

TOWN OF WINDSOR

RESOLUTION NO. 2004- 07

BEING A RESOLUTION RATIFYING, APPROVING, AND CONFIRMING THE TERMS AND CONDITIONS OF A LEASE BETWEEN THE TOWN OF WINDSOR AND PRIMA OIL & GAS COMPANY.

IT IS HEREBY RESOLVED BY THE TOWN BOARD OF THE TOWN OF WINDSOR, COLORADO AS FOLLOWS:

1. That the Town of Windsor hereby ratifies, approves and confirms the terms and conditions of the Oil and Gas Lease dated the 25th day of January, 2004, between the Town of Windsor and Prima Oil & Gas Company, a copy of which is attached hereto and made a part hereof.

2. That the Town of Windsor hereby authorizes the Mayor of the Town to execute said Oil and Gas Lease on behalf of the Town.

Upon motion duly made, seconded and carried, the foregoing Resolution was adopted this 26th day of January, 2004.

TOWN OF WINDSOR, COLORADO

By *W. Wayne Miller*
Mayor

ATTEST:

Cathy Kennedy
Town Clerk



OIL AND GAS LEASE

THIS AGREEMENT, made and entered into this 25th day of January, 2004 by and between Town of Windsor, 301 Walnut Street, Windsor, CO 80550 Party of the first part, hereinafter called Lessor (whether one or more) and Prima Oil & Gas Company, 1099 18th Street, Suite 400, Denver, CO 80202 Party of the second part, hereinafter called Lessee.

WITNESSETH:

1. That Lessor, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, paid in advance upon the execution hereof, receipt of which as full and adequate consideration for all rights granted herein is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept, and performed by Lessee, has this day granted, demised, leased, and let, and hereby grants, demises, leases, and lets exclusively unto Lessee for the purpose of Investigating, exploring, and prospecting by geophysical and other methods, and drilling, mining, and operating for and producing oil, gas, casinghead gas, casinghead gasoline, other hydrocarbons, and other minerals and gases, or either or any of them, produced therewith (hereinafter for brevity, unless otherwise required by the context, all being jointly and severally referred to as Oil and Gas), laying pipelines, building tanks, stations, power lines, telephone lines, and other structures thereon to explore for, produce, store, sell, treat, transport, and take care of all such substances, and for housing and boarding employees in its operations on said lands or

adjacent Land, the following described tract of Land (hereinafter referred to as the "Land") in Weld County, State of Colorado to wit:

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

Section 34: Two Parcels of land in the S/2 of Section 34 described as follows:

Parcel One.

Commencing at the West Quarter Corner of said Section 34 and considering the West line of the Southwest Quarter of Said Section to bear South 13°34'40" East with all bearings contained herein relative thereto; thence along said line, South 13°34'40" East, 1560.55 feet, thence South 90°00'00" East, 72.85 feet more or less to the Northwest Corner of that parcel of land described in Book 766 under Reception No. 1688432 of the real estate records of Weld County; said point being the true point of beginning; thence along the North line of said parcel South 90°00'00" East, 2683.99 feet to the Northeast Corner of said parcel; thence along the West line of a parcel of land described in Book 625, under Reception No. 1547170 of the records of Weld County, North 00°00'00" West 209.00 feet; thence South 18°50'07" West, 157.99 feet; thence South 65°59'18" West, 77.05 feet; thence North 89°43'18" West, 1157.23 feet; thence North 89°47'25" West, 890.75 feet thence North 74°11'26" West, 112.97 feet; thence South 75°09'26" West, 90.32 feet; thence South 88°12'32" West, 326.96 feet to the Easterly right of way line of Colorado State Highway #257; thence along said right of way line, South 13°20'36" East, 35.38 feet to the true point of beginning.

and

Parcel Two.

Considering the South line of said Section 34 as bearing South 84°16'12" West and with all bearings contained herein relative thereto. Beginning at the South ¼ Corner of said Section 34, said South ¼ Corner being the point of beginning; thence South 84°16'32" West, 438.07 feet; thence North 00°00'00" East, 1180 feet; thence South 90°00'00" East, 1890 feet; thence South 00°00'00" West, 990.49 feet to a point on the South line of said Section 34; thence South 84°16'32" West, and along said Section line 1461.93 feet to the point of beginning.

In addition to the Land above described, it is the intention of the parties to include within this Lease, and Lessor does hereby grant, lease and let exclusively unto Lessee to the same extent as if specifically described herein, not only the specified Oil and Gas Land described, but also all Lands owned or claimed by Lessor which are adjacent, contiguous to or form a part of the Lands above particularly described, including all Oil and Gas underlying lakes, rivers, streams, roads, easements and rights-of-way which traverse or adjoin any of said Lands. For rental payment purposes, the

Land included within this lease shall be deemed to contain 51.052 gross acres, whether it actually comprises more or less.

2. TO HAVE AND TO HOLD the same for a term of five years from and after the date hereof (called "primary term") and so long thereafter as Oil and Gas is produced from the land or from Lands with which the Land is pooled or combined therewith by Lessee, operations are being conducted on the Land or upon other Lands combined or pooled by Lessee with the Land for the exploration for and/or production of the same, all as herein provided.

3. 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.

4. The royalties to be paid by Lessee are: (a) on oil, one-eighth of that produced and saved from said Land, the same to be delivered at the wells, or to the credit of Lessor into the pipeline to which the wells maybe connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase, (b) on gas, including casinghead gas or other hydrocarbon substance, produced from said Land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale. The Lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling on said Land by making his own connections with the well, the use of said gas to be at the Lessor's sole risk and expense. Lessee shall have free use of oil, gas and water from said Land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used. Where oil and/or gas from a well capable of or which could be made capable of producing oil and/or gas is not sold or used for a period of one year, Lessee shall pay or tender as royalty One Dollar per acre of the Land hereunder applicable to such well (such payment or tender to be made on or before the anniversary date of this Lease next ensuing after the expiration of one year from the date such well is shut-in or becomes capable of producing and thereafter on the anniversary date of this Lease during the period such well is shut-in or remains nonproducing) to the Lessor. If such payment or tender is made, it will be considered that oil and/or gas is being produced from the Land within the meaning of paragraph 2 above. The Lessee may suspend drilling operations on any natural gas well at any time during the drilling of said well after the penetration of any natural gas bearing formation with potential for commercial production when there is presently not a market for the natural gas and further drilling of said well, in the Lessee's reasonable judgement, will render the condition, pressure, quantity and/or any other aspect of the natural gas to be such as would be detrimental to the marketability of natural gas from said wells. A well which is suspended and capped in this manner will be deemed capable of producing natural gas as that term is employed in this paragraph.

5. Lessee shall have the right to drill to completion with reasonable diligence and dispatch: (1) any well commenced within the primary term or any extended term of this lease and (2) any well commenced within ninety (90) days of the completion of a well which has been commenced within either such term. If Oil and Gas shall be found in paying quantities in any such well, this Lease shall continue to be in force with like effect as if such well has been completed within the primary term or any extended term of this Lease. Lessee shall also have the right to drill to completion with reasonable diligence and dispatch any well which has been suspended and capped as referred to in paragraph 4 above at such time as natural gas can be marketed therefrom, and it is expressly agreed that the Lessee will act with reasonable diligence to market the natural gas in said suspended well.

6. Lessee is hereby granted the right and power to pool, utilize, or combine the Land (hereinafter commonly referred to as "pooling") covered by this Lease, or any portion thereof, with other Land, lease, or leases in the vicinity thereof at anytime, and from time to time, whether before or after production, when in Lessee's judgement it is necessary or advisable to do so. Such pooling shall be effected by Lessee's executing and filing, in the office where this Lease is recorded, an instrument identifying and describing the pooled acreage. The production of pooled substances and development and operation on any portion of a unit so pooled (including the commencement, drilling, completion, and operation of a well thereon) shall be considered and construed and shall have the same effect, except for the payment of royalty, as drilling, completion, production, development, and operation on the Land under the terms of this lease, regardless of the formation or formations pooled or combined. The royalties herein provided shall accrue and be paid to Lessor on pooled substances produced from any such unit in the proportion, but only in the proportion, that lessor's acreage interest in the land covered hereby and placed in the unit bears to the total acreage in such unit.

Lessee also shall have the right to utilize, pool, or combine all or any part of the Land 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 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 the event that said Land 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.

7. If prior to the discovery of Oil and Gas on the Land or on Land pooled therewith Lessee drills a dry hole or holes thereon or if after discovery of Oil and Gas, production thereafter should cease for any cause for a period of ninety (90) days, this lease shall not terminate. If Lessee commences additional drilling or reworking operations within ninety (90) days thereafter, this Lease shall continue for so long thereafter as Oil and Gas is produced from the Land or from other Lands pooled or combined with the Land or operations are being conducted for the exploration for or production of Oil and Gas on any such Lands. If at the expiration of the primary term Oil and Gas is not being produced on the Land or on Land pooled or combined therewith but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in effect so long as operations are prosecuted either on the same well or any other well thereafter commenced with no cessation of more than six (6) months; and if they result in the production of Oil and Gas, this Lease shall remain in effect so long thereafter as such production continues.

8. If Lessor owns a lesser interest in the Land than the entire and undivided fee simple estate to the Oil and Gas therein, then the royalties and rentals herein provided shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee. However, such rentals shall be increased at the next succeeding rental anniversary after any reversion having occurred to cover the interest so acquired with notice of said reversion by Lessor to Lessee.

9. Lessee shall have the right at anytime without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligations as to the acreage surrendered. Lessee shall have the right at anytime during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said Land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said Land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee. In the event Lessor and Lessee fail to agree on the amount of damages caused by Lessee's operations, Lessor and Lessee hereby agree to allow an arbitration committee set the specific amount of damages incurred. Lessor and Lessee shall each choose an arbitrator, who in turn will pick a third arbitrator to determine the fair settlement amount for damages, said settlement to be determined within fifteen business days of obtaining arbitrators. Lessor and Lessee agree to be bound by the decision of the Arbitrators.

