

discovered in paying quantities at a lesser depth, or unless such formations are encountered at a lesser depth as will indicate to the geologist of the Lessee that further drilling would be unsuccessful. If said well, or any subsequent well prior to completion of a paying well, be abandoned for mechanical reasons, or for any other reason, this lease shall remain in full force and effect if a new well is started within ninety days from date of such abandonment; provided that, in lieu of starting such new well, Lessee shall have the right to defer drilling in accordance with paragraph 8 hereof upon payment of rental as therein provided.

4. Upon discovery of oil in paying quantities in any well drilled on demised premises, the Lessee shall commence the drilling of another well within ninety days thereafter, and shall thereafter continuously operate not less than one well drilling outfit, allowing ninety days between completion of one well and commencement of the next succeeding, until eight wells shall have been drilled, including offset wells; provided that, upon failure to find oil in paying quantities in the first or any subsequent well drilled under the terms hereof, this lease shall remain in full force and effect, at the option of the Lessee, if Lessee elects (without forfeiture of any right to subsequently drill for and produce oil) to operate any such well or wells as natural gas wells and operate the premises for natural gas development purposes, in which event the drilling obligations hereinabove in this paragraph contained shall be reduced to one-fourth the number of wells specified. Nothing herein shall be construed to limit the number of wells which the Lessee may drill, should it so elect, in excess of the number hereinabove specified, nor limit the depth to which any well may be drilled or deepened by Lessee should it desire to drill below the depth specified. The Lessee shall have the right at all times to operate, deepen, redrill and maintain all producing oil and/or gas wells upon said property.

5. Lessee may at any time, and from time to time, either before or after discovery of oil and/or gas on the demised premises, quitclaim the said premises, or any part thereof, to the Lessor, his successors or assigns. Upon the quitclaiming of any part of the land to the Lessor, his successors or assigns, all rights and obligations of the parties hereto, one to the other, shall cease and determine as to the portions of the premises quitclaimed (except that the Lessee may continue to enjoy such easements on the surrendered premises as may be in use at the time of the surrender) and the drilling requirements hereunder shall be reduced pro rata according to acreage retained by the Lessee. Except as herein provided, full right to said land shall revert in the Lessor free and clear of all claims of the Lessee, except that the Lessor, his successors or assigns, shall not drill any well on said surrendered land within 330 feet of any producing oil well or within 660 feet of any gas well on land retained by Lessee.

6. In the event of the discovery of oil in any well on adjacent properties within one hundred fifty feet of the boundary line of the demised premises, and the production of oil therefrom in paying quantities as herein defined, then the next well to be drilled hereunder shall be so placed to offset said well on the adjacent property; or, if no well is being drilled and the total well requirements of this lease have not been fulfilled, then within ninety days thereafter a well shall be commenced by the Lessee to offset such producing well on the adjacent property. It is agreed that a well on demised premises shall be construed to be an offset to one or more wells on adjacent properties if such well is located at a distance not greater than one hundred fifty feet from the boundary line between the herein leased premises and the land containing the well or wells to be offset and at a distance not to exceed one hundred fifty feet from either side of a line drawn from a well so to be offset through the nearest point in said boundary line; provided that a well then producing or drilling on demised premises within one hundred fifty feet of the offset location herein defined shall be construed to fulfill this offset provision. The obligation to offset wells shall be applicable only to the exterior boundary lines of the demised property and the offset obligation shall not be increased by reason of any division of ownership of demised property by Lessor which may occur during the life of this lease, or present existing multiple ownership.

7. Drilling and/or producing operations may be suspended or curtailed on said property only in the event that they are prevented by the elements, accidents, strikes, lock-outs, riots, delays in transportation, conservation or curtailment agreements, or interferences by municipal, state or federal action, or the action of other governmental officers or bodies, or other causes beyond the reasonable control of Lessee, whether similar or dissimilar to the causes herein specifically mentioned, and when there is no market for the oil, or so long as the established and posted market price offered by the major oil purchasing companies for oil of the quality produced on said premises, in the district in which the premises are located, shall be less than seventy-five cents per barrel at the well. The Lessee is hereby authorized by Lessor to enter into conservation and curtailment agreements with other operators for the purpose of preventing waste or for the conservation of oil and/or gas, when such agreements are required or permitted by state or federal officials or statutes; provided that any such agreed curtailment shall be at no greater pro rata percentage per well or location on demised premises than that on offset acreage where offset wells are producing or drilling.

8. It is expressly understood and agreed that the consideration expressed herein shall include all rental for the first year of the term hereof. Commencing with the second year of the term thereof, if the lessee has not theretofore commenced drilling on said land or terminated this lease, as herein provided, the lessee shall pay or tender to the lessor \_\_\_\_\_ in advance, as rental the sum of one dollar (\$1.00) per acre until drilling is commenced on said land or this lease terminated as herein provided. The payment of the foregoing rental by the lessee shall secure to the lessee the privilege of deferring the commencement of drilling operations for a period of twelve months (12)-. In like manner and upon like payments or tenders at the beginning of succeeding years, the beginning of drilling operations may be further deferred for like periods successively for a term of four (4) years. All payments or tenders may be made by check or draft of lessee or any assignee thereof mailed or delivered to lessor's agent on or before the rental paying date. It is the intend hereof that rentals shall not be paid for the purpose of deferring the commencement of drilling operations.

9. The Lessee shall be entitled to use, without payment of royalty, so much of the water, oil and/or gas produced on said property as may be required in the operation of the property. If Lessee uses electrical equipment in the operation of the property after development of oil and/or gas in paying quantities and, by reason of such use, markets the free fuel to which Lessee is entitled, the Lessee is hereby authorized to deduct monthly from any royalty payments accruing to Lessor a sum equal to one-eight part of