TOWN OF WINDSOR

RESOLUTION NO. 2014-38

A RESOLUTION APPROVING ONE NO-SURFACE-OCCUPANCY OIL AND GAS LEASE, AND RELATED TERMS, BETWEEN THE TOWN OF WINDSOR, COLORADO, AND EXTRACTION OIL & GAS, LLC, AND AUTHORIZING THE MAYOR TO EXECUTE THE SAME (0.575 NET MINERAL ACRES, in part of the Southeast Quarter of Section 21, Township 6 North, Range 67 West, in Weld County, Town of Windsor).

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 21, 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, the Town's oil and gas interests have become a source of interest to oil and gas extraction firms; and

WHEREAS, Extraction Oil & Gas, LLC ("Extraction") has approached the Town with terms and conditions for the leasing of Town-owned oil and gas rights beneath Town-owned property, consisting of approximately 0.575 net mineral acres; and

WHEREAS, the Town's Oil and Gas Special Counsel has negotiated the proposed Lease Agreement with Extraction, 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 Town-owned property; 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 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 28th day of July, 2014.

TOWN OF WINDSOR, COLORADO

By: _____
John S. Vazquez, Mayor

ATTEST:

_____
Patti Garcia, Town Clerk

NON-SURFACE USE OIL AND GAS LEASE

(Paid Up)

THIS AGREEMENT, is made and entered into on this **14th** day of **July 2014,** by and between **Town of Windsor a Colorado Municipal Corporation, 301 Walnut Street, Windsor, CO 80550,** party of the first part, hereinafter called Lessor (whether one or more), and **Extraction Oil & Gas, LLC, 1888 Sherman Street, Suite 200, Denver, CO 80203,** party of the second part, hereinafter called Lessee.

1. WITNESSETH, That the Lessor, for and in consideration of Ten and More Dollars ($10.00), cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreement hereinafter contained on the part of Lessee to be paid, kept, and performed, has exclusively granted, demised, leased and let and by these presents does exclusively grant, demise, lease and let unto the Lessee, for the purpose of exploring for, developing, producing, transporting and marketing oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), of whatsoever nature or kind, including all hydrocarbon and non-hydrocarbon substances produced in association therewith and other substances covered hereby on the leased premises as hereinafter described, or lands pooled or unitized herewith, in primary and/or enhanced recovery.

The lands covered hereby, hereinafter called "leased premises" are described as follows: all that certain tract of land, together with any reversionary rights, after-acquired interests, accretion and riparian rights, streets, alleys, easements, and rights of way therein, situated in the County of **Weld,** State of **Colorado**, described as follows, to wit:

Township 6 North, Range 67 West

Section 21: Tract B, Cornerstone 3rd Filing and Replat of Tract "A" of the Cornerstone 1st Filing , a Subdivision of the Town of Windsor, County of Weld, State of Colorado, being a part of the SE4

Weld County Assessor Parcel Number: 080721425999

Containing 0.575 acres, more or less

In consideration of the cash bonus paid to Lessor by Lessee for execution of this lease, Lessor agrees to execute any additional or supplemental instruments to more accurately reflect the lands covered, the legal capacity of the Lessor, or other title curative documents to clarify ownership.

2. It is agreed that this lease shall remain in force for a term of **Two (2) years** from the above date, (herein called "primary term") and as long thereafter as oil or gas of whatsoever kind or nature, or either of them, are produced from the leased premises or on acreage pooled therewith, or drilling operations are continuing as hereinafter provided. If, at the expiration of the primary term, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then conducting operations for drilling, reworking or dewatering 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; with no cessation of more than one hundred twenty (120) consecutive days. If after discovery of oil or gas on the leased premises or on acreage pooled therewith, and after the expiration of the primary term, production shall cease from any cause, this lease nevertheless shall continue in force so long as operations for drilling, reworking or dewatering on any existing or succeeding well are being conducted with no cessation of more than one hundred twenty (120) consecutive days and, if such operations result in production, so long thereafter as oil or gas is produced from the leased premises or on acreage pooled therewith. 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.

3. This is a paid-up lease. In consideration for 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 or pay any delay rentals.

4. In consideration of the premises the Lessee covenants and agrees to pay Lessor **1/5th** of the proceeds received by Lessee for all oil (including but not limited to condensate and distillate) and **1/5th** of the proceeds received by Lessee for all gas of whatsoever nature or kind (with all of its constituents) sold from the leased premises or on acreage pooled therewith, but in no event more than **1/5th** of the actual amount received by Lessee, payments to be made monthly.

5. During any period (whether before or after expiration of the primary term hereon) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on the leased premises or on acreage pooled therewith sufficient to keep this lease in force, Lessee shall pay or tender a royalty of Ten Dollars ($10.00) 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 or dewatering operations are commenced and thereafter on the anniversary date of this lease during the period such well is shut in or dewatering operations are being conducted, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease. Failure to pay shut in payments in a timely manner shall not terminate this lease until Lessor has given Lessee notice of said breach via certified mail and Lessee has had 30 days from receipt of such notice to remedy said breach.

6. If, after the commencement of production, whether oil, gas, condensate or water from a dewatering well, from a well situated on the leased premises, or on leases within the pooled, spaced or communitized unit and regardless of whether any well is drilled vertically or horizontally and producing in a conventional manner or producing as part of a dewatering well or project, the royalties paid to Lessor during the 12-month period, beginning with date of first production, are less than Lessor would have received as a shut-in royalty as provided for in paragraph 5 of this lease, then Lessee shall tender to Lessor a minimum royalty equal to the difference between the royalties actually paid Lessor and the amount Lessor would have received as a shut-in royalty

payment as provided for herein. Payment, if due, of this minimum royalty shall be due and payable within 90 days from the end of such 12 month period of time. For the purposes of this lease, tender of such minimum royalty shall be considered as oil and or gas producing in "paying quantities" and shall serve to perpetuate this lease regardless of Lessee's profitability to produce, operate and maintain this lease or unit. The obligation to make this payment shall continue both during and after the primary term. Failure to make this minimum royalty payment in a timely manner shall not serve to terminate this lease until Lessor has given Lessee notice of such failure via certified mail and Lessee shall have 30 days from receipt of such notice to remedy the failure by tendering to Lessor the minimum royalty contemplated herein.

7. Lessee, at its option, is hereby granted the right and power at any time and from time to time as a recurring right, either before or after production, to pool the leased premises or any portion or portions thereof, with other lands or interest, as to any or all depths or zones, and as to any or all substances, covered by this lease, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. Likewise, units previously formed to include depths or zones not producing oil or gas, or separately for the production of either, may be reformed to exclude such non-producing depths or zones. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. The unit formed by such pooling for an oil well (other than a horizontal well) shall not exceed 320 acres plus a maximum acreage tolerance of 10% and for a gas well or a horizontal well shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil or gas well, whether vertical or horizontal, to conform to any well spacing or density pattern that may be prescribed or permitted by the governmental authority having jurisdiction to do so. Production, drilling or reworking operations, including dewatering operations, anywhere on the unit shall be treated as if such operations were upon or such production was from the leased premises except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to that total gross acreage in the unit, but only to the extent such proportion of the unit production is sold by Lessee. Lessee shall have the right but not the obligation to commit all or any part of the leased premises or interest therein to one or more unit plans or agreements for the cooperative development or operation of one or more oil and/or gas reservoirs or portions thereof, if in Lessee's judgment such plan or agreement will prevent waste and protect correlative rights, and if such plan or agreement is approved by the federal, state or local governmental authority having jurisdiction. When such a commitment is made, this lease shall be subject to the terms and conditions of the unit plan or agreement, including any formula prescribed therein for the allocation of production.

8. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the Lessor only in the proportion which his interest bears to the whole and undivided fee.

9. Lessee shall have the right to use free of cost, gas and oil produced on the leased premises or on acreage pooled therewith for its operations thereon, except water from wells or ponds of Lessor. Lessee shall bury its pipelines below plow depth and no well shall be drilled nearer than 500 feet to any house or barn now on the premises, without the written consent of the Lessor. Lessee shall pay for all damages, if any, caused by its operations on said land. Lessee shall have the right within six months after cessation of production to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

10. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to the heirs, executors, administrators, representatives, successors and assigns of the parties hereto. However, no change or division in the ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written and recorded transfer or assignment or a true copy thereof. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of the assignment.

11. All express or implied covenants of the lease shall be subject to all Federal and State laws, Executive orders, rules and regulations, and this lease shall not be terminated in whole or in part, nor shall Lessee be held liable for damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such law, order, rule or regulation.

12. This lease shall be effective as to each Lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the Lessors above named may not join in the execution hereof. The word "Lessor" as used in this lease means the party or parties who execute this lease as Lessor, although not named above.

13. Lessee may at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or mailing a release thereof to Lessor, or by placing a release of record in the proper county.

14. Lessor agrees that the Lessee shall have the right at any time and from time to time to redeem for Lessor by payment any mortgages, taxes or other liens on the leased premises, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof.

15. Notwithstanding anything to the contrary herein contained, without the further written consent of Lessor, Lessee, its successors or assigns, shall not have the right to occupy or use the surface of the Premises for any reason, including the installation of equipment or facilities associated with any drilling or production operations. Further, other than the use of existing roads, it is understood that Lessee, its successors or assigns shall not access the surface of the Premises without the consent of Lessor. Provided, however, nothing in this Article 16 shall be deemed to diminish or in any way restrict the rights granted in this Lease to use the subsurface of the Premises.

16. It is understood and agreed that Lessee may drill directionally or horizontally into the Premises and/or into land pooled with the Premises pursuant to paragraph seven (7) (the pooling clause) hereof. Lessee shall have the full, unrestricted and exclusive right, power and authority to produce the oil, gas hydrocarbons, and associated substances lying under or beneath or recoverable from the Premises, either by means of any well or wells the surface drillsites of which are located on other lands, and which said well or wells are drilled directionally or horizontally through and into the Premises, and/or into land pooled with the Premises, the producing intervals of which are bottomed under the Premises or under such pooled area and produce oil, gas and hydrocarbons and associated substances therefrom. Lessor hereby grants unto Lessee such rights-of-way, easements and servitudes in and through the subsurface of the Premises as Lessee may require for boring well holes, casing same, and otherwise completing, producing and maintaining wells either in the Premises or in any land included in the same operating unit as hereinabove provided in this Lease with the Premises or any part thereof. For the purposes of this Lease, wells drilled directionally or horizontally under and into and/or producing from the Premises, the surface drillsites of which are located on other lands, shall be considered to have been drilled in the Premises from drillsites on other lands in the vicinity of the Premises.

IN TESTIMONY WHEREOF, we sign on the date first written above.

Town of Windsor, a Colorado Municipal Corporation:

By: _____
JOHN S. VAZQUEZ, MAYOR

Attest: _____
By: PATTI GARCIA, TOWN CLERK

CORPORATE ACKNOWLEDGMENT

STATE OF COLORADO)
) SS.
COUNTY OF Weld)

The foregoing instrument was acknowledged before me this 31st day of July, 2014, by John S. Vazquez as Mayor for the Town of Windsor, a Colorado Municipal Corporation and Patti Garcia, Town Clerk for the Town of Windsor, a Colorado Municipal Corporation.

WITNESS my hand and official seal.

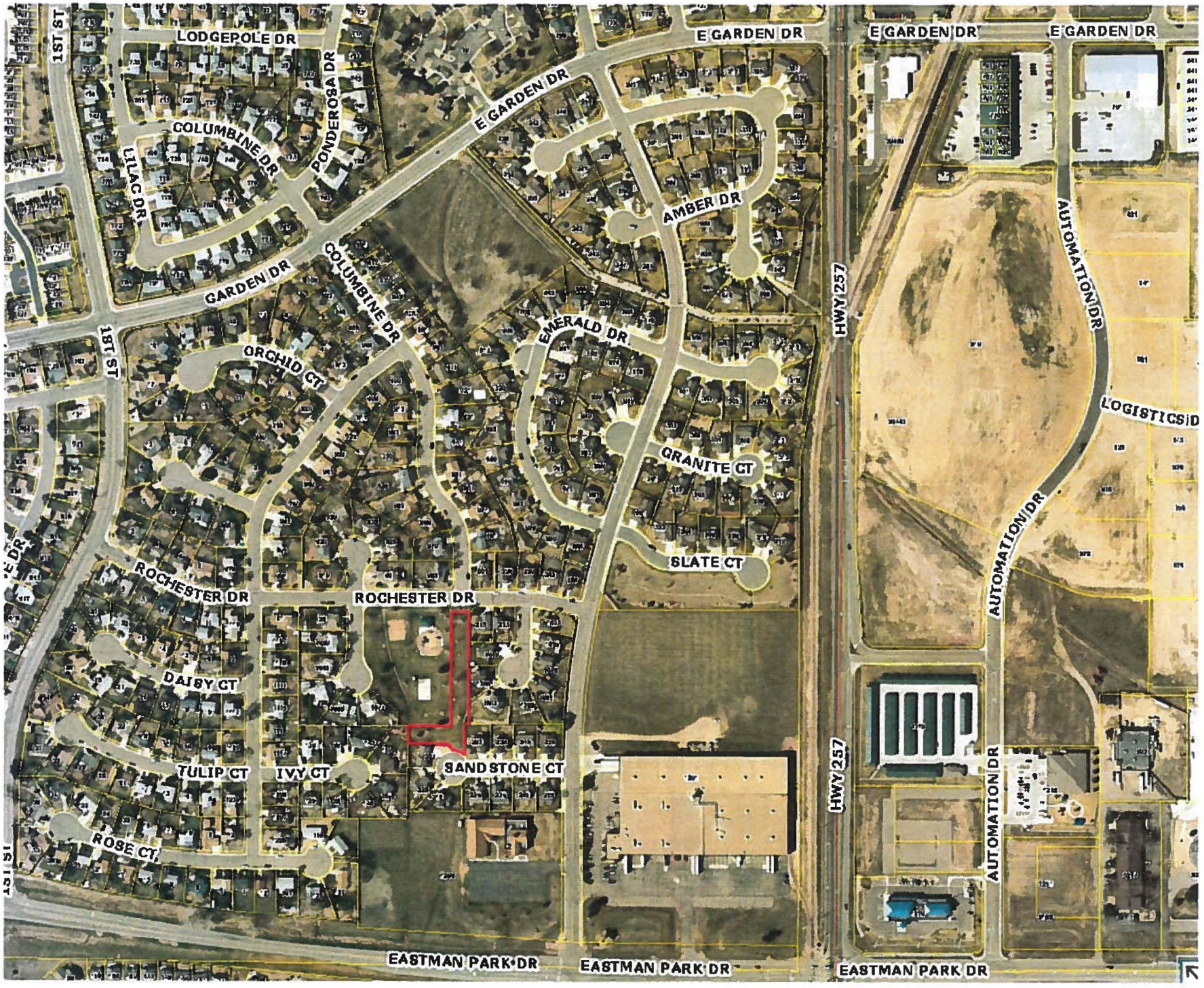
My Commission Expires: 12-6-2017

_____
Notary Public

Seal

JUDY MORRIS
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 19974021601
MY COMMISSION EXPIRES 12-6-2017

AFTER RECORDING RETURN TO: Extraction Oil & Gas, LLC, 1888 Sherman Street, Suite 200, Denver, CO 80203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