

said lands having been awarded to lessee and designated as tract No. _____ at a public sale held by the Commissioner of Public Lands on _____, 19____. (To be filled in only where lands are offered at public sale.)

TO HAVE AND TO HOLD said lands, and all the rights and privileges granted hereunder, to and unto the lessee

for a primary term of five (5) years from the date hereof, and as long thereafter as oil and gas in paying quantities, or either of them, is produced from said land by the lessee, subject to all the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinafter provided, the lessee shall pay the lessor as royalty one-eighth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipe line, if the oil be run into a pipe line, or into storage tanks, if the oil be stored.

2. Subject to the free use without royalty, as hereinafter provided, the lessee shall pay the lessor as royalty one-eighth of the cash value of gas, including casinghead gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the greater following amounts:

(a) the net proceeds derived from sale of such gas in the field, or

(b) five cents (\$.05) per thousand cubic feet (m.c.f.), the volume of gas for such purposes to be computed on a pressure basis of 10 ounces above an assumed atmospheric pressure of 14.4 pounds per square inch, or 15.025 pounds per square inch absolute, at 60° Fahrenheit, and pursuant to appropriate regulations of the Commissioner of Public Lands which may provide, among other things, for a flowing temperature of 60° Fahrenheit to be assumed and applied in volume computation in all cases where a recording thermometer is not applied by the lessee in gas measurement, and for specific gravity tests at the lessee's expense at intervals not greater than one year in all cases where a recording gravimeter is not employed by the lessee in gas measurement;

Provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor acting by its Commissioner of Public Lands, may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof in the field) the Commissioner of Public Lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas.

3. Lessee agrees to make full settlement on the 20th day of each month for all royalties due the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. It is expressly agreed that the consideration hereinafter specified is a good, valid and substantial consideration and sufficient in all respects to support each and every covenant herein, including specifically the option granted the lessee to prevent the termination of this lease from year to year, by the payment or tender of the further rental hereinafter provided for.

An annual rental, at the rate of _____ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor as hereinafter provided, upon each acre of land described and then claimed by such lessee, transferee or assignee hereunder, and the same shall be due and payable in advance to the lessor on the successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than Six Dollars (\$6.00).

In event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the Commissioner a duly executed release thereof and in event said lease has been recorded, then he shall upon request furnish and deliver to said Commissioner a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the State of New Mexico, acting by its Commissioner of Public Lands, or other authorized officer, all amounts then due as provided herein and the further sum of Ten Dollars (\$10.00), surrender and cancel this lease insofar as the same covers all or any portions of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinafter provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and currently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms express or implied.

All payments due hereunder shall be made on or before the day such payment is due, in cash or by certified exchange at the Office of the Commissioner of Public Lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor, shall have the right to assign this lease in whole or in part. Provided, however, that no assignment of any undivided interest in the lease or any part thereof or any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. Lessee agrees with reasonable diligence to offset all paying oil or gas wells drilled, within 300 feet of any of the land covered by this lease and retained hereunder.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor. If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operations shall be commenced on any such lands so sold unless and until the lessee or his assignee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any non-productive well when lessor deems it to the interest of the State or New Mexico to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agrees to pay for all damages to the range, livestock, growing crops or improvements caused by the lessee's operations on said lands. When requested by the lessor, the lessee shall bury pipe-lines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of paragraph 10 above.

13. Upon failure or default of the lessee or any assignee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee or assignee so defaulting, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee, or assignee so defaulting, by registered mail, addressed to the postoffice address of such lessee or assignee as shown by the records of the State Land Office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within 30 days from the date of mailing said notice the said lessee or assignee shall remedy the default specified in said notice, cancellation shall not be made.

14. All the terms of this agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.

15. If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term hereof, the lessee may continue this lease in full force and effect for an additional term of five (5) years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands, or any part thereof, may be situated, if it be greater than double the rental provided for the primary term.

16. If the lessee shall have maintained this lease in accordance with the provisions hereof and if at the expiration of the secondary term provided herein oil or gas is not being produced on said land but lessee is then engaged in a bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities or either of them is produced from said land; provided, however, such operations extending beyond the secondary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all of such operations shall be made by the lessee to the lessor every 30 days and a cessation of such operations for more than 20 consecutive days shall be considered as an abandonment of such operations and thereupon the provisions hereof shall be of no further force or effect.

IN WITNESS WHEREOF, the party of the first part has hereunto signed and caused its name to be signed by its Commissioner of Public Lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year above written.

STATE OF NEW MEXICO

By _____
COMMISSIONER OF PUBLIC LANDS, Lessor.

Lessee. (SEAL)

Distributed this the _____ day of _____, 19____

(PERSONAL ACKNOWLEDGEMENT)

STATE OF _____ }
COUNTY OF _____ } ss:

On this the _____ day of _____, 19____, personally appeared before me

to me known to be the person _____ who executed the foregoing instrument as Lessee, and acknowledged that _____
he _____ executed the same as _____ free act and deed.

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

My Commission Expires: _____

Notary Public.

(ACKNOWLEDGEMENT BY ATTORNEY IN FACT)

STATE OF _____ }
COUNTY OF _____ } ss:

On this the _____ day of _____, 19____, personally appeared
before me _____

to me known to be the person _____ who executed the foregoing instrument in behalf of _____

and acknowledged that _____ he _____ executed the same as the free act and deed of said _____

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

My Commission Expires: _____

Notary Public.

(CORPORATE ACKNOWLEDGMENT ON BACK)

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____
COUNTY OF _____
ss: _____

On this the _____ day of _____, 19____, personally appeared _____
_____ to me personally known, who being by me duly sworn did say that he is the _____ of _____
_____ and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instru-
_____ ment was signed and sealed in behalf of said corporation by authority of its board of directors, and said _____
_____ acknowledgedges said instrument to be the free act and deed of said corporation.
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this
certificate above written.
My Commission Expires: _____
Notary Public. _____