

WELD COUNTY LARGE-TRACT OIL AND GAS LEASE

Containing \_\_\_\_\_ acres, more or less:  
Containing \_\_\_\_\_ net mineral acres, more or less:

THIS LEASE AGREEMENT, dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, made and entered into by and between WELD COUNTY, COLORADO, a political subdivision of the STATE OF COLORADO, acting by and through the BOARD OF COUNTY COMMISSIONERS OF THE COUNTY OF WELD, for its respective interests, c/o BOARD OF COUNTY COMMISSIONERS, 1150 O STREET, P.O. BOX 758, GREELEY, CO 80632, hereinafter called Lessor, and:

hereinafter called Lessee:

WITNESSETH

WHEREAS, said Lessee has applied to Lessor for an oil and gas lease covering the land herein described, and has paid a filing fee in the amount of \$10.00, plus a bonus consideration of \$\_\_\_\_\_ per mineral acre, fixed by Lessor as an additional consideration for the granting of this lease, and Lessee agrees to pay an annual rental of \$\_\_\_\_\_, computed at the rate of \$2.50, per mineral acre or fraction thereof per year, and the following consideration:

WHEREAS, all the requirements relative to said application have been duly complied with and said application has been approved and allowed by Lessor;

THEREFORE, in consideration of the agreements herein, on the part of Lessee to be paid, kept and performed, Lessor does lease exclusively to Lessee for the sole and only purpose of drilling for, development of and production of oil and gas, or either of them, thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by Lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone and telegraph lines, tanks and fixtures for producing and caring for such product, and housing and boarding employees, and any and all rights and privileges necessary for the exploration and operation of said land for oil and gas, the following described land situated in the County of Weld, State of Colorado, and more particularly described as follows:

SECTION      TOWNSHIP      RANGE

DESCRIPTION OF LAND (attach exhibit if additional space is required)

TO HAVE AND TO HOLD said land, and all the rights and privileges granted hereunder to Lessee until the hour of twelve o'clock noon on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, as primary term, and so long thereafter as oil and gas, or either of them, is produced in paying quantities from said land or Lessee is diligently engaged in bona fide drilling or reworking operations on said land, subject to the terms and conditions herein. Drilling or reworking operations shall be deemed to be diligently performed if there is no

Large-Tract Oil and Gas Lease  
Page 2

delay or cessation thereof for a greater period than sixty (60) consecutive days, unless an extension in writing is granted by Lessor; provided that such drilling or reworking operations are commenced during said primary term or any extension thereof, or while this lease is in force by reason of production of oil and gas or either of them, or that such reworking is commenced within (60) sixty days upon cessation of production for the purpose of re-establishing the same, and provided further that such production is commenced during such primary term or any extension thereof, or while this lease is in force by reason of such drilling or reworking operations or other production.

EXPLORATION - Lessor reserves the right to conduct exploration on the leased land provided such exploration does not interfere with rights granted herein.

In consideration of the premises, the parties covenant and agree as follows:

1. RENTAL - If this lease is extended for an additional term as provided for in the EXTENSION paragraph hereof, Lessee shall pay to Lessor the sum of Two and 50/100 Dollars (\$2.50) per acre for the land covered hereby as delayed rental for the term of the extension. Rentals set at the time of established production shall be paid during the remaining life of this lease, annually, in advance, on or before each anniversary date hereof. There shall be no refund of unused rental.
2. ROYALTY PROVISIONS:
  - A. Lessee Responsible for All Costs/Expenses: Lessee shall account for any and all substances produced on the leased land and shall pay to Lessor as royalty, in addition to the rentals provided, the royalties described in paragraphs B through E below, which shall be free of all costs of any kind. In this regard, Lessee agrees to bear one hundred percent (100%) of all costs and expenses incurred in rendering hydrocarbons produced on or from the Leased Premises marketable and delivering the same into the purchaser's pipeline for immediate transportation to an end user or storage facility. If a gas purchase contract makes any deductions for the expenses of dehydrating, transporting, compressing, manufacturing, processing, treating, gathering or marketing of such gas, then such deductions shall be added to the price received by Lessee for such gas for the purpose of the payment of royalties to Lessor. Additionally, royalties payable to Lessor shall never bear, either directly or indirectly, under any circumstances, the costs or expenses (including depreciation) to construct, repair, renovate or operate any pipeline, plant, or other facilities or equipment used in connection with the treating, separation, extraction, gathering, processing, refining, transporting, manufacturing or marketing of hydrocarbons produced from the Leased Premises or lands pooled therewith. It is the intent of the parties that the provisions of this Paragraph 2 are to be fully effective and enforceable.
  - B. Royalty Payment on Products: On products, Lessee shall pay Lessor a royalty payment of twenty-two and one half percent (22.5%) of the gross market value or proceeds of sale thereof, whichever is higher.
  - C. Royalty Payment on Residue Gas: On residue gas or gas remaining after separation, extraction or processing operations, Lessee shall pay Lessor twenty-two and one half percent (22.5%) of the proceeds of sale or of the market value thereof, whichever is higher.
  - D. Royalty Payment on Oil: At the option of Lessor, and with sixty (60) days' notice to Lessee, Lessor may take its royalty oil in kind, in which event Lessee shall deliver such royalty oil to Lessor on the leased land, free of cost or deduction, into the pipelines or storage tanks designated by Lessor, but Lessee shall not in such case be required to provide free tankage for any such oil for a longer period than one month after the same is run into tanks. With sixty (60) days' notice to Lessee, Lessor may cease taking oil royalty in kind. When paid in cash,

Lessee shall pay Lessor for oil produced and saved from the leased land, twenty-two and one half percent (22.5%) the market value of the oil at the wellhead, or the price actually paid to Lessee at the well by the purchaser thereof, whichever is higher; and in no event shall the royalties be based upon a market value at the well less than the posted price in the field for such oil, or in the absence of a posted price in the field for such oil, upon a market value at the well less than the prevailing price received by other producers in the field for oil of like grade and gravity at the time such oil is run into pipelines or storage tanks.

- E. No Refund of Bonus: If Lessor owns a lesser interest in the oil and gas deposits of the above-described land than the entire and undivided fee simple estate, then the royalties and rentals herein provided shall be paid to Lessor only in the portion which its interest bears to the whole and undivided fee, but no refund of any bonus consideration shall be made by Lessor hereunder.
- F. Timing of Royalty Payments: All royalties payable under the terms of this lease shall be payable in cash (unless Lessor elects to take such royalty oil or gas in kind) to Lessor within one hundred twenty (120) days following the first commercial sale of production and thereafter no more than sixty (60) days after the end of the month following the month during which production takes place. Subject to the provisions of Paragraph 16 of this Lease concerning shut-in wells, royalties shall be paid to Lessor by Lessee and/or its assigns or by the product purchaser for oil and/or gas. Upon the failure of any party to pay Lessor the royalty as provided in this paragraph, Lessor may, at Lessor's option, elect to terminate this Lease by sending written notice to Lessee. Lessee shall then have forty-five (45) days from the date of service of such written notice in which to avoid termination of this Lease by making or causing to be made the proper royalty payment or payments that should have been paid. If such royalty payment is not made on, or before, the expiration of the 45-day period, or written approval is not obtained from Lessor to defer such payment, Lessor may elect to terminate this Lease by filing a Notice of Termination with the Weld County Clerk and Recorder. The effective date of said termination shall be the date said Notice of Termination is recorded.
- G. Effect of "Take or Pay Provision": In the event Lessee enters into a gas purchase contract which contains what is commonly referred to as a "take or pay provision" (such provision meaning that the gas purchaser agrees to take delivery of a specified minimum volume or quantity of gas over a specified term at a specified price or to make minimum periodic payments to the producer for gas not taken by the purchaser) and the purchaser under such gas purchase contract makes payment to Lessee by virtue of such purchaser's failure to take delivery of such minimum volume or quantity of gas, then Lessor shall be entitled to twenty-two and one half percent (22.5%) of all such sums paid to Lessee or producer under the "pay" provisions of such gas purchase contract. Such royalty payments shall be due and owing to Lessor within sixty (60) days after the receipt of such payments by Lessee. If the gas purchaser "makes up" such gas within the period called for in the gas contract and Lessee is required to give such purchaser a credit for gas previously paid for but not taken, then Lessor shall not be entitled to royalty on such "make up" gas. If Lessee is not producing any quantities of gas from the Leased Premises but is receiving payments under the "pay" portion of such "take or pay" gas purchase contract provision, such payments shall not relieve Lessee of the duty to make shut-in royalty payments if Lessee desires to continue this Lease, but such "take or pay" royalty payments shall be applied as a credit against any shut-in royalty obligation of the Lessee. Lessor shall be a third-party beneficiary of any gas purchase contract and/or transportation agreement entered into between Lessee and any purchaser and/or transporter of Lessor's gas, irrespective of any provision of said contracts to the contrary, and such gas purchase contract and/or transportation agreement will expressly so provide. Further, Lessor shall be entitled to twenty-two and one half percent (22.5%) of the value of any benefits obtained by, or granted to, Lessee from any gas purchaser and/or transporter for the amendment, modification,

extension, alteration, consolidation, transfer, cancellation or settlement of any gas purchase contract and/or transportation agreement.

- H. Recovery of Liquid Hydrocarbons: Lessee agrees that before any gas produced from the Leased Premises is used or sold off the Leased Premises, it will be run, free of cost to Lessor, through an adequate oil and gas separator of a conventional type or equipment at least as efficient, to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered on the lease and Lessor properly compensated therefor.
- I. Excess Payments to Lessor: Any payment of royalty or shut-in gas royalty hereunder paid to Lessor in excess of the amount actually due to the Lessor shall nevertheless become the property of the Lessor if Lessee does not make written request to Lessor for reimbursement within one (1) year from the date that Lessor received the erroneous payment, it being agreed and expressly understood between the parties hereto that Lessor is not the collecting agent for any other royalty owner under the lands covered hereby, and a determination of the name, interest ownership and whereabouts of any person entitled to any payment whatsoever under the terms hereof shall be the sole responsibility of Lessee. It is further expressly agreed and understood that: (i) this provision shall in no way diminish the obligation of Lessee to make full and punctual payments of all amounts due to Lessor or to any other person under the terms and provisions of this Lease, and (ii) any overpayments made to the Lessor under any provisions of this Lease shall not be entitled to be offset against future amounts payable to parties hereunder.
- J. Effect of Division Order: The terms of this Lease may not be amended by any division order and the signing of a division order by any mineral owner may not be made a prerequisite to payment of royalty hereunder.
- K. Limitation of Sale to Subsidiaries and/or Affiliates: Oil, gas or products may not be sold to a subsidiary or affiliate of Lessee as defined herein without the Lessor's prior written permission.
- L. Royalty Payable on All Gas Produced: Lessee shall pay Lessor royalty on all gas produced from a well on the Leased Premises and sold or used off the Leased Premises, regardless of whether or not such gas is produced to the credit of Lessee or sold under a contract executed by or binding on Lessee. Should gas be sold under a sales contract not binding on Lessee, Lessor's royalty will be calculated based on the highest price paid for any of the gas produced from the well from which such gas is produced. In no event will the price paid Lessor for Lessor's share of gas be less than the price paid Lessee for Lessee's share of gas.

### 3. LESSOR'S ACCESS TO LEASED PROPERTY AND RECORDS

- A. Records Generally: Lessee agrees to keep and to have in its possession *complete and accurate* books and records showing the production and disposition of any and all substances produced on the leased land and to permit Lessor, at all reasonable hours, to examine the same, or to furnish copies of same to Lessor upon request along with purchaser's support documentation. Lessor will not be unreasonable with requests. All said books and records shall be retained by Lessee and made available in Colorado to Lessor for a period of not less than five (5) years.
- B. Access to Premises: Lessor shall have free access, at all times, to all wells, tanks, and other equipment on the Leased Premises, including drilling wells, and Lessee agrees to furnish Lessor, or Lessor's nominee, currently and promptly, upon written request, with full well information including cores, cuttings, samples, logs (including Schlumberger and other electrical logs), copies and results of deviation tests and directional and seismic surveys, and

the results of all drill stem tests and other tests of other kind or character that may be made of wells on the Leased Premises. Lessor or Lessor's nominee shall be furnished with, and have free access at all times to, Lessee's books and records relative to the production and sale of oil, gas or other minerals from the Leased Premises, including reports of every kind and character to local, State or Federal governmental authorities. Lessor shall have the right, at its election, to employ gaugers or install meters to gauge or measure the production of all minerals produced from the premises, and Lessee agrees to prepare and deliver to Lessor or Lessor's gauger or nominee duplicate run or gauge tickets for all minerals removed from the premises. Lessee shall furnish to Lessor daily drilling reports on each well drilled upon request.

- C. Gas Purchase Agreements/Gas Contracts: At least thirty (30) days prior to the delivery or the execution of any contract for the sale, delivery, transporting or processing of gas produced from the Leased Premises, Lessee shall provide Lessor with a complete copy of each proposed contract for the purchase, transportation and/or processing of such gas that Lessee intends to execute (each a "Gas Contract"), whereupon, Lessor may object if the terms of said Gas Contract conflict with the terms and conditions of this Lease. Lessee shall furnish to Lessor, within a reasonable time after its execution, a copy of any Gas Contract or transportation agreement entered into in connection with the Leased Premises, or if there is already a Gas Contract or transportation agreement in effect due to Lessee's operations in the field, then a copy of that contract. Furthermore, a copy of any amendments to the gas purchase contract or transportation agreement shall be furnished said Lessor within thirty (30) days after execution thereof; and on request of Lessor and without cost to the Lessor, Lessee shall furnish Lessor a copy of the following reports: core record, core analysis, well completion, bottom hole pressure measurement, directional survey records, electrical and induction surveys and logs, gas and oil ratio reports, paleontological reports pertaining to the paleontology of the formations encountered in the drilling of any wells on the Leased Premises, and all other reports which pertain to the drilling, completing or operating of the wells located on the Leased Premises. Such information shall be solely for Lessor's use, and Lessor shall attempt to keep same confidential for twelve (months after receipt, subject to its obligation to comply with the Public Records requirements under Colorado law. Lessee agrees that it will not enter into any contract for the sale, delivery, transporting or processing of gas produced from the Leased Premises which shall extend more than two (2) years from the effective date of such sales contract unless such contract has adequate provisions for redetermination of price at intervals of no less frequency than one (1) year to ensure that production from this Lease is not being sold for less than the then current market value.
- D. Lessee to Advise Regarding Well Status: Lessee shall advise Lessor, in writing, of the location of all wells drilled upon the Leased Premises on or before thirty (30) days prior to commencement of operations, and shall advise Lessor, in writing, the date of completion and/or abandonment of each well drilled within thirty (30) days after completion or abandonment.
4. MEASUREMENTS: All production shall be accurately measured using standards established by the American Gas Association (AGA) and/or the American Petroleum Institute (API) and all measuring devices shall be tamper proof as nearly as possible. Oil royalties due within the terms of this lease shall be calculated on actual and accurate measurements within API standards unless a different means of measurement, subject to Lessor's approval, is provided.
5. PAYMENTS AND REPORTS: All payments and reports due hereunder shall be made on or before the day such payments and reports are due. Nothing in this paragraph shall be construed to extend the expiration of the primary term hereof. Oil royalty payments and supporting documents shall be submitted prior to the last day of the month following each month's sale of production, and gas royalty payments and supporting documents shall be submitted prior to the last day of the second month following each month's sale of production. All payments shall be made by cash, check,

certified check, or money order. Payment having restrictions, qualifications, or encumbrances of any kind whatsoever shall not be accepted by Lessor. A penalty for a late payment shall be charged as set forth in the PENALTIES paragraph herein.

6. PENALTIES: A penalty shall be imposed for, but not limited to, late payments, improper payments, operational deficiencies, violation of any covenant of this lease, or false statements made to Lessor. Penalties shall be determined by Lessor, unless otherwise provided for by law, and may be in the form of, but not limited to, interest, fees, fines, and/or lease cancellation. A penalty schedule shall be prepared by Lessor and shall become effective immediately after public notice. Said schedule may be changed from time to time after public notice.
7. LAW: The terms and conditions of this lease shall be performed and exercised subject to all laws, rules, regulations, orders, local ordinances or resolutions applicable to, and binding upon, the administration of lands and minerals owned by the County of Weld, and to laws, rules and regulations governing oil and gas operations in Colorado. Violations shall result in penalties as provided for by law or as set forth in the aforementioned schedule or shall, at the option of Lessor, result in default as provided hereinafter.
8. SURRENDER: Lessee may at any time, by paying to Lessor all amounts then due as provided herein, surrender this lease insofar as the same covers all or any portion of the land herein leased and be relieved from further obligations or liability hereunder with respect to the land so surrendered; provided that this surrender clause and the option herein reserved to Lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law by Lessee, Lessor or any assignee of either to enforce this lease, or any of its terms expressed or implied. In no case shall any surrender be effective until Lessee shall have made full provision for conservation of the leased products and protection of the surface rights of the leased land.
9. ASSIGNMENTS:
  - A. Fee for Assignments: Lessee, upon payment of a \$100.00 fee and prior written consent of Lessor (which shall not be unreasonably withheld), shall have the right to assign the entire leasehold interest of said Lessee in all or part of the land covered hereby. Prior to written approval by Lessor of assignment of this lease, Lessee (assignor) shall not be relieved of its obligations under the terms and conditions herein. An assignment shall not extend the term of this lease.
  - B. Partial Assignment: If any assignment of a portion of the land covered hereby shall be approved, a new lease shall be issued to the assignee covering the assigned land, containing the same terms and conditions as this lease, and limited as to term as this lease is limited, and the assignor shall be released and discharged from all further obligations and liabilities as to that portion so assigned.
  - C. Lessee to Notify: Lessee shall notify Lessor of all assignments of undivided percentage or other interests. Said interests will not be recognized or approved by Lessor, and the effect of any such assignments will be strictly and only between the parties thereto, and outside the terms of this lease, and no dispute between parties to any such assignment shall operate to relieve Lessee from performance of any terms or conditions hereof or to postpone the time therefore. Lessor shall at all times be entitled to look solely to Lessee or his assignee shown on its books as being the sole owner hereof, and for the sending of all notices required by this lease and for the performance of all terms and conditions hereof.

- D. Filing with Lessor: Although not binding on Lessor, all instruments of every kind and nature whatsoever affecting this lease should be filed with the Lessor.
10. OVERRIDING ROYALTY: Any and all reservations or assignments or overriding royalties shall be subject to approval by Lessor. The total of said overriding royalties shall not exceed five percent (5%), including any overriding royalty previously provided for unless production exceeds a monthly average of fifteen (15) barrels per day or ninety thousand cubic feet of gas per day (90 MCF/D). In the event production drops to this amount or less, any overriding royalties which exceed five percent (5%) may be suspended. Lessor's approval of a reservation or assignment of an overriding royalty shall not bind Lessor for payment of said overriding royalty and shall not relieve Lessee of any of its obligations for payment of royalties to Lessor as provided by ROYALTY paragraphs herein.
11. OFFSET WELLS: Lessee agrees to protect the leased land from drainage by offset wells located on adjoining lands not owned by Lessor, when such drainage is not compensated for by counter-drainage. It shall be presumed that the production of oil and gas from offset wells results in drainage from the leased land, unless Lessee demonstrates to Lessor's satisfaction, by engineering, geological, or other data, that production from such offset well does not result in such drainage, or that the drilling of a well or wells on the leased land would not accomplish the purposes of protecting the deposits under the leased land. Lessor's decision as to the existence of such drainage shall be final, and Lessee shall comply with Lessor's order thereon or surrender this lease as to any such undeveloped acreage as designated by Lessor.
12. DEVELOPMENT: Upon discovery of oil and gas or either of them on the leased land, Lessee shall proceed with reasonable diligence to develop said land at a rate, and to an extent, commensurate with the economic development of the field in which the leased land lies.
13. POOLING CLAUSE: Lessee may at any time or times pool any part or all of said land or lease or any stratum or strata with other lands and leases, stratum or strata, in the same field so as to constitute a spacing unit to facilitate an orderly or uniform well-spacing pattern or to comply with any order, rule, or regulation of the State or Federal regulatory or conservation agency having jurisdiction. Such pooling shall be accomplished or terminated by filing of record and with the Colorado Oil and Gas Conservation Commission a declaration of pooling, or declaration of termination of pooling, and by mailing or tendering a copy to Lessor. Drilling or reworking operations upon or production from any part of such spacing unit shall be considered for all purposes of this lease as operations or productions from this lease. Lessee shall allocate to this lease the proportionate share of production which the acreage in this lease included in any such spacing unit bears to the total acreage in said spacing unit.
14. UNITIZATION – COMMUNITIZATION: In the event Lessor permits the land herein leased to be included within a communitization or unitization agreement, the terms of this lease may be deemed to be modified to conform to such agreement. When only a portion of the land under this lease is committed by an agreement, Lessor may segregate the land and issue a separate lease for each portion not committed thereunder; the term of such separate lease shall be limited as to the original term of this lease. The terms of the lease on that portion remaining in the unit shall be deemed to be modified to conform to such agreement. Non-producing leases shall terminate on the first anniversary date of the lease following the termination date of the unit or part thereof modifying the lease, but in no event prior to the end of the primary term of the lease or the extension term of the lease.
15. PRODUCTION: Lessee shall, subject to applicable laws, regulations and orders, operate and produce all wells upon the leased land so long as the same are capable of producing in paying quantities, and shall operate the same so as to produce at a rate commensurate with the rate of

production of wells on adjoining lands within the same field and within the limits of good engineering practice, except for such times as there exist neither market nor storage therefore, and except for such limitations on, or suspensions of, production as may be approved in writing by Lessor. Lessee shall be responsible for adequate site security on all producing properties.

16. **SHUT-IN WELLS:** If Lessee shall complete a well on the leased land productive of gas and Lessee is unable to produce such gas due to a lack of suitable market therefore, Lessor may grant Lessee suspension of his obligations to produce hereunder until a suitable market for such gas can be found, and during any such suspension period, it shall be deemed that gas is being produced hereunder in paying quantities. Except, however, that beginning on the anniversary date next, of the year of an extension of the lease by reason of a shut-in well, Lessee shall pay to Lessor a shut-in royalty equal to \$2.50 per acre of the lease per annum in addition to the annual rental. The minimum amount of such shut-in royalty payment shall be \$240. Each year's shut-in royalty shall be forfeited to Lessor except for the shut-in royalty paid for the year during which the well begins production. The maximum extension of the lease, due to the existence of a shut-in well, shall be five (5) years beyond the extension term as described in the EXTENSION paragraph herein. The granting of any further extensions shall be at the sole option of Lessor.
17. **OPERATIONS:** Exploration, drilling or production operation, including permanent installations, shall be in compliance with all Colorado Oil and Gas Conservation Commission and State of Colorado Regulations. Reports required to be filed with the Colorado Oil and Gas Conservation Commission shall be made immediately available to Lessor upon request.
18. **NOTIFICATION:** Lessee shall notify Lessor and the surface lessee or surface owner of the location of each drill site at least two weeks prior to commencing drilling operations thereon. Lessee shall notify Lessor before commencing to plug and abandon any well by copy of Lessee's request for approval or sundry notice of intent to plug and abandon.
19. **BONDS:** Lessee shall be liable for all damages to the surface of the land, livestock, growing crops, water wells, reservoirs, or improvements caused by Lessee's operations on said land. No operations shall be commenced on the land hereinabove described unless and until Lessee shall have filed a good and sufficient bond with Lessor, in an amount to be fixed by Lessor, to secure the payment for such damages as may be caused by Lessee's operations on said land and to assure compliance with all the terms and provisions of this lease, the laws of the State of Colorado, and the rules and regulations thereto appertaining. A bond may be held in effect for the life of production of any well.
20. **SETTLEMENT:** Lessee shall not remove any machinery, equipment or fixtures placed on said land, other than drilling equipment, nor draw the casing from any well unless and until all payments and obligations currently due Lessor under the terms of this lease shall have been paid or satisfied. Any machinery, equipment or fixtures left on this land for a period of more than six (6) months after the expiration hereof, shall automatically become the property of Lessor.
21. **OTHER DISCOVERY:** Should Lessee discover any valuable products other than oil and gas, on or within the leased land, Lessee shall within seven (7) days report such discovery to Lessor, in which event Lessee and Lessor may negotiate a provision for production of such discovery.
22. **WATER:** This lease does not grant permission, express or implied, to Lessee for water exploration, drilling, or establishing water wells without the written permission of the surface owner. If Lessor is the surface owner, said permission shall not be unreasonably withheld. If Lessee desires to establish or adjudicate any water right for beneficial use on the leased land, any such adjudication or application shall be in the name of Lessor if Lessor is the surface owner. The same shall apply



to any non-tributary water rights established on the leased land which may be put to beneficial use off said land.

23. DEFAULT: Upon failure or default of Lessee to comply with any of the terms and provisions hereof including, but not limited to, the failure to comply with laws, rules and regulations governing Colorado oil and gas operations, Lessor is hereby authorized upon notice and hearing, as hereinafter provided, to cancel this lease as to all of the leased land so claimed or possessed by lessee hereunder. In the event of any such default or failure, Lessor shall, before making any such cancellation, send to Lessee by certified mail, to the post office address of said lessee as shown by the records of Lessor, a notice of intention to cancel for such failure or default, specifying the same, stating that if within forty-five (45) days from the date of mailing said notice, Lessee shall correct such failure or default, no cancellation will be made. If such failure or default is not corrected within forty-five (45) days after the mailing of such notice, and if Lessee does not request a hearing on such notice within forty-five (45) days, this lease will terminate and be canceled by operation of this paragraph without further action by Lessor, or further notice to Lessee.
24. EXTENSION: If Lessee fails to make discovery of oil and gas, or either of them, in paying quantities during the primary term hereof, or during drilling operations commenced during the primary term hereof, Lessee may make written application to Lessor for an extension of this lease. The granting of such extension shall be at the sole option of Lessor, according to the following conditions:
- A. Extension Limit: No lease term will be extended for more than six (6) months from the original expiration date.
  - B. Extension Payment: The Lessee shall pay to the Lessor the sum of one-third of the original bonus.
  - C. Delay Rental: The Lessee must pay to the Lessor the sum of Two and 50/100 Dollars (\$2.50) per acre leased as delayed rental for the term of the extension.
  - D. No Change in Royalty: The royalty will remain the same.
25. HOLD HARMLESS: Lessee shall indemnify Lessor against all liability and loss, and against all claims and actions, including the defense of such claims or actions, based upon, or arising out of, damage or injury, including death, to persons or property caused by, or sustained in connection with, operations on this leased land or by conditions created thereby, or based upon any violation of any statute, ordinance, or regulation.
26. CONDEMNATION: If the leased land shall be taken in any condemnation proceeding, this lease shall automatically terminate as of the date of taking. The award for such condemnation shall be paid to Lessor, except for any specific award(s) paid to Lessee for severed oil and gas reserves, in which event 50% of such specific award(s) shall be paid to Lessor in lieu of royalty lost by virtue of the condemnation. Improvements shall be removed by Lessee per terms in the SETTLEMENT paragraph herein. If only a portion of the leased land is taken by condemnation, Lessor may, at its option, terminate this lease or terminate only that portion of the lease so taken.
27. ERRORS: Every effort is made by Lessor to avoid errors in all procedures including, but not limited to, auction listings and lease preparation. Lessor shall not be liable for any inconvenience or loss caused by errors which may occur. Lessee shall notify Lessor immediately upon discovery of any errors or discrepancy whatsoever.

28. ARCHAEOLOGY: Lessee shall not destroy, disturb, mar, collect, remove or alter any prehistoric or historic resources of any kind on Weld County lands as provided by law. These resources include, but are not limited to, all artifacts of stone, wood or metal, pictographs, structures, and bones. A discovery of anything of prehistoric or historic nature shall be reported to Lessor or the State of Colorado Archaeologist immediately.
29. DEFINITIONS: For purposes of this Lease, the following definitions apply:
- A. "*Products*" refers to any and all substances produced on the leased property, including all oil and gas, found on or under the leased property.
  - B. "*Market Value*" shall mean for gas and products therefrom (i) the gross price at which gas or products therefrom are sold pursuant to a Gas Contract, as defined in paragraph 2C, or (ii) if not sold pursuant to a Gas Contract, as defined in paragraph 2C, the highest gross price reasonably obtainable for the quantity of gas or products available for sale, through good faith negotiations for gas or products produced from the Leased Premises at the place where such gas or product is available for sale on the date of such a contract with adequate provisions for redetermination of price at intervals of no less frequency than two (2) years to ensure that the production is being sold for no less than the current market price. Included within the definition of "*Market Value*" as used herein is the presumption that Gas Contracts are arms-length contracts with purchasers who are not subsidiaries or affiliates of Lessee. "*Market Value*" shall never be less than the amount actually received by the Lessee for the sale of hydrocarbons.
  - C. "*Affiliate*" is defined as the parent company or a subsidiary of Lessee, a corporation or other entity having common ownership with Lessee, a partner or joint venturer of Lessee with respect to the ownership or operation of the processing plant, a corporation or other entity in which Lessee owns a ten percent or greater interest, or any individual, corporation or other entity that owns a ten percent or greater interest in Lessee.
  - D. "*Costs*" and/or "*Expenses*" shall mean all costs of gathering, production, transportation, treating, compression, dehydration, processing, marketing, trucking or other expense, directly or indirectly incurred by Lessee, whether as a direct charge or a reduced price or otherwise, including fuel use attributable to any of the services listed above. "*Costs*" or "*Expenses*" also include depreciation, construction, repair, renovation or operation of any pipeline, plant, or other facilities or equipment used in connection with the treating, separation, extraction, gathering, processing, refining, transporting, manufacturing or marketing of hydrocarbons produced from the Leased Premises or lands pooled therewith.
  - E. "*Gas*" as used herein shall mean all gases (combustible and noncombustible) including, but not limited to, all gaseous hydrocarbons, gaseous compounds, carbon dioxide, and helium.
  - F. "*Oil and gas*" as used herein shall include all substances produced as by-products therewith, including, but not limited to, sulfur.
  - G. "*Paying quantities*" as used herein shall mean and refer to quantities of oil and gas or of either of them sufficient to pay for the current cost of producing same.
30. HEIRS AND ASSIGNS: The benefits and obligations of this lease shall inure to, and be binding upon, the heirs, legal representatives, successors or assigns of Lessee; but no sublease or assignment hereof, or of any interest herein, shall be binding upon Lessor until the same has been approved by Lessor as explained in the ASSIGNMENTS paragraph provided above.

31. WARRANTY OF TITLE: Lessor does not warrant title to the leased premises, but it shall, upon request, allow Lessee access to such abstracts and other title papers as it has in its files. There shall be no obligation on Lessor's part to purchase new or supplemental or other title papers, nor to do any curative work in connection with title to the subject lands.
32. FORCE MAJEURE: Neither party shall be responsible for delays or failures in performance resulting from acts or occurrences beyond the reasonable control of such party, including, without limitation: fire, explosion, power failure, flood, earthquake or other act of God; war, revolution, civil commotion, terrorism, or acts of public enemies; any law, order, regulation, ordinance, or requirement of any government or legal body or any representative of any such government or legal body; or labor unrest, including without limitation, strikes, slowdowns, picketing or boycotts. In such event, the party affected shall be excused from such performance (other than any obligation to pay money) on a day-to-day basis to the extent of such interference (and the other party shall likewise be excused from performance of its obligations on a day-to-day basis to the extent such party's obligations relate to the performance so interfered with).
33. SURVEYS, ABSTRACTS, TITLE OPINIONS AND CURATIVE WORK:
- A. If Lessee shall cause any of the exterior or interior lines of the property covered by this lease to be surveyed, Lessee shall furnish Lessor a copy of such survey. Lessee shall furnish Lessor, within a reasonable time, with a copy of all maps submitted to the Corps of Engineers of the United States Army, Railroad, or other governmental or official agency or department having jurisdiction, showing the proposed location of all roads, pipelines, canals and drill sites on the Leased Premises.
- B. All abstracts of title, whether new or supplementary, obtained by Lessee and covering the subject lands shall become the property of, and be delivered to, Lessor after Lessee has completed its title examination and curative work, subject, however, to the right of Lessee to use such abstracts upon request at any time during the term of the lease. Therefore, if Lessee causes an abstract of title to be prepared covering the property herein leased, or any portion thereof or if if. Lessee shall cause the title to be examined or should obtain a title opinion or title certificate upon the property herein leased, Lessee agrees to furnish Lessor a copy thereof within two (2) weeks of Lessee's receipt thereof. Lessor agrees that neither Lessee nor the attorney or firm of attorneys rendering the opinion or certificate shall be responsible to Lessor for its correctness, the said opinion or certificate being furnished to Lessor simply for its own convenience, information and personal use. Similarly, if any curative material is obtained by Lessee, a copy thereof shall immediately be furnished Lessor under the same conditions of non-liability on the part of the Lessee or the persons who may have obtained or prepared the same.



