

OIL AND GAS LEASE

This indenture of lease entered into, in duplicate, as of the nineteenth day of September, A. D. 1936, by and between the SANTA FE PACIFIC RAILROAD COMPANY, a corporation created by Act of Congress approved March 3, 1897, with its principal offices in Topeka, Kansas, party of the first part, hereinafter called the "Lessor", and H. L. WILLIAMS, of Prescott, County of Yavapai, State of Arizona, party of the second part, hereinafter called the "Lessee".

WITNESSETH:

SECTION I.

That the Lessor in consideration of rents and royalties to be paid, and covenants to be observed as herein set forth, does hereby grant and lease to the Lessee the exclusive right and privilege to drill for, extract, remove, and dispose of all the oil and gas deposits in or under the following described tracts of land situated in the County of McKinley, and State of New Mexico, and more particularly described as follows:

New Mexico Meridian, New Mexico.

Township eighteen north of range eight west:

Section fifteen containing six hundred forty acres; section seventeen, containing six hundred forty acres; section nineteen, containing six hundred thirty-eight and eighteen hundredths acres; section twenty-one, containing six hundred forty acres; section twenty-seven, containing six hundred forty acres; section twenty-nine, containing six hundred forty acres; section thirty-three, containing six hundred forty acres.

Containing in the aggregate four thousand four hundred seventy-eight and eighteen hundredths acres.

together with the right to construct and maintain thereupon all works, building, plants, waterways, roads, telegraph or telephone lines, pipe lines, reservoirs, tanks, pumping station or other structures necessary to the full enjoyment thereof for a period of five years and as long as oil and gas are produced in commercial quantities.

SECTION II.

In consideration of the foregoing the Lessee hereby agrees:

(a) To proceed with reasonable diligence within twelve (12) months of delivery hereof to install on the leased land a standard or other efficient drilling outfit and equipment and to commence drilling at least one well and to continue such drilling with reasonable diligence to production or to a point where the well is demonstrated unsuccessful, and thereafter to continue drilling with reasonable diligence at least one well at a time until Lessee shall have drilled producing wells which equal in number the number of twenty (20) acre tracts or lots embraced in the leased premises, unless the Lessor shall for any reason deemed sufficient, consent in writing to the drilling of a less number of wells, the Lessee further agrees to fully protect the leased land from drainage of oil or gas from any producing formation or zone by the drilling of all necessary wells to offset the wells of others on adjoining lands when drilled within four hundred (400) feet of the boundary line of said leased land.

(b) To pay the Lessor, as rental, upon the execution of this lease, fifty cents (50¢) per acre to cover the first year; in one year from date hereof sixty cents (60¢) per acre to cover the second year; in two years from date hereof seventy cents (70¢) per acre to cover the third year; in three years from the date hereof eighty cents (80¢) per acre to cover the fourth year; and for the fifth year and each year this lease may be in effect thereafter, one dollar (\$1.00) per acre per annum, to be paid annually in advance; the rental so paid for any one year to be credited on the royalty for that year, together with the royalty on all oil and gas produced from the land leased herein (except oil or gas used for production purposes on said land or unavoidable loss) as follows:

(1) For all oil produced of thirty degrees Baume or over:

On that portion of the average production per well not exceeding 100 barrels per day for the calendar month.....12½ Percent.

On that portion of the average production per well of more than 100 barrels and not more than 300 barrels per day for the calendar month.....16-2/3 Percent.

On that portion of the average production per well of more than 300 barrels and not more than 1000 barrels per day for the calendar month..... 20 Percent.

On that portion of the average production per well of more than 1000 barrels per day for the calendar month..... 25 Percent.

(2) For all oil produced of less than thirty degrees Baume:

On that portion of the average production per well not exceeding 200 barrels per day for the calendar month..... 12½ Percent.

On that portion of the average production per well of more than 200 barrels per day for the calendar month.....16-2/3 Percent.

(3) Only wells which have a commercial production during at least part of the month shall be considered in ascertaining the average production above provided for.

Such royalty oil to be tendered and delivered to Lessor in tank or tanks provided by Lessee for that purpose on the leased land on or before the fifteenth day of each calendar month, the same to be held for but at the sole risk of Lessor at place of delivery for fifteen days thereafter, free and clear of all costs and charges of every nature, provided, however, that if the Lessor shall so request in writing the Lessee will purchase said royalty oil from Lessor at the current market price for oil of like gravity prevailing in the territory where produced, payment therefor to be made by Lessee on or before the twentieth day of each calendar month following the calendar month in which produced.

The words "current market price" as used herein shall be deemed to mean the entire price available for oil of similar quality in the same producing district, including premium if any.

(4) On gas and casinghead gasoline:

On gas, whether same shall be gas from which the casinghead gasoline has been extracted or otherwise, $12\frac{1}{2}$ percent of the value thereof in the field where produced where the average production per day for the calendar month from the land leased is less than 3,000,000 cubic feet, and $16\frac{2}{3}$ percent where the average daily production is 3,000,000 cubic feet or over.

On casinghead gasoline 30 percent of the value of the casinghead gasoline extracted from the gas produced.

The value in the field where produced, of gas and casinghead gasoline, for royalty purpose, shall be the current market price of such products in the territory where produced. In cases where gas produced and sold has a value both for casinghead gasoline content and as dry gas from which the casinghead gasoline has been extracted, then the royalties above provided shall be paid on both of such values.

All payments to be made in Topeka, Kansas, to the Treasurer of the Santa Fe Pacific Railroad Company.

(c) To furnish monthly statements in detail in such form as may be prescribed by the Lessor showing the amount, quality and value of all oil and gas produced and saved during the preceding calendar month as the basis for computing the royalty to the Lessor. The leased premises, all wells, improvements, machinery and fixtures thereon or connected therewith, and all books and accounts of the Lessee shall be open at all times for the inspection of any duly authorized representative of the Lessor.

(d) To keep a log of all wells drilled by the Lessee, showing the strata and character of the ground passed through by the drill, which log or map thereof shall be furnished to said Lessor on demand.

(e) To exercise reasonable diligence in drilling and operating wells for the oil and gas on the lands covered hereby, while such products can be secured in paying quantities, 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 practices, having due regard for the prevention of waste of oil or gas developed on the land, or the entrance of water through wells drilled by Lessee to the oil sands or oil bearing strata to the destruction or injury of the oil deposits, the preservation and conservation of the property for future productive operations; to plug securely any well before abandoning the same so as to effectually shut off all water from the oil or gas bearing strata; to conduct all drilling and related productive operations subject to the inspection of the Lessor. Provided, that the Lessee shall not be held responsible for delays or casualties occasioned by causes beyond Lessee's control. Lessee hereby assumes the responsibility for compliance with all state laws and regulations governing the production and conservation of oil and gas. In the event said land is situated in the State of New Mexico, the Lessee agrees to give a bond to said State, securing compliance with the State laws and regulations of said State, in such form and in such amount as shall be acceptable to said State.

(f) To pay, before same become delinquent, all taxes, charges, rates and assessments which may, during the term of this lease, be levied upon or assessed in any respect, to the benefits of this lease which flow to the Lessee as follows:

(1) All of such taxes, charges, rates and assessments which may be levied upon or assessed in respect to any of the rights, privileges, values or property which are given or granted to the Lessee by the terms and provisions of this lease.

(2) All such taxes, charges, rates and assessments pertaining to oil or gas which may be produced from the demised premises or pertaining to the personal property which may be placed upon such premises by the Lessee.

(3) All increases of such taxes, charges, rates and assessments pertaining to the lands embraced herein by reason of any improvements to such premises, including test and producing oil or gas wells, buildings, pipe lines, machinery and other fixtures placed thereon by the Lessee.

(4) Where any such taxes, charges, rates and assessments may be embraced in a general amount of taxes charged upon the demised premises separately or in conjunction with other property of the Lessor and Lessor shall pay all of such taxes, then the Lessee will promptly repay or refund to the Lessor the amount or part of the tax, charge, rate or assessments attributable under this lease to the Lessee. All taxes paid by Lessor on account of Lessee shall bear 8 percent interest, per annum, until paid.

(g) To save harmless and indemnify the Lessor from and against all claims, demands, suits, judgments, expenses and costs of any and every kind on account of the injury or death of

persons and loss and damage to property arising in any manner out of or in connection with the operations of the Lessee upon the leased premises and will, at the sole cost and expense of the Lessee defend all such claims, demands, or suits.

(h) To restore to the Lessor the possession of the premises at the termination of this lease either by expiration of time, forfeiture or otherwise as herein provided, and to remove therefrom all property, improvements, etc., except such as may have become the property of the Lessor under this lease by purchase or otherwise, and so far as possible restore the leased premises to the condition in which they were at the time of entrance into this lease.

(i) Not to assign this lease or any interest therein nor sublet any portion of the leased premises except with the written consent of the Lessor first had and obtained in each instance.

SECTION III.

It is mutually agreed:

(a) That the Lessor does not warrant the quiet possession of said lands by the Lessee and Lessor shall in no event become liable for damage arising from any lack or failure of title in the Lessor to said lands or eviction of the Lessee therefrom by title paramount to the title of the Lessor. The Lessor covenants, however, and warrants that it has made no agreement on its part in

reference to said lands, or any conveyance thereof which will give to third parties right to interfere in any way with the operations of the Lessee under this lease. Any existing leases for agricultural or grazing purposes of the surface of the lands herein leased shall not be renewed or extended on their expiration or termination. The Lessor shall have the right to sell the leased land or portions thereof, but any such sale shall not in any wise impair this lease or the rights of the Lessee hereunder.

(b) That at any time before the discovery of oil or gas on the leased premises, or at any time thereafter, the Lessee may surrender the whole or any part thereof to the Lessor by an appropriate instrument in writing duly executed and acknowledged so as to entitle same to be recorded, and thereupon all rights and obligations of the parties hereto, one to the other, shall cease and determine as to the premises thereby surrendered, provided, however, the Lessee shall have first paid all rentals, taxes, or royalties due thereunder and shall perform all the obligations of the Lessee under paragraphs (g) and (h) of Section II hereof.

(c) That if any wells shall fail to develop oil or gas in paying quantities but shall develop fresh water, the Lessor shall have the option of taking over any such well, if the Lessee shall have decided to abandon it as an oil or gas well, upon payment by Lessor to Lessee of the reasonable value of well casing

and other material necessary to be left in such well, provided, however, Lessor shall exercise the option to take over such well and make any and all tests it desires to make as to such well within twenty days from the date Lessee notifies Lessor that a water well has been developed. Provided, further, however, Lessee shall have the right to use during the term of this lease from such well, such water as may be required for drilling and for camp purposes; but so long as Lessee uses the water from such well Lessor shall not be required to pay for the casing and other material.

Any and all reservoirs, dams and similar structures built by Lessee shall, without expense to the Lessor, become the property of the Lessor upon any termination of this lease as to all of the demised premises or as to any portion of such premises upon which such structures are located, unless same are being used in drilling operations upon lands as to which this lease is not terminated.

(d) That if the Lessee shall fail at any time to pay any sum payable by the Lessee hereunder on the dates when the same shall be due, or shall fail to perform or comply with any covenant or condition by and to be performed or complied with under this lease including the payment of all taxes, then and in such event the Lessor shall have and is hereby given, the right at its election to terminate this lease and upon giving notice in writing of such election this lease shall forthwith be terminated

Nothing herein shall be construed to relieve the Lessee from any liability which may have accrued prior to or may be accruing at the date of such termination or deprive the Lessor of the right to enforce any such liability or of the benefit of any covenant or obligation in this lease contained to indemnify or hold it harmless. 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.

(e) That upon any termination or expiration of this lease as to part or all of the lands hereby leased all rights of Lessee in or to extract oil or gas within said lands as to which this lease shall be so terminated or shall so expire, as the case may be, shall cease, and the ownership of any such oil and gas shall remain with the Lessor.

(f) That this lease shall not operate to interfere, obstruct, or hinder in any way the operation by The Atchison, Topeka and Santa Fe Railway Company, or by any company a majority of whose capital stock now is or hereafter shall be owned by it, of any railroad now in existence or which may be built or acquired by any such company, and all rights, privileges, and easements granted by this lease are subject to the safe and economical operation of any such railroad or railroads, as determined by the officer or officers of any such company or companies.

(g) That in case the parties hereto shall fail to agree with respect to any matters arising under this lease then the matter shall be determined by the decision of three disinterested arbitrators, one to be appointed by the Lessor, one by the Lessee and the third by the two arbitrators so appointed; and that the decision of such arbitrators or of any two of them shall be conclusive and binding upon the parties hereto, the expense of arbitration to be borne as the arbitrators shall direct.

(h) That all of the covenants and agreements of this lease shall extend to and be binding upon and every benefit hereof shall inure to, the heirs, executors, administrators, successors, or assigns of the respective parties hereto.

IN WITNESS WHEREOF, this lease and agreement has been executed by the parties thereunto duly authorized the date and year first above written.

SANTA FE PACIFIC RAILROAD COMPANY

By (Signed) E. J. Engel

Vice-President.

(CORPORATION SEAL)

Attest:

(Signed) H. E. Fink
Assistant Secretary.

(Signed) H. L. Williams

Lessee.

A S S I G N M E N T

THIS INDENTURE, made the 7th day of February A. D., 1936, between H. L. WILLIAMS, of Prescott, Yavapai County, State of Arizona, the party of the first part, and FRANK V. QUIGLEY and ALEXANDER O. BURNHAM, of 18 E. 41st, Street, New York City, New York, the parties of the second part,

WITNESSETH: That the said party of the first part, for and in consideration of the sum of Ten (\$10.00) Dollars to him in hand paid by the said parties of the second part, the receipt whereof is hereby confessed and acknowledged, and in further consideration of the promise upon the part of the said parties of the second part to assume, liquidate, pay off, settle, reduce, compromise and discharge only to the extent of Three Thousand (\$3000.00) Dollars, any obligations and indebtedness owed or owing by the said H. L. Williams in connection with and incident to the owning and controlling of any right, title and interest in and to the hereinafter described property, the said H. L. Williams doth hereby assign, transfer and set over unto the said parties of the second part, all his right, title and interest, claim and demand which the said H. L. Williams has in and to his undivided acreage interest held in the "HOSPAH STRUCTURE", McKinley County, State of New Mexico,

SAVE AND EXCEPTING HOWEVER unto the said H. L. Williams, all his right, title and interest which the said H. L. Williams may have in and to the undivided acre interest of the two hundred fifty (250) acres of what is known as the "Santa Fe Railroad Leases" on the "HOSPAH STRUCTURE" in McKinley County, State of New Mexico.

And the party of the first part further covenants and agrees that he will make, execute, acknowledge and deliver to the parties of the second part or their assigns, all such other and further instruments necessary to and passing title to the parties of the second part or their assigns, of any and all leases and leasehold

estates held or enjoyed by said party of the first part in connection with the foregoing "HOSPAH STRUCTURE", including the said "Santa Fe Railroad Leases". All of such assignments and transfers to be subject to the interest of any unnamed persons therein by virtue of the said H. L. Williams having sold undivided acreage interest in and to said "HOSPAH STRUCTURE". And said party of the first part covenants and agrees to forthwith deliver to the parties of the second part, all of the original leases hereinbefore mentioned and described, together with any extensions or renewals thereof.

IN WITNESS WHEREOF, the said party of the first part has hereunto set his hand and seal the day and year first above written.

H. L. Williams

State of Arizona,)
County of Yuma) ss.

On this 8th day of February 1936, before me personally appeared H. L. Williams, to me known to be the person described in and who executed the foregoing instrument and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year in this certificate first above written.

Raymond
Notary Public.

My commission expires:
July 23, 1937

STATE OF NEW MEXICO } ss. #4913
COUNTY OF MCKINLEY }

Filed for record in the Clerk's office
the 21 day of Feb.

A. D. 1936 at 9 o'clock A. M.,

and recorded in Book 67 Six

of Leases on page 163

Martin Lopez
County Clerk

By J. J. Milosevich
Deputy

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COMPALED