

Producers 88

OIL AND GAS LEASE
(No Surface Occupancy)

AGREEMENT, Made and entered into the _____ day of _____, 2017 by and between **City of Brighton**, hereinafter called Lessor(s), whose address is **500 S. 4th Avenue, Brighton, CO 80601**, and **PETRO-OPERATING COMPANY, LLC** whose address is **9033 E. Easter Place, Suite 112, Centennial, CO 80112**, hereinafter called Lessee:

1. **Grant of Leased Premises.** In consideration of a cash bonus in hand paid, the receipt of which is hereby acknowledged, and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

See Exhibit "A" attached hereto and made a part hereof for description of leased lands.

in the County of Adams, State of Colorado, containing **37.57 gross acres**, more or less, and in the County of Weld containing **17 gross acres**, more or less, for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in association therewith ("Oil and Gas Substances"). The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, methane produced from coal formations and other commercial gases, as well as normal hydrocarbon gases. If, at any time, it is determined that the leased premises is greater than, or less than **54.57 gross acres**, then **PETRO-OPERATING COMPANY, LLC** will adjust the bonus payment and pay all back royalties to Lessor.

2. **Paid Up Lease.** This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. **Royalty Payment.** For all Oil and Gas Substances that are physically produced from the leased premises, or lands pooled, unitized or communitized therewith, and sold, Lessor shall receive a royalty of **20%** of the weighted average sales price actually received by Lessee or, if applicable, its affiliate, as a result of all sales of the affected production to an unaffiliated party. Lessor's royalty shall not be subject to its proportionate share of Post Production Costs but will bear its proportionate share of all production, severance and ad valorem taxes. As used in this provision, Post Production Costs shall mean all costs actually incurred by Lessee or its affiliate and all losses of produced volumes used as fuel, line loss, flaring, venting or otherwise from and after the wellhead until the Oil and Gas Substances are in a marketable condition and have reached a recognized market for the same. Post Production Costs include without limitation, all costs of gathering, marketing, compression, dehydration, removal of liquid or gaseous substances or impurities from the affected production prior to the time Oil and Gas Substances produced from the leased premises or from land pooled therewith are in a marketable condition and have reached a recognized market for the same and any other treatment or processing required by the first unaffiliated party who purchases the affected production.

If Lessee uses the Oil and Gas Substances (other than as fuel in connection with the production and sale thereof) in lieu of receiving sale proceeds, the price to be used to pay Lessor's royalty under this provision shall be the weighted average sales price referred to above for the applicable month.

4. **Term of Lease.** This lease shall be in force for a primary term of three **(3) years** from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof. Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term.

The primary term may be extended for an additional **two (2) years** by paying to Lessor an equal sum as originally paid herein, if paid in advance before the expiration of the primary term. In the event Lessee makes the payment provided for above, then all terms of this Lease shall remain in full force and effect as if the original primary term was five (5) years.

At the expiration of the primary term, as the same may have been extended, this lease shall automatically terminate and expire as to all lands that are subject to this lease which are located outside the boundaries of a spacing unit established by the Colorado Oil and Gas Conservation Commission, upon which there is a well producing in paying quantities or a well capable of producing in paying quantities which is shut-in for the reasons stated in this Lease. Lessee shall file a release of those portions of the leased premises in the Adams County records within 30 days of such termination or, if Lessee fails to do so, Lessor shall have the right to such release.

5. **Operations.** If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on or affecting the leased premises or lands pooled or unitized therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of this lease or the action of any governmental authority, then in the event this lease is beyond the primary term it shall nevertheless remain in force if Lessee commences further Operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled or unitized therewith within 120 days after completion of operations on such dry hole or within 120 days after such cessation of all production in paying quantities. If after the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in Operations, as defined below, this entire lease shall remain in force for an additional 120 days from the completion of operations on such dry hole or the cessation of all production in paying quantities, and if any such Operations result in the production of Oil and Gas Substances, as long thereafter as there is production in paying quantities from the leased premises or lands pooled or unitized therewith. As used herein, the term Operations shall mean any activity continuously conducted on or affecting the leased premises or pooled therewith that is customary and reasonably calculated to obtain or restore production, including without limitation, (i) drilling or acts preparatory to drilling actually conducted on the leased premises or lands pooled therewith (such as building roads or constructing a drill site as long as actual drilling operations are commenced forthwith following the completion of the preparatory acts); (ii) completing, reworking, plugging back, deepening, treating, stimulating, refitting, installing any artificial lift or production-enhancement equipment or technique; and (iii) constructing facilities to enable the production, treatment, transportation and marketing of substances produced from the leased premises.

6. **No Surface Occupancy.** Notwithstanding anything herein contained, this Lease is a "No Surface Occupancy" Oil and Gas Lease. It is agreed and understood that Lessee, its successors or assigns shall not conduct any drilling or completion operations or locate any facilities on the surface of the leased lands. It is understood that the Lessee, its successors or assigns shall not be allowed any access to the surface of the leased lands without the prior written consent of Lessor. Lessee is granted the right to drill and operate directional or horizontal wells through and under said lands. Lessee shall be liable for any and all damages to the leased lands due to subsidence, collapse or settlement caused by Lessee's operations hereunder.

7. Shut-in Royalty. If after the primary term one or more wells on the leased premises or lands pooled or unitized therewith are capable of producing Oil and Gas Substances in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 120 consecutive days such well or wells are shut in or production therefrom is not sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of **ten dollars per acre** then covered by this lease. The payment shall be made to Lessor on or before the first anniversary date of the lease following the end of the 120-day period and thereafter on or before each anniversary while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations under this lease, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled or unitized therewith, no shut-in royalty shall be due until the first anniversary date of the lease following the end of the 90-day period after the end of the period next following the cessation of such operations or production, as the case may be. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease. However, after the expiration of the primary term, this lease may not be maintained in force by the payment of shut in royalties for any period in excess of one (1) consecutive year from the date the well is first shut in.

8. Pooling and Unitization. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease, or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease, or leases. Likewise, units previously formed to include formations not producing oil or gas may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling, or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling, or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the described lands 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, express 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 said above described lands 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. It is hereby agreed that Lessor shall formally express its 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.

9. Payment Reductions. If Lessor owns less than the full mineral estate in all or any part of the leased premises, payment of royalties and shut-in royalties hereunder shall be reduced as follows: royalties and shut-in royalties for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises. To the extent any royalty or other payment attributable to the mineral estate covered by this lease is payable to someone other than Lessor, such royalty or other payment shall be deducted from the corresponding amount otherwise payable to Lessor hereunder.

10. Ownership Changes. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

11. Regulation and Delay. All express 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 for 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, or Act of God, adverse field, weather, or market conditions, inability to obtain materials in the open market or transportation thereof, wars, strikes, lockouts, riots, fracking bans and/or moratoria upon well completions and/or production restrictions, or other conditions or circumstances beyond the control of the Lessee. The time during which Lessee is prevented from conducting drilling, completion, reworking, and/or production operations during the primary term of this lease, under the contingencies above stated, shall be added to the primary term of this lease.

12. Breach or Default. Any dispute arising under this lease shall be resolved in accordance with the dispute resolution procedures set out below. If Lessor believes that Lessee is in default of any covenant or condition of this lease, it may give Lessee written notice thereof which notice shall describe the claimed default in reasonable detail. Lessee shall have 60 days to cure the claimed default, commence action to cure the claimed default if 60 days is not sufficient to cure the same or deny the existence of the claimed default. If Lessee commences action to cure the claimed default, and if 60 days is not sufficient to cure the same, it shall diligently pursue such action until the default is cured to the reasonable satisfaction of Lessor for a period not to exceed 90 days. No mediation or arbitration shall be initiated by Lessor for damages, forfeiture or cancellation with respect to any claimed default by Lessee hereunder during such 30 day period (or longer if Lessee has commenced action to cure the claimed default). If the matter is arbitrated in accordance with the dispute resolution section below and there is a final determination that a default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time, not to exceed 90 days, after said determination to remedy the default and Lessee fails to do so.

g. Anything to the contrary herein notwithstanding, in the event of any litigation arising out of this contract, the court shall award to the prevailing party all reasonable costs and expenses, including attorney and legal fees. If there is no prevailing party, each Party shall be responsible for their own costs and legal expenses.

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated _____, by and between the **City of Brighton**, as Lessor, and **PETRO-OPERATING COMPANY, LLC**, as Lessee.

DESCRIPTION OF LEASED LANDS:

TOWNSHIP 1 NORTH, RANGE 66 WEST OF THE 6TH P.M.
Section 34: Part of the SE/4, more particularly described in deed recorded 1/4/2002 at Reception Number 2914217 in the records of Weld County, Colorado (containing 17 acres, more or less)
WELD COUNTY, COLORADO

AND

TOWNSHIP 1 SOUTH, RANGE 66 WEST OF THE 6TH P.M.
Section 3: Part of the N/2, and part of the SW/4 more particularly described as:
Tract C of Brighton East Farms Filing No 1 (containing 3 acres more or less)
Tract W of Brighton East Farms Filing No 1 (containing 4.66 acres more or less)
Tract E of Brighton East Farms Filing No 2 (containing 3 acres more or less)
Tract R of Brighton East Farms Filing No 1 (containing 5.02 acres more or less)
Tract R of Brighton East Farms Filing No 2 (containing 5.01 acres more or less)
Tract S of Brighton East Farms Filing No 2 (containing 1.7 acres more or less)
Tract U of Brighton East Farms Filing No 2 (containing 7.83 acres more or less)
Tract N of Brighton East Farms Filing No 2 (containing 3.23 acres more or less)

AND ALSO A parcel of land in the SW/4 of (said) Section 3, described as the westerly 40 feet of the southerly 1,043.55 feet of Section 3, less the southerly 50 feet (and containing .92 acres more or less).

AND ALSO A parcel of land in the southerly end of the NE/4 of (said) Section 3, described in deed recorded 5/8/2014 at Reception Number 2014000028205 in the records of Adams County, Colorado (and containing 1.66 acres more or less).

AND ALSO A parcel of land at the westerly end of the SE/4 of (said) Section 3, described in deed recorded 4/24/2014 at Reception Number 2014000028203 in the records of Adams County, Colorado (and containing 1.54 acres more or less).
ADAMS COUNTY, COLORADO