

TOWN OF WINDSOR

RESOLUTION NO. 2011-44

A RESOLUTION APPROVING AN OIL AND GAS LEASE, AND RELATED TERMS, BETWEEN THE TOWN OF WINDSOR, COLORADO, AND PATRIOT ENERGY, LLC, AND AUTHORIZING THE MAYOR TO EXECUTE SAME

WHEREAS, the Town of Windsor (“Town”) is a Colorado Home Rule Municipality, with all powers and authority vested pursuant to law; and

WHEREAS, the Town is the owner of certain mineral interests located beneath Town-owned property within Section 29, Township 6 North, Range 67 West, 6th P.M; 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, the Town’s oil and gas interests have become a source of particular interest to oil and gas extraction firms; and

WHEREAS, Patriot Energy, LLC (“Patriot”) has approached the Town with terms and conditions for the leasing of Town-owned oil and gas rights beneath property consisting of approximately 51.82 acres; and

WHEREAS, the Town’s Oil and Gas Special Counsel has negotiated a proposed Lease Agreement with Patriot, 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 Town’s Oil and Gas Special Counsel has recommended that the attached Oil and Gas Lease be approved by the Town Board; and

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

WHEREAS, the within Resolution is deemed to promote the public health, safety and welfare.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN BOARD OF THE TOWN OF WINDSOR, COLORADO as follows:

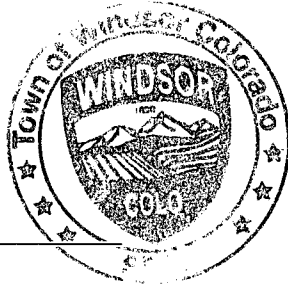
1. The attached Oil and Gas Lease is hereby approved.
2. The Mayor or, as necessary, Mayor Pro Tem, is hereby authorized to execute the attached Oil and Gas Lease on behalf of the Town.

Upon motion duly made, seconded and carried, the foregoing Resolution was adopted this 24<sup>th</sup> day of October, 2011.

TOWN OF WINDSOR, COLORADO

By: \_\_\_\_\_

*John S. Vazquez*  
John S. Vazquez, Mayor



ATTEST:

*Patti Garcia*

Patti Garcia, Town Clerk

## OIL AND GAS LEASE

This Oil and Gas Lease ("Lease") is made this 24th day of October, 2011 by and between the **Town of Windsor, a Colorado municipal corporation** whose address is 301 Walnut Street, Windsor, CO 80550 ("Lessor"), (whether one or more) and **Patriot Energy, LLC** with a mailing address of 1625 Pelican Lakes Point, Suite 201, Windsor, CO 80550 ("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, its successors and assigns, with the exclusive rights for the purposes of drilling (including but not limited to straight, directional or horizontal wells), mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind (including coalbed gas), 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 (including dewatering of coalbed gas wells), and the exclusive surface or subsurface rights and privileges related in any manner to any and all such operations, including the injection of water, brine and other substances into the subsurface, 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 Weld County, State of Colorado, described to wit:

Township 6 North, Range 67 West, 6<sup>th</sup> P.M.

Section 29: Portion of E/2E/2 comprising all of Weld Count Assessor Parcel Number 080729000047

together with all lakes, streams, roads, easements, and rights-of-way which traverse or adjoin said lands owned or claimed by Lessor, or which may hereinafter be established to be owned by Lessor, and also in addition to the above described lands and rights, any and all strips or parcels of land other than those constituting regular governmental subdivisions, adjoining or contiguous to the above described land owned or claimed by Lessor, all of the above described lands being hereinafter referred to as (the "Premises") and containing **51.82** acres, more or less.

1. It is agreed that this Lease shall remain in full force for a term of three (3) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever volume, 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 or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking or dewatering 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 one hundred eighty (180) 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 or on acreage pooled or unitized 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 one hundred eighty (180) 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 or on acreage pooled or unitized therewith. If at the expiration of this Lease, Lessee has in use surface or subsurface easements granted to Lessee pursuant to the terms hereof, such easements shall survive the termination of this Lease for as long thereafter as so utilized by Lessee.

2. This is a PAID-UP 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. The royalties to be paid by Lessee are: (a) on oil and other liquid hydrocarbons, sixteen percent (16.5%) free of cost 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 may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas and the constituents thereof produced from said land and sold or used off the premises or in the manufacture of products therefrom, the market value at the well of sixteen percent (16.5%) of the product sold or used. On product sold at the well, the royalty shall be sixteen percent (16.5%) of the net proceeds realized from such sale. All royalties paid on gas sold or used off the Premises or in the manufacture of products therefrom will be paid after deducting from such royalty Lessor's proportionate amount of all post-production costs, including but not limited to gross production and severance taxes, gathering and transportation costs from the wellhead to the point of sale, treating, compression, and processing. On product sold at the well, the royalty shall be sixteen percent (16.5%) of the net proceeds realized from such sale, after deducting from such royalty Lessor's proportionate amount of all of the above post-production costs and expenses, if any.

4. Where gas from a well capable of producing gas (or from a well in which dewatering operations have commenced), 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 one hundred twenty (120) 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 to 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 produced on the Premises for Lessee's operations thereon.

7. Lessee shall bury Lessee's pipeline below plow depth.

8. Intentionally deleted

9. Lessee shall pay for damages caused by Lessee's operations on the Premises.

10. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.

11. 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.

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 Premises and as to any one or more of the formations thereunder, 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, reworking or dewatering 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, reworking or dewatering 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 royalties on production from such unit 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. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the Premises as to one or more of the formations thereunder 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 such 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, expressed or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this Lease shall not

terminate or expire during the life of such plan or agreement. In the event that the Premises 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 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.

13. All expressed or implied covenants of this Lease shall be subject to all Federal, State and Local 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 Lessee is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Lease, other than the obligation to make money payments, Lessee shall give to Lessor, prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of Lessee, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance thereof. Lessee shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. However, Lessee shall be required against its will to settle any labor dispute. The term force majeure shall mean an act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability or failure of equipment, including drilling rigs, delays in obtaining drilling and other required permits despite its diligent efforts, freeze-up of wells or pipelines, and any other cause, whether of the kind specifically enumerated herein or not, which is not reasonably within the control of the Party claiming force majeure. 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.

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 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, 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 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.

17. Notwithstanding any provision contained herein to the contrary or rights granted to Lessee hereunder, Lessee's right to use, access or otherwise enter upon the Premises shall be limited to the terms and conditions of a Surface Use Agreement entered into by and between Lessor and Lessee, as surface owner, effective as of the date hereof, that provides for the compatible use and development of the surface estate and the oil and gas estate.

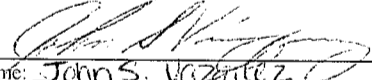
18. As to any wells drilled from the Premises under the terms of the Surface Use Agreement (the "Oil and Gas Operations Area"), as provided for in Article 17 above, wherein Lessor would not be entitled to a royalty under the above terms of this Lease, Lessor shall nonetheless be entitled to a one percent (1%) overriding royalty interest in the production from such well(s) calculated and paid in accordance with the terms hereof. Additionally lessor shall be paid a cash payment of \$10,000 per well for every well drilled from the Oil and Gas Operations Area. Further, Lessee commits to drill a minimum of three (3) wells from the Oil and Gas Operations Area to depths and bottom hole locations of Lessee's choice including a minimum of one (1) in which Lessor will have a not less than ten percent (10%) of the Revenue interest attributable to the well under the terms hereof.

19. Lessor does hereby grant, transfer and convey unto Lessee a right-of-way and easement to drill and operate under the surface of and through the Premises or any other lands adjacent thereto one or more directional wells to be bottomed on lands other than the Premises for the purposes of exploring, drilling, operating for, developing and producing oil and gas under the terms of this Oil and Gas lease or any oil and gas lease(s) now owned or hereinafter acquired by Lessee, covering lands other than the Premises and to take any actions necessary or desirable in the exercise of the rights granted herein. This right-of-way and easement shall remain in full force and effect for the primary term hereof and as long thereafter for the purposes therein granted.

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

Lessor:

TOWN OF WINDSOR

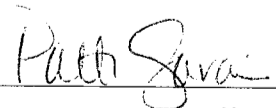
  
Name: John S. Vazquez  
Title: Mayor

(ACKNOWLEDGMENT)

STATE OF COLORADO )  
 ) SS. (CORPORATE ACKNOWLEDGMENT)  
COUNTY OF WELD )

The foregoing instrument was acknowledged before me this 24th day of October, 2011, by John S. Vazquez, as Mayor of the Town of Windsor, a Colorado municipal corporation, on behalf of said corporation.

My Commission Expires: 10/14/2014

  
\_\_\_\_\_  
Notary Public

