
John Vazquez, as Board President for Kern Reservoir and Ditch Company

STATE OF COLORADO)
)
COUNTY OF WELD)

ACKNOWLEDGMENT--CORPORATION

The foregoing instrument was acknowledged before me this _____ day of _____, 2014, by John Vazquez, as the Board President for the Kern Reservoir and Ditch Company, a Colorado non-profit Corporation.

WITNESS my hand and official seal.

My Commission Expires:

(seal)

Notary Public

After recording return to: Grizzly Petroleum Company, LLC
Attn: Lee Michael
1801 Broadway, Suite 400
Denver, CO 80202

EXHIBIT "A"

This Exhibit "A" is attached to and made a part of that certain Oil and Gas Lease Between Kern Reservoir and Ditch Company, a Colorado non-profit Corporation, as Lessor and Grizzly Petroleum Company, LLC, as Lessee, dated July 9th, 2014, covering lands in Weld County, Colorado.

TOWNSHIP 6 NORTH, RANGE 67 WEST, 6TH P.M.

Section 16: A part of Lot 13, Block 3, Lake View Addition as more particularly described as follows: Beginning at the Southeast corner of said Lot 13 and assuming the East line of said Lot 13 as bearing North 40°51'14" West, being a Grid Bearing of the Colorado State Plane Coordinate System, North Zone, North American Datum 1983/92, with all other bearings contained herein relative thereto; thence North 88°50'45" West along the South line of said Lot 13 a distance of 12.52 feet; thence North 29°06'15" West a distance of 45.70 feet to the East line of said Lot 13; thence South 40°51'14" East along said East line a distance of 53.13 feet to the Point of Beginning. Also known as Tract A, Lake View Addition, Fifth Filing.

Containing 0.01 acres, more or less.

KERN RESERVOIR AND DITCH COMPANY, A Colorado non-profit Corporation

By: _____
John Vazquez, as Board President for Kern Reservoir and Ditch Company

SECTION 16, T6N-R67W, 6th P.M.



A part of Lot 13, Block 3, Lake View Addition as more particularly described as follows: Beginning at the Southeast corner of said Lot 13 and assuming the East line of said Lot 13 as bearing North 40°51'14" West, being a Grid Bearing of the Colorado State Plane Coordinate System, North Zone, North American Datum 1983/92, with all other bearings contained hereing relative thereto; thence North 88°50'45" West along the South line of said Lot 13 a distance of 12.52 feet; thence North 29°06'15" West a distance of 45.70 feet to the East line of said Lot 13; thence South 40°51'14" East along said East line a distance of 53.13 feet to the Point of Beginning. Also known as Tract A, Lake View Addition, Fifth Filing



1801 Broadway
Suite 400
Denver, Colorado 80202



Great Western
OIL & GAS COMPANY

Lee Michael
Contract Landman
Tel: 303.534.3628 ext. 107
lee@greatwesternoil.com

July 9, 2014

ORDER OF PAYMENT

On approval of the agreement associated herewith and on approval of title to same, Great Western Oil and Gas Company, LLC will make payment as indicated herein by check within 45 banking days of receipt of said agreement. No default shall be declared for failure to make payment until 15 days after receipt by Great Western Oil and Gas Company, LLC of written notice of Payee's intention to declare such default. In the event title research reveals that the Payee owns less than the full and undivided 100% interest in the property covered by the agreement, it is understood and agreed that the amount referenced below shall be proportionately reduced according to the percentage of the interest that the payee owns.

PAYEE: Kern Reservoir and Ditch Company

Address: C/O Town of Windsor
301 Walnut Street
Windsor, CO 80550

PHONE NUMBER: _____

AMOUNT: Two Hundred and 00/100

\$200.00

This payment is for the following Agreement, which covers property described as follows:

Township 6 North, Range 67 West of the 6th P.M.

Section 16: A part of Lot 13, Block 3, Lake View Addition as more particularly described as follows: Beginning at the Southeast corner of said Lot 13 and assuming the East line of said Lot 13 as bearing North 40°51'14" West, being a Grid Bearing of the Colorado State

Agreement Type: Oil and Gas Lease
Dated: July 9, 2014
Gross Acres: 0.01
Percentage Owned: 100%
Consideration: \$1,200.00 per net mineral acre
Term: 1 Year
Royalty: 20.00%

Completed by:

Lee Michael

Acknowledged by:

Kern Reservoir and Ditch Company
c/o Town of Windsor

For Office Use Only:
Sent via Certified mail on _____
Check # _____ in the amount of \$ _____

KERN RESERVOIR AND DITCH COMPANY

RESOLUTION NO. 2014-KB02

A RESOLUTION APPROVING ONE NO-SURFACE-OCCUPANCY OIL AND GAS LEASE, AND RELATED TERMS BETWEEN KERN RESERVOIR AND DITCH COMPANY, AND GRIZZLY PETROLEUM COMPANY, LLC, AND AUTHORIZING THE PRESIDENT TO EXECUTE THE SAME (one small parcel of land totaling 0.01 NET MINERAL ACRES, all in Section 16, Township 6 North, Range 67 West, in Weld County, Town of Windsor).

WHEREAS, Kern Reservoir and Ditch Company ("Kern") is a duly-constituted Colorado non-profit corporation with offices in the Town of Windsor, County of Weld, State of Colorado; and

WHEREAS, Kern's affairs are governed by its Board of Directors and the officers duly elected by the Board of Directors; and

WHEREAS, Kern is the owner of certain mineral interests located beneath Kern owned property within Section 16, Township 6 North, Range 67 West, 6th P.M., Weld County, Colorado; and

WHEREAS, under Colorado law, the owners of mineral interests have a right to exploit, extract and put to beneficial use all minerals beneath the surface of the land; and

WHEREAS, the oil and gas deposits located within Weld County have drawn increasing interest from oil and gas extraction firms; and

WHEREAS, as is the case within Weld County, Kern's oil and gas interests have become a source of interest to oil and gas extraction firms; and

WHEREAS, Grizzly Petroleum Company, LLC ("Grizzly") has approached Kern with terms and conditions for the leasing of Kern-owned oil and gas rights beneath Kern-owned property, consisting of approximately 0.01 net mineral acres; and

WHEREAS, Kern's Oil and Gas Special Counsel has negotiated the proposed Lease Agreement with Grizzly, the terms and conditions of which are set forth in the attached "Oil and Gas Lease", incorporated herein by this reference as if set forth fully; and

WHEREAS, the terms and conditions of the attached Oil and Gas Lease are consistent with the market and with prevailing oil and gas exploration practices within Weld County; and

WHEREAS, the attached Oil and Gas Lease specifically provides that no oil and gas activity will take place on the surface of any Kern-owned property; and

WHEREAS, Kern's Oil and Gas Special Counsel has recommended that the attached Oil and Gas Lease be approved by the Kern Board; and

WHEREAS, the Kern Board has concluded that the attached Oil and Gas Lease is beneficial to the public interest, in that it allows Kern to derive revenue from existing Kern-owned resources.

NOW, THEREFORE, BE IT RESOLVED BY THE KERN RESERVOIR AND DITCH COMPANY BOARD OF DIRECTORS as follows:

1. The attached Oil and Gas Lease is hereby approved.
2. The President is hereby authorized to execute the attached Oil and Gas Lease on behalf of Kern.

Upon motion duly made, seconded and carried, the foregoing Resolution was adopted this 28th day of July, 2014.

KERN RESERVOIR AND DITCH
COMPANY

By: _____
John S. Vazquez, President

ATTEST:

Christian Morgan, Secretary/Treasurer