

LEASE TERMS

SECTION 1. RIGHTS OF LESSEE. The lessee is granted the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all the oil and gas in the lands leased together with the right to construct and maintain thereupon all works, buildings, plants, waterways, roads, communication lines, pipe lines, reservoirs, tanks, pumping stations, or other structures necessary to the full enjoyment thereof, for a period of ten (10) years and so long thereafter as oil or gas may be produced in paying quantities.

SECTION 2. THE LESSEE AGREES:

(a) BOND. To furnish a bond with an approved corporate surety company authorized to transact business in the State of Wyoming, or such other surety as may be acceptable to the lessor, in the penal sum as required by the current rules of the State Board of Land Commissioners, conditioned upon the payment of all moneys rentals and royalties accruing to the lessor under the terms hereof, and upon the full compliance of all other terms and conditions of this lease and the Rules and Regulations relating thereto, and also conditioned on the payment of all damages to the surface and improvements thereon where the lease covers lands, the surface of which has been sold or otherwise leased. Such bond or bonds furnished prior to the development of the lands contained in this lease may be increased in such reasonable amounts as the lessor may decide upon commencement of drilling operations, and after the discovery of oil or gas.

(b) PAYMENTS. To make all payments accruing hereunder to the Commissioner of Public Lands, Capitol Building, Cheyenne, Wyoming.

(c) RENTALS. Prior to the discovery of oil or gas in paying quantities to pay the lessor in advance, beginning with the effective date hereof, an annual rental of 25¢ per acre or fraction thereof.

After the discovery of oil or gas in paying quantities to pay the lessor in advance, beginning with the first day of the lease year succeeding the lease year in which actual discovery was made, an annual rental of One Dollar (\$1.00) per acre or fraction thereof, unless changed by agreement. Such rental so paid for any one year shall be credited on the royalty for that year. Lessor shall have no obligation hereunder to give lessee advance notice of any rental payment.

(d) ROYALTIES. The royalties to be paid by lessee are: (i) on oil, one-eighth of that produced, saved, and sold from said land, the same to be delivered at the wells or to the credit of lessor into the pipe line to which the wells may be connected; (ii) on gas, including casinghead gas or other hydrocarbon substance, produced from said land saved and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale.

Should any well drilled upon lands covered by this lease obtain production of oil, gas, or other hydrocarbons, and if the lessee is unable to establish a satisfactory market for the oil, gas, or hydrocarbons produced from said well, the lessee may apply for and the lessor may grant permission for the suspension of production operations until such time as a satisfactory market for the product from said well can be developed. During the time any such suspension of operations is in effect the lessee shall continue to pay the annual rental of One Dollar (\$1.00) per acre or fraction thereof provided by (c) above, and this lease shall remain in effect as though oil or gas was being produced from said lands.

ON OTHER KINDRED HYDROCARBONS AND SUBSTANCES: On all other hydrocarbons of value and gaseous substances and elements produced or extracted, including propane, butane, sulfur, nitrogen, carbon dioxide, and helium, at such royalty as shall be mutually determined to be fair and reasonable.

For royalty purposes on gas and natural gasoline the value shall be as approved by the lessor, and in the determination of the value of natural gasoline the fair cost of extraction shall be considered as a deductible item; provided, however, that the allowance for the cost of extraction may exceed two-thirds of the amount or value only on approval of the lessor and in no event shall the price for gas, or natural gasoline, be less than that received by the United States of America for its royalties from the same field.

In cases where natural gas is produced and the natural-gas gasoline extracted therefrom only one royalty shall be paid, except in the event the residue or dry gas shall be marketed it shall then constitute a separate commodity and a royalty shall be paid thereon as above provided.

Natural gas and oil actually used for operating purposes upon the land and, except as to the ultimate sale thereof, gas or liquid hydrocarbons 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 and removal and sale of oil and gas 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) 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.

(i) 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 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.