

Moffat County Colorado Oil & Gas Lease

Form #1.5.1

Revised June, 2009

(To be used where Moffat County does not own the surface)

(For leases of narrow strips of land, such as roads, use form #2)

(Do not use this form for more than 640 acres; use two or more of this form)

This lease agreement is made as of the ___ day of _____, 200_, between the County of Moffat, State of Colorado, acting by and through its Board of County Commissioners, as Lessor, and _____ whose address is _____ as Lessee.

1. DESCRIPTION. In consideration of a cash bonus in the amount of \$_____ which has been paid to the Moffat County, Colorado Treasurer and receipt of which is acknowledged by the Lessor, Lessor hereby grants, leases and lets exclusively to Lessee the land in Moffat County, Colorado described below containing _____ gross acres, more or less, hereinafter called "leased premises" for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non-hydrocarbon substances produced in association therewith except coal. The term "gas" as used herein includes helium, carbon dioxide, gaseous sulfur compounds, coalbed methane and other commercial gases, as well as normal hydrocarbon gases, but does not include gases resulting from in situ combustion.

LEGAL DESCRIPTION OF LEASED PREMISES GOES HERE

2. TERM OF LEASE. This lease shall be in force for a primary term of three years from the date hereof and as long thereafter as oil, gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled or unitized therewith, subject to the other provisions hereof, or the lease is otherwise maintained in effect pursuant to the provisions hereof. Notwithstanding the foregoing, and except as modified by any pooling, communitization or unitization agreements approved by Lessor as hereinafter provided, this lease shall terminate at the end of its primary term except as to lands included within any spacing unit established by the Colorado Oil & Gas Commission (or, if no spacing has been established, 40 acres or the equivalent government survey lot for an oil well or 160 acres or the equivalent government survey lot or lots for a gas well), or as to lands included within a participating area approved by the Bureau of Land Management if said lands have been committed, with Lessor consent, to a federal exploratory unit, having located thereon a well being drilled or completed or capable of producing in paying quantities, as to which this lease shall continue in effect so long as production continues. For purposes of the preceding sentence, a completed coalbed methane well which is being dewatered shall be deemed capable of producing gas.

3. RENTAL OR PAID-UP LEASE (CHECK ONE)

_____ PAID-UP LEASE. This is a paid up lease, no annual rental is due.

_____ RENTAL PAYMENT. If, on or before the first anniversary date hereof, operations for the drilling of a well for oil, gas or other substances covered hereby have not been commenced on the leased premises or lands pooled or unitized therewith, or if there is no production in paying quantities from the leased premises or lands pooled or unitized therewith, then, subject to the other provisions hereof, this lease shall terminate as to both parties unless Lessee, on or before that date, pays or tenders to the Lessor, acting by and through the Moffat County, Colorado Treasurer, which shall continue as Lessor's depository for receiving payments regardless of change in the ownership of the land, the sum of \$1.00 per acre per year as rental covering the privilege of deferring the commencement of operations for the drilling of a well for a period of 12 months from said anniversary date. In like manner and upon like payments or tenders, the commencement of operations for the drilling of a well may be further deferred for one or more 12-month periods during the primary term of this lease. All payments or tenders may be made in currency or by check. Mailed payments or tenders to the Moffat County Treasurer by deposit in the US Mail, Registered or Certified, Return Receipt Requested, on or before the rental due date, shall constitute proper payment.

4. ROYALTY PAYMENT. Lessor may elect to receive its royalty share of production in money but if the oil or other liquid hydrocarbons are purchased by the Lessee or its affiliate in other than an arms-length transaction, such oil or other liquid hydrocarbons shall be valued at the highest price paid by Lessee or others for substantially similar production in Moffat County, Colorado in an arms-length transaction.

Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows:

- (a) For oil and other liquid hydrocarbons the royalty shall be 18.75% of such production, to be delivered to Lessor's credit at the oil purchaser's transportation facilities or at the tailgate of the processing plant.

- (b) For gas, the royalty shall be 18.75% of the value of the gas produced which shall be calculated as if produced under a United States Oil and Gas Lease issued in the same month as is this lease by the Bureau of Land Management.
- (c) If, after the primary term, one or more wells on the leased premises are capable of producing gas in paying quantities but said well or wells are shut-in for any reason, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease, but Lessee shall be obligated to pay to Lessor on each anniversary date of this lease an amount equal to the rentals provided for in Section 3 of this lease as shut-in gas royalty. Nothing in this Section 4(c) of this lease shall be deemed to extend the term of this lease more than two years beyond the end of its primary term without actual production unless each shut in well is produced for at least 120 days during each lease year following the expiration of said two-year period.

Lessee shall furnish to Lessor copies of all production reports filed with State or Federal agencies reporting production from wells on the leased premises and lands pooled, communitized or unitized therewith. Such copies shall be delivered to Lessor within 30 days after they are filed. Lessor shall have the right at any time after royalty becomes payable, upon reasonable notice and at Lessor's expense, to audit Lessee's production and sales records to determine that royalty has been properly paid. The delivery of an audit request to Lessee by Lessor shall suspend the running of any limitation of time to seek remedy for unpaid royalty until 30 days after the audit is complete.

5. OPERATIONS. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called a "dry hole") on the leased premises, or if all production permanently ceases from any cause, and in the event this lease is not otherwise being maintained in force, 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 within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production, or, should the lease be within the primary term, if Lessee commences such further operations or pays rental on or before the next rental payment date (if any) and any subsequent rental payment dates. If, during or at the end of the primary term this lease is not otherwise being maintained in force, but Lessee is then engaged in drilling, reworking or any other operation reasonably calculated to obtain or restore production therefrom, including the dewatering of any completed coalbed methane well, this lease shall remain in force for an additional 60 days and so long as production of oil, gas or other substances covered hereby continues in paying quantities.

6. POOLING AND COMMUNITIZATION. Lessee shall have the right to pool or communitize all or any part of the leased premises with any other lands within a spacing unit as to any or all depths or zones, and as to any or all substances covered by this lease in those cases where this lease covers part of the land within a spacing unit established by order of the Colorado Oil & Gas Conservation Commission for a single well. In all other cases, pooling or communitization may occur only with the consent of the Lessor evidenced by a resolution of the Moffat County Commissioners authorizing joinder to the pooling or communitization agreement or declaration. If any part, but less than all, of the leased premises is pooled or communitized, that part of the leased premises outside of the pooled or communitized tract shall be segregated to a separate lease having the same terms as this lease which shall continue in effect for the balance of the primary term of this lease and an additional six months thereafter, and as long thereafter as production continues from the land covered by the segregated lease outside the pooled or communitized tract.

7. UNITIZATION. Except where required by statute, Lessee shall have no power to commit all or any part of the leased premises to a unitization agreement, whether for a federal exploratory unit, secondary recovery or other unit, without the consent of the Lessor evidenced by a resolution as provided in Section 6 above. Lessor may impose conditions on its joinder to any such unit, which shall apply regardless of any provisions of the unit agreement.

8. PAYMENT REDUCTIONS. If Lessor owns less than the full mineral estate in all or any part of the leased premises, payment of rentals, royalties and shut-in royalties hereunder shall be reduced as follows:

- (a) Rentals shall be reduced to the proportion that Lessor's interest in the entire leased premises bears to the full mineral estate in the entire leased premises, calculated on a net acreage basis, and
- (b) Royalties and shut-in gas royalties for any well on any part of the leased premises 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.

9. OWNERSHIP CHANGES. The interests of either Lessor or Lessee hereunder may be conveyed, assigned 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, personal representatives 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 notice of the change of ownership, together with a copy of the instrument of transfer. In the event of any question as to who is entitled to payment of rentals, royalties and shut-in gas royalties, Lessee may pay the same to the Moffat County, Colorado Treasurer. No transfer of all or any interest in this lease by the Lessee shall relieve the Lessee of all or any part of its obligations under this lease or the surface use agreement hereinafter provided for in Section 12, unless the assignee agrees to accept all obligations of lessee in a written instrument. Lessee shall deliver to Lessor a copy of all assignments of this lease when the same are recorded.

10. **RELEASE OF LEASE.** Lessee may, at any time, and from time to time, deliver to Lessor and record in the Moffat County, Colorado records a written release of this lease as to a full or undivided interest in all or any portion of the leased premises or any depth or zones thereunder and shall thereupon be relieved of all obligations thereafter arising with respect to the interests so released, except as may be provided in the surface use agreement hereinafter provided for in Section 12 and the rules of the Colorado Oil & Gas Conservation Commission. If this lease expires or is terminated, Lessee must record a release in the Moffat County, Colorado records within 45 days of receipt of a demand therefor.

11. **WARRANTY OF TITLE.** Lessor does not warrant its title to the leased premises. It is the responsibility of the Lessee to determine what interest, if any, Lessor has in the leased premises. This lease is subject to all prior liens, encumbrances and grants of record and to all apparent easements and other uses.

12. **SURFACE USE AGREEMENT.** Lessee shall consult with the surface owner of the leased premises prior to commencing construction regarding the location of any roads, fences, pipelines or power lines, or installation of any production equipment, tank batteries or produced water disposal equipment, and regarding reclamation planning. Lessee shall take reasonable precautions to minimize adverse impact to farming and ranching operations on, and environmental and aesthetic degradation of, the surface of the leased premises, and follow generally accepted industry practices to protect fresh water strata from contamination and protect the surface from exposure to produced water and other contaminants. Lessee shall pay the surface owner for damages to growing crops, grass, buildings, livestock, fences and other improvements and personal property caused by Lessee's operations. Lessee shall enter into good faith negotiations with the owner of the surface of the leased premises for a surface use agreement prior to Lessee's entering upon or occupying the surface of the leased premises and, where such agreement is not reached, follow all applicable statutory and regulatory procedures for exercising its rights under this lease. Within six months after the termination of this lease, Lessee shall restore any of the leased premises disturbed by its operations to as near its condition at the beginning of this lease as practicable, and remove all machinery and fixtures placed by Lessee on said premises pursuant to this lease. The requirements of this paragraph shall apply to any and all surface-disturbing operations on the leased premises, including, but not by way of limitation, seismic and geophysical operations, whether the same are conducted under the authority of this lease or of any other lease covering the leased premises, and, by acceptance of this lease, Lessee acknowledges that the owner of the surface of the leased premises is, and is intended to be, a third party beneficiary of this Paragraph 12 and shall be entitled to enforce the same.

13. **SAGE GROUSE "LEK AREAS".** Lessee acknowledges that certain lands under or adjacent to the leased lands may contain active or inactive sage grouse strutting, nesting, and or chick rearing areas. Lessee agrees with respect to these lands to:

- a) Use existing roads where possible.
- b) Use "Dry Road" technology where such use reasonably and economically reduces impact upon the lands traversed.
- c) Observe seasonal restrictions on access during strutting and nesting periods defined as roughly March 1st through June 30. Such restrictions shall be related to the actual protection of existing and occupied Leks.
- d) Cooperate with other companies regarding placement of roads and pipelines, such provision shall not prohibit such construction or placement where cooperating is impossible due to factors beyond the control of Lessee.
- e) Utilize directional drilling where such drilling reasonably and economically reduces impact upon Leks and such reduction in impact can be reasonably demonstrated.

14. **ANCILLARY RIGHTS.** Lessee acknowledges that minerals other than oil or gas may exist on or under the leased premises and that the mining lessee of any such other minerals shall have the right to use the surface or subsurface of the leased premises for mining purposes, subject to using reasonable precautions to not jeopardize the uses authorized within this lease. Unless the surface use agreement described above in Section 12 otherwise provides, Lessee shall have no right to use the surface or subsurface of the leased premises for operations or production on other land. This lease shall not be deemed to grant to the Lessee any power or right to use the leased premises for gas storage or injection of waste or produced water.

15. **FORCE MAJEURE.** All express or implied covenants of this lease shall be subject to all Federal and State 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 such failure is the result of, any such law, order, rule, or regulation, war, lack of market, act of God, strike, fire, explosion, flood, or any other cause reasonably beyond the control of Lessee.

16. **NOTIFICATION OF BREACH.** In the event Lessor considers that Lessee has failed to comply with any obligation hereunder, express or implied, Lessor shall notify Lessee in writing specifying in what respect Lessor claims Lessee has breached this lease. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breach(es) alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breach(es) shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder.

17. NOTICES. All notices under this lease shall be deemed sufficient if sent by Registered or Certified Mail, Return Receipt Requested, as follows:

If to the Lessor: Chairman
Board of County Commissioners
Moffat County
Craig, Colorado 81625

If to Lessee: **FILL IN LESSEE ADDRESS HERE**

The above addresses shall be sufficient regardless of changes in ownership until and unless changed by written notices delivered as above provided.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above.

LESSOR:

Moffat County, Colorado
Acting by and through its Board of County Commissioners

By: _____
County Commissioner Chair Filled in here, Chairman

Execution of this lease was authorized by Resolution No. _____ of the Moffat County, Colorado Board of County Commissioners dated _____, 2004.

LESSEE:

FILL IN COMPANY NAME HERE

By: _____
FILL IN SIGNATURE HERE

ACKNOWLEDGMENTS

STATE OF COLORADO

COUNTY OF MOFFAT

The foregoing oil and gas lease was acknowledged before me this _____ day of December A.D. 2003, by **COUNTY COMMISSIONER CHAIRMAN FILLED IN HERE** as Chairman of the Moffat County, Colorado Board of Commissioners.

WITNESS my hand and official seal.

My Commission Expires: _____

Notary Public

STATE OF COLORADO

CITY AND COUNTY OF DENVER

The foregoing oil and gas lease was acknowledged before me this _____ day of _____ A.D. 2003, by

REPRESENTATIVE OF OIL AND GAS COMPANY FILLED IN HERE

WITNESS my hand and official seal.

My Commission Expires: _____
