RETURN TO
THE ATLANTIC REFINING CO.
P.O. BOX 2819, DALLAS, TEXAS

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 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.

(j) 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.

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.

(k) 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 damage 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.

(l) 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 in conformance with the laws of the State of Wyoming.

(m) STATUTORY REQUIREMENTS AND REGULATIONS. To comply with all valid State statutory requirements and valid regulations thereunder and the Wyoming Blue Sky Law.

(n) 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 overriding 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 overriding royalties when in its opinion they become excessive and hence are detrimental to the proper development of the leased lands.

(o) DELIVER PREMISES IN CASE 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.

(p) 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 3. THE LESSOR EXPRESSLY RESERVES:

(a) 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.

(b) From the operation of this lease the surface lands heretofore granted for Rights of Way and Easements and reserves the right to grant such other Rights of Way and Easements as provided by the statutes of the State of Wyoming, as long as such Rights of Way and Easements do not conflict with the operations for oil and gas on the land herein leased.

(c) The right, with consent of the lessee, to commit the herein leased lands in a unit or co-operative plan of development, and to establish, alter, change, or revoke the drilling, producing, and royalty requirements of the lease to conform therewith.

(d) The right to alter or modify the quantity and rate of production to the end that waste may be eliminated or that production may conform to the lessee's fair share of allowable production under any system of State or National curtailment and proration authorized by law.

SECTION 4. APPRAISAL OF IMPROVEMENTS.

The lessee shall have the right, subject to the provisions of Title 36, Section 76 (as to State and State School lands), and Title 11, Section 631-B (as to Farm Loan Board lands), Wyoming Statutes 1957, to remove any improvements owned by lessee within a reasonable time after the termination of this lease. Lessee agrees that any such improvements not removed within a reasonable time after termination of this lease shall be disposed of pursuant to the above statutes.

SECTION 5. FORFEITURE CLAUSE.

The Board shall have the power and authority to cancel leases procured by fraud, deceit or misrepresentation, or for the use of the lands for unlawful or illegal purposes, or for the violation of the covenants of the lease, upon proper proof thereof. In the event that the lessee shall fail to make payments of rentals and royalties as herein provided, or make default in the performance or observance of any of the terms, covenants and stipulations hereof, or of the general regulations promulgated by the Board of Land Commissioners and in force on the date hereof, the lessor shall serve notice of such failure or default either by personal service or by certified or registered mail upon the lessee, and if such failure or default continues for a period of thirty (30) days after the service of such notice, then and in that event the lessor may, at its option, declare a forfeiture and cancel this lease, whereupon all rights and privileges obtained by the lessee hereunder shall terminate and cease and the lessor may re-enter and take possession of said premises or any part thereof; but these provisions shall not be construed to prevent the exercise by lessor of any legal or equitable remedy which the lessor might otherwise have. A waiver of any particular cause of forfeiture shall not prevent the cancellation and forfeiture of this lease for any other cause of forfeiture, or for the same cause occurring at any other time.

SECTION 6. RELINQUISHMENT AND SURRENDER. This lease may be relinquished and surrendered to lessor as to all or any legal subdivision of said lands as follows:

(a) If no operations have been conducted under the lease on the land to be relinquished the lessee shall file with the Commissioner of Public Lands a written relinquishment or surrender, duly signed and acknowledged and stating therein that no operations have been conducted on the land and shall further pay a filing fee of one dollar ($1.00) and a recording fee of ten dollars ($10.00). The relinquishment so filed shall become effective on the date and hour of receipt thereof in the Office of the Commissioner or at some later date if such be so specified by the lessee therein. If the said relinquishment fails to state that no operations have been conducted the effective date of relinquishment shall be the date the relinquishment is approved by the Board.

(b) If operations have been conducted under the lease on land proposed to be relinquished the lessee shall give sixty (60) days notice and shall file with the Commissioner a written relinquishment or surrender duly acknowledged and stating therein that operations have been conducted on the land and shall further pay a consideration of ten dollars ($10.00), a filing fee of one doller ($1.00) and a recording fee of ten dollars ($10.00). The relinquishment shall not become effective until the land and the wells thereon shall have been placed in condition acceptable to lessor and shall have been approved by the State Mineral Supervisor.

All rentals becoming due prior to a surrender or relinquishment becoming effective shall be payable by lessee unless payment thereof shall be waived by lessor. A relinquishment having become effective there shall be no recourse by lessee, and the lease as to the relinquishd lands may not be reinstated.

SECTION 7. HEIRS AND SUCCESSORS IN INTEREST. It is further covenanted and agreed that each obligation hereunder shall extend to and be binding upon, and every benefit thereof shall inure to the heirs, executors, administrators, successors of, or assigns of the respective parties hereto.

SECTION 8. If the lessor owns an interest in oil and gas in said land less than the entire fee simple estate, then the royalties and rentals to be paid lessor shall be reduced proportionately.

SECTION 9. This lease is issued by virtue of and under the authority conferred by Title 36, Wyoming Statutes 1957, as to the State and School Lands, and Title 11, Wyoming Statutes 1957, as to Farm Loan Lands.

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