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Natural gas and oil actually used for operating purposes upon the land and, except as to the ultimate sale thereof, gas returned to the sand for stimulating the production of oil or secondary recovery purposes shall be royalty free.

(e) **DISPOSITION OF ROYALTY OIL.** To deliver to the lessor, or to such individual, firm or corporation as the lessor may designate, all royalty oil and gas free of charge on the premises where produced; or, at the option of the lessor, and in lieu of said royalties in kind, the lessee agrees to pay the lessor the field market price or value of all royalty oil produced and saved.

When the lessor elects to take its royalty oil in kind such oil shall be good merchantable oil and the lessee shall if necessary furnish storage therefor free of charge for thirty (30) days after the end of the calendar month in which the oil is produced, upon the leased premises, or at such place as the lessor and the lessee may mutually agree upon, provided, that the lessee shall not be held liable for loss or destruction of royalty oil so stored from causes beyond his control.

The free storage of oil, as herein provided, shall apply only as long as the said oil is the property of the lessor.

(f) **MEASUREMENTS OF PRODUCTION.** To gauge, measure and correct for temperature all production from said lands in conformance with the Rules and Regulations adopted by the Board of Land Commissioners and report said production to the lessor in accordance therewith.

To keep books, records and reports pertaining to the production from the land herein leased as well as those pertaining to the production from offset wells operated by the lessee, his operator or sub-lessee, on other lands, which shall be opened at all times for the inspection of any duly authorized agent of the lessor.

To furnish the lessor with original pipe line reports showing the day, month, year, amount, gravities and temperatures of all oil run and with monthly reports showing the month, year, amount and price of all gas and natural-gas gasoline and other products produced and sold from the land herein leased, and the amount of gas returned to the sand.

(g) **MONTHLY PAYMENTS AND STATEMENTS.** Unless the time of payment is otherwise extended by the Commissioner of Public Lands, to make payment on or before the twentieth (20th) day of the calendar month succeeding the month of production for all oil or gas removed or sold from said land, and to furnish sworn monthly statements therewith showing in detail the quantity and quality of the production (per well if required where practical) from the land hereby leased, and the quantity and quality of the production (per well where practical) from offset wells upon cornering or contiguous lands operated by the lessee, his operator or sub-lessee and such other information as may be called for in the form of report prescribed by the lessor.

(h) **DEVELOPMENT PRIOR TO DISCOVERY.** Within two years from the effective date of this lease, and beginning on or before the 2nd day of October A. D. 1954, to erect on the leased premises a good and sufficient drilling rig and equipment and commence the actual drilling of a well to properly test the structure; provided that the lessor may, upon proper application by the lessee in writing, made prior to the expiration of the aforesaid date, grant relief from the above drilling requirements in such manner and for such period of time as conditions may warrant, and which appear to be to the best interests of the State; provided further, however, that should oil or gas be discovered or produced on lands adjoining or upon the same geologic structure on which the leased lands are situated, or should the lessor deem that the lessee is holding said lands for speculative purposes only, or is otherwise delaying or inhibiting the development of said lands or other lands on the same geologic structure, the lessor reserves the right to require the commencement of a well within a certain specified time which shall be not less than ninety days after notification.

(i) **WELLS TO BE DRILLED.** To drill and operate effectively all wells necessary to reasonably offset wells upon and production from adjoining lands.

To drill such additional wells at such times or places as are necessary and essential to the proper development and commercial production of the oil and gas content of said land.

(j) **LOG OF WELLS AND REPORTS.** To keep a log, in the form approved by the lessor, of each well drilled by the lessee on the lands herein leased, showing the strata and character of the formations, water sands and mineral deposits penetrated by the drill, amount of casing, size and where set, and such other information as the lessor may require, which log or a copy thereof shall be furnished to the lessor.

To file progress reports, in the form prescribed by the lessor, at the end of each thirty (30) day period while each well is being drilled.

To file annually, or at such times as the lessor may require, maps showing the development of the structure and the location of all wells, pipe lines and other works used in connection with the operations of the lessee upon said land.

To make such other reports pertaining to the production and operations by the lessee on said land, and report such other information as may be possessed by the lessee on the wells, production or operations of others on lands on the same geologic structure that may be of importance in effecting proper development and operation of the lands herein leased, as may be called for by the lessor. All logs, maps and reports shall be submitted in duplicate and the Commissioner may waive such reports as conditions may warrant.

(k) **PRODUCTION.** To operate the wells upon the land herein leased in a competent and efficient manner in an endeavor to recover all the oil and gas economically possible from said land and to prevent the undue drainage of the oil and gas thereunder by wells operated by the lessee or others on cornering or contiguous lands to those leased herein. All plans or methods for the purpose of stimulating or increasing production on lands herein leased other than those in common use shall first be presented to the lessor for approval before being put into actual operation.

(l) **DILIGENCE-PREVENTION OF WASTE.** To exercise reasonable diligence in drilling, producing, and operating of wells on the land covered hereby, unless consent to suspend operations temporarily is granted by the lessor; to carry on all operations hereunder in a good and workmanlike manner in accordance with approved methods and practice, having due regard for the prevention of waste of oil and gas, or the entrance of water to the oil or gas bearing sands or strata to the destruction or injury of such deposits, the preservation and conservation of the property for future productive operations, and to the health and safety of workmen and employees; to plug securely in an approved manner any well before abandoning it, and not to abandon any well without permission of the lessor; not to drill any well within two hundred (200) feet of any of the outer boundaries of the land covered hereby, unless to protect against drainage by wells drilled on lands adjoining less than 200 feet from the property lines thereof; to conduct all operations subject to the inspection of the lessor; to carry out at the lessee's expense all reasonable orders and requirements of the lessor relative to the prevention of waste and preservation of the property and the health and safety of workmen and on failure of the lessee so to do the lessor shall have the right, together with other recourse herein provided, to enter on the property to repair damages or prevent waste at the lessee's expense; to abide by and conform to valid applicable regulations prescribed; to reimburse the owner of the surface, if other than the lessor, or lessee of grazing rights thereof for actual damages thereto and injury to improvements thereon; provided, that the lessee shall not be held responsible for acts of providence or actions beyond his control.

(m) **TAXES AND WAGES-FREEDOM OF PURCHASE.** To pay, when due, all taxes lawfully assessed and levied under the laws of the State of Wyoming upon improvements, oil and gas produced from the land hereunder, or other rights, property or assets of the lessee; to accord all workmen and employees complete freedom of purchase, and to pay all wages due workmen and employees at least once each month in the lawful money of the United States.

(n) **STATUTORY REQUIREMENTS AND REGULATIONS.** To comply with all valid State statutory requirements and valid regulations thereunder and the Wyoming Blue Sky Law, including but not limited to Chapter 57, Article 11; and Chapter 39, Article 12, Wyoming Compiled Statutes 1945, and amendments thereof.

(o) **ASSIGNMENTS OF LEASE-PRODUCTION AGREEMENTS.** Not to assign this lease or any interest therein, nor sublet any portion of the leased premises, except with the consent in writing of the lessor first had and obtained.

All over-riding royalties to be valid must have the approval of the Board and be recorded with the lease. The Board reserves the right of disapproval of such over-riding royalties when in its opinion they become excessive and hence are detrimental to the proper development of the leased lands.

No production agreements limiting, restricting, prorating, or otherwise affecting the natural production from said land shall be entered into by the lessee, nor shall the lessee limit, restrict or prorate the natural production from said land in any way or in any event, except with the consent in writing of the lessor first had and obtained.

(p) **DELIVER PREMISES IN CASES OF FORFEITURE.** To deliver up the leased premises, with all permanent improvements thereon, in good order and condition in case of forfeiture of this lease but this shall not be construed to prevent the removal, alteration or renewal of equipment and improvements in the ordinary course of operations.

(q) **REGULATIONS.** To conduct all operations under this lease in accordance with the valid Rules and Regulations governing the production of oil and gas which may now or hereafter be approved by the lessor.

SECTION 4. THE LESSOR EXPRESSLY RESERVES:

(a) **DISPOSITION OF SURFACE.** The right to lease, sell or otherwise dispose of the surface of the land embraced within this lease under existing laws or laws hereafter enacted, and in accordance with the Rules of the Board of Land Commissioners, insofar as the surface is not necessary for the use of the lessee in the conduct of operations hereunder.

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