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OIL CONSERVATION DIVISION

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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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IN THE MATTER OF THE APPLICATION
OF THE OIL CONSERVATION COMMISSION
TO AMEND RULE 1207(a)7 OF ITS
RULES OF PROCEDURE

Case No. 9134

MEMORANDUM IN SUPPORT OF APPLICATION

Dugan Production Corporation and Benson-Montin-Greer Drilling Corp., by and through Robert G. Stovall, their attorney, file this memorandum in support of the application filed in the foregoing case.

I

INTRODUCTION

The Oil Conservation Commission has filed an application with itself to amend Rule 1207(a)7 of the Oil Conservation Division Rules on Procedure. Rule 1207 is the rule which sets out the additional specific notice requirements, over and above the notice by publication requirements imposed on the Division itself, which the applicant must give with respect to any particular type of application filed with the Division. Rule 1207(a) contains 9 separate paragraphs which address different specific types of applications and the specific notice requirements for each. Paragraph 7 provides:

In the case of any other application which will, if granted, alter any working interest owner's or any royalty interest owner's percentage interest in an existing well: Actual notice shall be given to the operators and applicant's royalty interest owners in such existing well. Such notice shall be provided by certified mail (return receipt requested).

The Commission seeks to amend Rule 1207 to delete paragraph (a)7.

II

BACKGROUND AND NECESSITY FOR NOTICE

Rule 1207 was originally adopted by the Commission in 1985 in response to a need to develop more constitutionally sound notice provisions in the various matters within the Division's jurisdiction. The prior rule required only notice by publication on virtually all matters brought before it. Because certain types of cases had the potential of affecting protected property rights, and because notice by publication as the sole means of notice in such cases is not constitutionally sufficient to satisfy due process requirements, the Commission amended the Rules on Procedure to enact the current Rule 1207.

In adopting Rule 1207 the Commission attempted to provide for the specific type of notice required in each particular type of hearing likely to be held before the Division. There were put in place seven different paragraphs specifying to whom notice must be given in each of the types of cases. Paragraph 7 and paragraph 9 are catch-all type rules which are intended to cover those situations which are not covered by the specific paragraphs.

Because paragraph 9 is broader in its coverage, it will "catch" all those cases which would also be under paragraph 7, and therefore paragraph 7 is unnecessary. Further more, because paragraph 7 is more limited and only addresses a narrow circumstance, which is also addressed in most likely situations by the specific case paragraphs, it lends itself to ambiguity and confusion as to what notice is required in a specific case. As a result, certain interest owners, most likely owners of royalty or overriding royalty interests may claim that they are entitled to notice in certain cases in which notice was not otherwise required. Because these claims could be brought several years after the fact, operators who had complied with the rules could find themselves faced with tremendous uncertainty and exposure.

The purpose for due process notice and opportunity to be heard is to ensure that the owners of constitutionally protected property rights do not have those rights impaired by state action without having the opportunity to appear and participate in the

process which could result in the impairment of those rights. A particular type of state action which could result in an impairment of those rights is the exercise of police powers through the creation and enforcement of regulations which limit the exercise of property rights. The Division is specifically charged to exercise that sort of police power in order to conserve natural resources, prevent waste, protect correlative rights and protect sources of fresh water. In carrying out its legislatively assigned duties, the Division must necessarily limit the exercise of some property rights.

A prime example of such a limitation is in the establishment of spacing and proration units. At common law, the owner of oil and gas mineral interest has the right to explore for, drill to and produce the hydrocarbons underlying his property. But because the drilling of excess wells could result in waste, both in the form of the number of dollars spent to drill the unnecessary wells, and, more significantly, in the potential loss of ultimate recover caused by the unnecessary dissipation of reservoir energy. Therefore the Division establishes rules, based upon engineering and geological evidence presented at hearing, in order to carry out its statutory duty to prevent waste, conserve resources and protect correlative rights, which limit the density of wells by establishing the size of proration or spacing units and setting the production rates for wells within a given source of supply.

In establishing such regulations, the Division must limit the right of individual mineral interest owners to drill for and produce the minerals underlying their particular tract. In some cases such mineral owners may be forced to pool their mineral interest with others in order to form a legal spacing unit in accordance with the rules established by the Division. That pooling itself may be the result of a Division order. As a result, the various mineral owners who have been pooled into a particular well must share the production from that well.

When the Division establishes such regulations the owners whose rights are being affected must be given notice of and have

the opportunity to be heard at the hearing in which their rights are being determined.

III

Having determined that notice is necessary, it is essential to determine who is entitled to such notice. The basic rule is that the person whose rights are being affected is the person entitled to notice.

In the case of unleased mineral interests, clearly it is the owner of that mineral interest, be it a governmental entity or a fee mineral owner, who is entitled to notice. The rules cover that. The specific paragraphs which set forth the notice rules for particular types of hearings require notice to the owners of unleased mineral interests or to operators, which, in the case of an unleased interest would be the mineral owner. Catch-all paragraph 9 requires notice in the cases not covered by the specific paragraphs to be given to the owners of any interests which might be affected by the application.

The more common situation is when the owner of the mineral interest has leased his interest to another. Attached hereto as Exhibit "A" are copies of commonly used oil and gas leases. Highlighted in yellow is the first paragraph of each lease in which the owner grants to the lessee exclusively the demised premise for the purpose of "investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas and other hydrocarbons...", or similarly stated purposes. In other words, in exchange for the consideration bargained for, the lessor has given up his right to find and produce the oil and gas to another. The consideration which the lessor has received is the right to receive a bonus payment for the lease, often substantial, the right to receive a royalty, free of cost, of a stated percentage of the production, and certain other covenants of the lessee, which may be specifically stated in the lease or which may be implied in the law.

Many leases also contain pooling clauses (highlighted in pink on Exhibit "A") which grant to the lessee the right to pool

the leased lands with other lands to form spacing or proration units consistent with state regulations. Again the lessor has transferred a part of his property right and the responsibility to protect and develop that right to the lessee.

In transferring the right to look for and produce the oil and gas and related products, the lessor has also transferred the risk and expense of exploration and drilling to the lessee. That risk and expense may be substantial.

The lessor has also transferred to the lessee the right to make operational decisions such as when and where to drill the well, how to drill the well, how to complete and produce the well. In making those decisions, the lessee is obligated to exercise good faith, but he does not have any fiduciary duty to his lessor. The standard which the lessee must use is often referred to as the prudent operator standard.

Commonly the rights acquired by the lessee are referred to as operating rights or as a working interest. This is the interest that bears all the costs, as opposed to non-cost royalty interests. It is the owner of the operating rights whose rights are affected by the Division's exercise of its regulatory police power, and it is the owner of the working interest who is entitled to notice with respect to matters which limit or affect the right to drill for or produce oil and gas.

The relationship between the lessor and the lessee is a contractual one, and the rights and duties of the parties with respect to each other are governed by the law regarding that contract. If a lessor wishes to retain a particular right in the property, such as the right to control development, he should specifically so state, or at least restrict the grant of that right, in the contract known as a lease.

From the perspective of the Division, however, the lease does transfer to the lessee significant property rights, and the rights transferred are the rights which are affected by the Division's exercise of its police power, since the regulatory authority granted to the Division is directed primarily at operational issues. The existing Rule 1207(a) without paragraph

7 recognizes that, and the various specific paragraphs identify the specific types of parties whose interests may be affected by an order. The language in paragraph (7) creates an ambiguity in the requirement of notice because of the reference to altering a royalty interest owner's share in an existing well. The one type of case that is likely to alter interests in an existing well is a pool rules case, which is at the very heart of the Division's jurisdiction over operational matters. The ambiguity may result in the Division returning to the lessor a right which he has granted to the lessee. At the very least, the language in paragraph 7 is totally unnecessary.

IV

CONCLUSION

For the reasons stated, Dugan Production Corp. and Benson-Montin-Greer Drilling Corp. support the Application of the Commission to delete from the Divisions Rules on Procedure Rule 1207(a)7.

RESPECTFULLY SUBMITTED,



Robert G. Stovall
Attorney for
Dugan Production Corp.
Benson-Montin-Greer
Drilling Corp.
P.O. Box 10021
Farmington, NM 87499
(505) 326-3359

Serial No.

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (reverse) offers to lease all or any of the lands in item 2 that are available for lease pursuant to the Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Opinion of April 2, 1941 (40 OP. Atty. Gen. 41), or the

Read Instructions Before Completing

1. Name

Street

City, State, Zip Code

2. This offer/lease is for: (Check Only One)

PUBLIC DOMAIN LANDS

ACQUIRED LANDS (percent U.S. interest _____)

Surface managing agency if other than BLM: _____ Unit/Project _____

Legal description of land requested:

T _____ R _____ Meridian _____ State _____ County _____

Total acres applied for _____

Amount remitted: Filing fee \$ _____

Rental fee \$ _____

Total \$ _____

DO NOT WRITE BELOW THIS LINE

3. Land included in lease

T _____ R _____ Meridian _____ State _____ County _____

Total acres in lease _____

Rental retained \$ _____

In accordance with the above offer, or the previously submitted simultaneous oil and gas lease application or competitive bid, this lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in item 3 together with the right to build and maintain necessary improvements thereupon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

Type and primary term of lease:

- Simultaneous noncompetitive lease (ten years)
- Regular noncompetitive lease (ten years)
- Competitive lease (five years)
- Other _____

THE UNITED STATES OF AMERICA

by _____ (Signing Officer)

_____ (Title) _____ (Date)

EFFECTIVE DATE OF LEASE _____

*(Formerly 3110-1, 2, 3, 3120-1, 7, 3130-4, 5, and 7)

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EXHIBIT "A"

Instructions

A. General

1. The front of this form is to be completed only by parties filing for a regular non-competitive lease. The BLM will complete front of form for all other types of leases.
2. Entries must be typed or printed plainly in ink. Offeror must sign item 4 in ink.
3. An original and two copies of this offer must be prepared and filed in the proper BLM State Office. See regulations at 43 CFR 1821.2-1 for office locations.
4. If more space is needed, additional sheets must be attached to each copy of the form submitted.

B. Special

Item 1—Enter offeror name and billing address.

Item 2—Identify the mineral status and, if acquired, percentage of Federal ownership

of applied for minerals. The same application may not include both Public Domain and Acquired Lands. Indicate the agency controlling the surface use of the land and the name of the unit or project of which the land is a part. Offeror may also provide other information that will assist in establishing title for minerals. The description of land must conform to 43 CFR 3111. Total acres applied for must not exceed that allowed by regulations.

Payments. The amount remitted must include the filing fee and the first year's rental at the rate of \$1 per acre or fraction thereof. The full rental based on the total acreage applied for must accompany an offer even if the mineral interest of the United States is less than 100 percent. The filing fee will be retained as a service charge even if the offer is completely rejected or withdrawn. To protect priority, it is important that the rental submitted be sufficient to cover all the land requested. If the land requested includes lots or irregular quarter-quarter sections, the exact area of which is not known to the offeror, rental should be submitted on the basis of each such lot or quarter-quarter section containing 40 acres. If the offer is withdrawn or rejected in whole or in part before a lease issues, the rental remitted for the parts withdrawn or rejected will be returned.

Item 3—This space will be completed by the United States.

PAPERWORK REDUCTION ACT STATEMENT

1. This information is being collected pursuant to the law
2. This information will be used to create and maintain a record of oil and gas lease activity
3. Response to this request is required to obtain a benefit.

NOTICE

The Privacy Act of 1974 and the regulation in 43 CFR 2.48(d) provide that you be furnished the following information in connection with information required by this oil and gas lease application.

AUTHORITY: 30 U.S.C. et. seq.

PRINCIPAL PURPOSE—The information is to be used to process oil and gas lease applications

ROUTINE USES:

- (1) The adjudication of the lessee's rights to the land or resources.
- (2) Documentation for public information in support of notions made on land status records for the management, disposal, and use of public lands and resources.
- (3) Transfer to appropriate Federal agencies when concurrence is required prior to granting a right in public lands or resources.
- (4)(5) Information from the record and/or the record will be transferred to appropriate Federal, State, local or foreign agencies, when relevant to civil, criminal or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION—If all the information is not provided, the offer may be rejected. See regulations at 43 CFR 3100.

4. (a) Undersigned certifies that (1) offeror is a citizen of the United States, an association of such citizens, a municipality, or a corporation organized under the laws of the United States or of any State or Territory thereof, (2) all parties holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities, (3) offeror's chargeable interests, direct and indirect, in either public domain or acquired lands do not exceed 200,000 acres in oil and gas options or 246,080 acres in options and leases in the same State, or 300,000 acres in leases and 200,000 acres in options in either leasing District in Alaska, and (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located.

(b) Undersigned agrees that signature to this offer constitutes acceptance of this lease, including all terms, conditions, and stipulations of which offeror has been given notice, and any amendment or separate lease that may include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from this lease. The offeror further agrees that this offer cannot be withdrawn, either in whole or part, unless the withdrawal is received by the BLM State Office before this lease, an amendment to this lease, or a separate lease, whichever covers the land described in the withdrawal, has been signed on behalf of the United States.

This offer will be rejected and will afford offeror no priority if it is not properly completed and executed in accordance with the regulations, or if it is not accompanied by the required payments. 18 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Duly executed this _____ day of _____, 19 _____

(Signature of Lessee or Attorney-in-fact)

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LEASE TERMS

Sec. 1. Rentals—Rentals shall be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

- (a) Simultaneous noncompetitive lease, \$1.00 for the first 5 years, thereafter, \$3.00;
- (b) Regular noncompetitive lease, \$1.00;
- (c) Competitive lease, \$2.00; or
- (d) Other, see attachment.

If all or part of a noncompetitive leasehold is determined to be within a known geological structure or a favorable petroleum geological province, annual rental shall become \$2.00, beginning with the lease year following notice of such determination. However, a lease that would otherwise be subject to rental of more than \$2.00 shall continue to be subject to the higher rental.

However, annual rentals shall continue to be due at the rate specified in (a), (b), (c), or (d) for those lands not within a participating area.

Failure to pay annual rental, if due, on or before the anniversary date of this lease (or next official working day if office is closed) shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by lessee.

Sec. 2. Royalties—Royalties shall be paid to proper office of lessor. Royalties shall be computed in accordance with regulations on production removed or sold. Royalty rates are

- (a) Simultaneous noncompetitive lease, 12 1/4 %;
- (b) Regular noncompetitive lease, 12 1/4 %;
- (c) Competitive lease, see attachment; or
- (d) Other, see attachment.

Lessor reserves the right to specify whether royalty is to be paid in value or in kind, and the right to establish reasonable minimum values on products after giving lessee notice and an opportunity to be heard. When paid in value, royalties shall be due and payable on the last day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessor, in merchantable condition on the premises where produced without cost to lessor. Lessee shall not be required to hold such production in storage beyond the last day of the month following the month in which production occurred, nor shall lessee be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessee.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at end of lease year. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this lease if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (96 Stat. 2447). Lessee shall be liable for royalty payments on oil and gas lost or wasted from a lease site when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or citation issued under FOGRMA or the leasing authority.

Sec. 3. Bonds—Lessee shall file and maintain any bond required under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require lessee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection—Lessee shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessee shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidably lost. Lessee may be required to provide plats and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs. In the form prescribed by lessor, lessee shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee shall keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or in the leased lands. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that

supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessee's accounting offices for future audit by lessor. Lessee shall maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section shall be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations—Lessee shall conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee shall take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to siting or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-ways. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee shall contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor inventories or short term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessee shall immediately contact lessor. Lessee shall cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations—To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium—Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessee or owner of the gas. Lessee shall include in any contract or sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessee shall pay lessor for damage to lessor's improvements, and shall save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Lessee shall pay when due all taxes legally assessed and levied under laws of the State or the United States, accord all employees complete freedom of purchase, pay all wages at least twice each month in lawful money of the United States, maintain a safe working environment in accordance with standard industry practices, and take measures necessary to protect the health and safety of the public.

Lessee reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If lessee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee shall comply with section 28 of the Mineral Leasing Act of 1920.

Lessee shall comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessee nor lessee's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessee shall file with lessor any assignment or other transfer of an interest in this lease. Lessee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the lessee and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of this lease are returned to lessor, lessee shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of producible wells.

Sec. 13. Proceedings in case of default—If lessee fails to comply with any provisions of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation. Lessee shall also be subject to applicable provisions and penalties of FOGRMA (96 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be cancelled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time.

Sec. 14. Heirs and successors-in-interest—Each obligation of this lease shall extend to and be binding upon, and every benefit hereof shall inure to the heirs, executors, administrators, successors, beneficiaries, or assignees of the respective parties hereto.

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THIS AGREEMENT, Entered into this the _____ day of _____, 19____
between _____

_____ hereinafter called lessor,
and _____ hereinafter called lessee, does witness:

1. That lessor, for and in consideration of the sum of _____ Dollars in hand paid and of the covenants and agreements hereinafter contained to be performed by the lessee, has this day granted, leased, and let and by these presents does hereby grant, lease, and let exclusively unto the lessee the hereinafter described land, _____, for the purpose of carrying on geological, geophysical and other exploratory work, including core drilling, and the drilling, mining, and operating for, producing, and saving all of the oil, gas, casinghead gas, casinghead gasoline and all other gases and their respective constituent vapors, and for constructing roads, laying pipe lines, building tanks, storing oil, building power stations, telephone lines and other structures thereon necessary or convenient for the economical operation of said land alone or conjointly with neighboring lands, to produce, save, take care of, and manufacture all of such substances, and for housing and boarding employees, said tract of land with any reversionary rights therein being situated in the County of _____ State of _____, and described as follows:

_____ and containing _____ acres, more or less.

2. It is agreed that this lease shall remain in full force for a term of _____ years from this date, and as long thereafter as oil or gas, or either of them, is produced from said land (or from lands with which said land is consolidated) or the premises are being developed or operated.

3. In consideration of the premises the said lessee covenants and agrees:
To deliver to the credit of lessor, free of cost, in the pipe line to which lessee may connect his wells, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

4. The lessee shall monthly pay lessor as royalty on gas marketed from each well where gas only is found, one-eighth (1/8) of the proceeds if sold at the well, or if marketed by lessee off the leased premises, then one-eighth (1/8) of its market value at the well. The lessee shall pay the lessor: (a) one-eighth (1/8) of the proceeds received by the lessee from the sale of casinghead gas, produced from any oil well; (b) one-eighth (1/8) of the value, at the mouth of the well, computed at the prevailing market price, of the casinghead gas, produced from any oil well and used by lessee off the leased premises for any purpose or used on the leased premises by the lessee for purposes other than the development and operation thereof. Lessor shall have the privilege at his own risk and expense of using gas from any gas well on said land for stoves and inside lights in the principal dwelling located on the leased premises by making his own connections thereto.

Where gas from a well or wells, capable of producing gas only, is not sold or used for a period of one year, lessee shall pay or tender as royalty, an amount equal to the delay rental as provided in paragraph (5) hereof, payable annually on the anniversary date of this lease following the end of each such year during which such gas is not sold or used, and while said royalty is so paid or tendered this lease shall be held as a producing property under paragraph numbered two hereof.

5. If operations for the drilling of a well for oil or gas are not commenced on said land on or before the _____ day of _____, 19____, this lease shall terminate as to both parties, unless the lessee shall on or before said date pay or tender to the lessor or for the lessor's credit in the _____ Bank at _____, or its successors, which Bank and its successors are the lessor's agent and shall continue as the depository of any and all sums payable under this lease regardless of changes of ownership in

said land or in the oil and gas or in the rentals to accrue hereunder, the sum of _____ Dollars, which shall operate as a rental and cover the privilege of deferring the commencement of operations for drilling for a period of one year. In like manner and upon like payments or tenders the commencement of operations for drilling may further be deferred for like periods successively. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date, either direct to lessor or assigns or to said depository bank, and it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid and any and all other rights conferred. Lessee may at any time execute and deliver to Lessor, or place of record, a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereon is reduced by said release or releases.

6. Should the first well drilled on the above described land be a dry hole, then, and in that event, if a second well is not commenced on said land within twelve months from expiration of the last rental period for which rental has been paid, this lease shall terminate as to both parties, unless the lessee on or before the expiration of said twelve months shall resume the payment of rentals in the same amount and in the same manner as hereinbefore provided. And it is agreed that upon the resumption of the payment of rentals, as above provided, that the last preceding paragraph hereof, governing the payment of rentals and the effect thereof shall continue in force just as though there had been no interruption in the rental payments.

7. If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rental shall be increased at the next succeeding rental anniversary after any reversion occurs to cover the interest so acquired.

8. The lessee shall have the right to use, free of cost, gas, oil and water found on said land for its operations thereon, except water from the wells of the lessor. When required by lessor, the lessee shall bury its pipe lines below plow depth and shall pay for damage caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of the lessor. Lessee shall have the right at any time during, or after the expiration of, this lease to remove all machinery, fixtures, houses, buildings and other structures placed on said premises, including the right to draw and remove all casing. Lessee agrees, upon the completion of any test as a dry hole or upon the abandonment of any producing well, to restore the premises to their original contour as near as practicable and to remove all installations within a reasonable time.

9. If the estate of either party hereto is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, devisees, executors, administrators, successors, and assigns, but no change of ownership in the land or in the rentals or royalties or any sum due under this lease shall be binding on the lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance or duly certified copies thereof necessary in showing a complete chain of title back to lessor to the full interest claimed, and all advance payments of rentals made hereunder before receipt of said documents shall be binding on any direct or indirect assignee, grantee, devisee, administrator, executor, or heir of lessor.

10. It is hereby agreed that in the event this lease shall be assigned as to a part or as to parts of the above described land and the holder or owner of any such part or parts shall make default in the payment of the proportionate part of the rent due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part of said land upon which the lessee or any assignee hereof shall make due payment of said rentals.

11. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge in whole or in part any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

12. Notwithstanding anything in this lease contained to the contrary, it is expressly agreed that if lessee shall commence operations for drilling at any time while this lease is in force, this lease shall remain in force and its terms shall continue so long as such operations are prosecuted and, if production results therefrom, then as long as production continues.

If within the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided operations for the drilling of a well shall be commenced before or on the next ensuing rental paying date; or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinbefore provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for re-working or drilling a well within sixty (60) days from such cessation and this lease shall remain in force during the prosecution of such operations and, if production results therefrom, then as long as production continues.

~~13. Lessee is hereby authorized to subdivide the above described land into units, not exceeding the minimum size tract on which a well may be drilled, at the time of such pooling or unitization; provided, however, that such units may be of any size, shape, or acreage, and may be of any configuration, in order to conform to ownership subdivisions or lease lines. Lessee shall have the right to operate any well drilled or operations conducted under this lease on any such unit, and the production therefrom shall be the production so allocated to such unit, and it is understood and agreed that the production so allocated shall be considered, for all purposes, to be the entire production from the portion of the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lease.~~

14. This lease and all its terms, conditions and stipulations shall extend to, and be binding on each of the parties who signs this lease, regardless of whether such lessor is named above and regardless of whether it is signed by any of the other parties herein named as lessors. This lease may be signed in counterparts, each to have the same effect as the original.

IN WITNESS WHEREOF, we sign the day and year first above written.
Witness:

OIL AND GAS LEASE

AGREEMENT, Made and entered into this _____ day of _____, 19____, by and between _____

party of the first part, hereinafter called lessor, (whether one or more) and _____, party of the second part, hereinafter called lessee.

WITNESSETH: That the lessor for and in consideration of _____ Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided, and of the agreements of lessee herein contained, hereby grants, demises, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas and other hydrocarbons and including all other products produced therefrom; laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in _____ County, State of _____, to-wit:

including all minerals hereinabove named underlying lakes, streams, roads, easements and rights-of-way which traverse or adjoin said lands owned or claimed by lessor, or which may hereafter be established to be owned by lessor, and also in addition to the above described land and rights, any and all strips or parcels of land, other than those constituting regular governmental subdivisions, adjoining or contiguous to the above described land and owned or claimed by lessor, all of the foregoing land being hereinafter referred to as said land or leased premises. For the purpose of calculating the rental payments for which provision hereinafter is made, said land shall be treated as comprising _____ acres whether it actually comprises more or less.

TO HAVE AND TO HOLD the same (subject to the other provisions herein contained) for a term of ten years from this date (called primary term) and as long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them, is produced therefrom; or as much longer thereafter as the lessee in good faith shall conduct drilling operations or reworking operations thereon and should production result from such operations, this lease shall remain in full force and effect as long as oil, gas, casinghead gas or other hydrocarbons shall be produced therefrom.

In consideration of the premises it is hereby mutually agreed as follows:

1. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or lessee may from time to time at its option purchase any royalty oil in its possession, paying the market price thereof prevailing for oil of like grade and gravity in the field where produced on the date of purchase.

2. The lessee shall pay lessor, as royalty, on gas, including casinghead gas or other gaseous substances, produced from the leased premises and sold or used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth of the gas sold or used, provided that on gas sold the royalty shall be one-eighth of the amount realized from such sale. The amount realized from the sale of gas shall be the price established by the gas sales contract entered into in good faith by lessee and a gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed. If a well capable of producing gas or gas and gas-condensate or distillate in paying quantities located on the leased premises (or on acreage pooled with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut-in and no gas or gas-condensate or distillate therefrom is sold or used off the premises for the manufacture of gasoline or other products, nevertheless such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessee shall use reasonable diligence to market gas or gas-condensate or distillate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in lessee's judgment exercised in good faith, are unsatisfactory. Lessee shall be obligated to pay or tender to lessor within 45 days after the expiration of each period of one year in length (annual period) during which such well is so shut-in, as royalty, an amount equal to annual delay rental herein provided applicable to the interest of lessor in acreage embraced in this lease as of the end of such annual period; provided that if gas or gas-condensate or distillate from such well is sold or used as aforesaid before the end of such annual period, or if, at the end of such annual period, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, lessee shall not be obligated to pay or tender, for that particular annual period, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered to lessor or to lessor's credit in the designated depository bank in the manner prescribed for the payment of delay rentals. Royalty ownership as of the last day of each such annual period as shown by lessee's records shall govern the determination of the party or parties entitled to receive such payment.

3. If operations for the drilling of a well for oil or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessee shall, on or before one year from this date, pay or tender to the lessor or for the lessor's credit in _____

Bank at _____, or its successor or successors, which bank and its successors are lessor's agents and which shall continue as the depository regardless of changes in the ownership of the land or in the oil or gas or the rentals to accrue hereunder, the sum of _____ Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well for a period of one year. In like manner and upon payments or tenders, the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of this lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check, or draft, of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases.

4. If prior to discovery of oil or gas on said premises Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas all wells thereon should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within sixty (60) days thereafter or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of dry hole or cessation of production. If at the expiration of the primary term there is no well upon the leased premises capable of producing oil, gas, casinghead gas or other hydrocarbons, but lessee has commenced operations for drilling or reworking thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than sixty (60) days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil, gas, casinghead gas or other hydrocarbons, so long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them is produced from the leased premises.

5. If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate herein, then the royalties and rentals herein provided for shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee.

6. Lessee shall have the free use of oil, gas, casinghead gas and water (regardless of the source) from said land, except water from lessor's wells, for all operations hereunder, and the royalty on oil, gas and casinghead gas shall be computed after deducting any so used.

When requested by lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time (but not the obligation) to remove all improvements, machinery, and fixtures placed or erected by lessee on said premises, including the right to pull and remove casings.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto. Notwithstanding any actual or constructive knowledge of or notice to lessee, no change or division in the ownership of the lands, royalties, or rentals, however accomplished, shall be binding upon the lessee (except at lessee's option in any particular case), until sixty (60) days after lessee shall have been furnished with the original, a copy certified by the official recorder of the county where the land or some part thereof is located, or a photostat of the recorded instrument or instruments evidencing the change or transfer, including any intermediate transfer from the lessor or his assigns not theretofore furnished to lessee, and such change or transfer shall not affect any payments made prior to said date whether or not due. In case of death of any person entitled to receive royalties or rentals, the evidence of change in ownership shall consist of letters of administration or final decree of distribution of the estate of the decedent issued by a court of competent jurisdiction of the decedent's estate including his interest in the lands above described. Lessee may until such date continue to pay such royalties and rentals as if such change or transfer had not been made, or may pay the same according to the interests of record as disclosed by the last certification of an abstract in lessee's possession subsequent to the date of the lease, or at lessee's option, may suspend the payment thereof until sixty (60) days after such evidence is received. No change or division in the ownership of the land, royalties, or rentals shall operate to enlarge the obligations or diminish the rights of the lessee. No division of royalties shall be made effective except at the end of a calendar month. If the ownership of royalties becomes changed into separate divided portions of said land and the owner of any such royalty desires separate gauges for production from such separate tracts, he shall request the lessee to set separate measuring and receiving tanks and pay to the lessee in advance the lessee's estimated cost of procuring and setting such tanks and making the connections therefore; and unless and until such is done, lessee may pay such royalties to the separate owners jointly or may suspend payment until such time as said separate owners shall agree in writing upon an apportionment of such royalties and furnish lessee with the original agreement. In event of assignment of this lease as to a segregated portion or portions of said land, all rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. The acreage included in any assignment as recited therein in good faith shall be conclusive for the purpose of payment of rentals. Whether or not this lease be owned by one party or by two or more different parties, production under the terms of this lease, or drilling or reworking operations on any portion of the land above described, shall keep this lease in effect upon all the land herein leased. The lessee shall not be liable for the failure of any subsequent owner of this lease, in whole or in part, to perform the terms, conditions and obligations of this lease, express or implied. Offsetting shall never be required to protect one portion of the leased premises against drainage through a well or wells on another portion of the leased premises. If six or more parties become entitled to royalty hereunder, lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating a trustee to receive payment for all.

8. Lessee shall have the right to pool or otherwise combine any part of the above described lands with other lands in the same general area by entering into a cooperative or unit plan of development or operation, or by any governmental authority, and from time to time, with the approval to modify, change or terminate any such plan or agreement, and to amend the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions and provisions of such plan or agreement, and the production therefrom shall be deemed to be the production from the lands included in any such cooperative or unit plan of development or operation, and the royalties to be paid hereunder to lessor shall be regarded as having been produced from the lands included in such plan or agreement and not to any other tract of land; and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Lessor shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee.

10. In the interest of conservation, the protection of reservoir pressures and recovery of the greatest ultimate yield of oil and/or gas, lessee shall have the right to combine the leased premises with other premises in the same general area for the purpose of operating and maintaining repressuring and recycling facilities, and for such purpose may locate such facilities, including input wells, upon the leased premises, and no royalties shall be payable hereunder upon any gas used for repressuring and recycling operations benefiting the leased premises.

11. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge any taxes, mortgage, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

12. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder.

13. All express and implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damage for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation, or if such compliance is prevented by or failure is the result of inability of lessee through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

14. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

15. With respect to and for the purpose of this lease, lessor, and each of them if there be more than one, hereby release and waive the right of homestead.

16. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessors.

WITNESS our hands as of the day and year first above written.

_____ S. S. # _____ S. S. #

_____ S. S. # _____ S. S. #

COLORADO AND WYOMING INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____ }
 COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,

by _____
 Witness my hand and official seal.

_____ Notary Public

My commission expires: _____
 _____ Place of Residence

UTAH INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____ }
 COUNTY OF _____ } ss.

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

_____, the signer of the above instrument, who duly acknowledged to me that he executed the same.

_____ Notary Public

My commission expires: _____
 _____ Place of Residence

No. _____

OIL AND GAS LEASE

FROM _____

TO _____

State of _____ }
 _____ County } ss.

This instrument was filed for record on the _____ day of _____, 19____

at _____ o'clock, _____ M., and duly recorded

in Book _____, Page _____, of the records

of this office.

County Clerk—Registrar of Deeds.

By _____ Deputy.

When recorded return to _____

OIL AND GAS LEASE

AGREEMENT Made and entered into the day of , 19.....

by and between

whose mailing address is, hereinafter called

Lessor (whether one or more), and hereinafter called Lessee:

1. WITNESSETH: That the said lessor, for and in consideration of Dollars, cash in hand paid, the receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil and gas, and of laying of pipe lines, and of building tanks, power stations and structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of State of

described as follows, to-wit:

of Section Township Range and containing acres, more or less.

2. It is agreed that this lease shall remain in force for a term of years from this date, and as long thereafter as oil or gas or either of them is produced from said land, or from lands with which said land is pooled therewith, by lessee.

3. In consideration of the premises the said lessee covenants and agrees:

(a) To deliver to the credit of lessor, free of cost in the pipe line to which lessee may connect his wells, the equal one-eighth part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such one-eighth royalty, the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks.

(b) To pay lessor for gas of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth, at the market price at the well for the gas sold, used off the premises, or in the manufacture of products therefrom.

(c) If a gas well capable of producing gas only and located on the above described lands or on lands with which the above described lands or a portion thereof are pooled or unitized is, at any time, shut in and no gas therefrom is sold or used off of the above described lands, or in the manufacture of natural gasoline or other products, nevertheless such shut in gas well shall, under all the provisions of this lease, be deemed to be a well on the above described lands producing gas in paying quantities and this lease shall continue in force during all the time or times while such well is so shut in, whether before or after the expiration of the primary term. Lessee shall use reasonable diligence to market the gas capable of being produced from any such shut-in gas well, but shall be under no obligation to market such gas under terms, conditions or circumstances which, in Lessee's judgment, exercised in good faith, are not for the best interests of both Lessor and Lessee.

The term "stated date" as used in this paragraph shall mean any rental paying date of this lease or any subsequent anniversary thereof if there be a rental paying date, but if no rental paying date is specified in this lease, then "stated date" shall mean any anniversary date of this lease. If on any such stated date there be on the above described lands or on lands with which the above described lands or portion thereof are pooled or unitized, one or more such gas wells capable of producing gas only, and no gas has been sold or so used from any of such gas wells at any time during the twelve months period ending with such stated date, Lessee shall, before the expiration of sixty (60) days after such stated date, pay or tender to each owner of the right to receive royalty on the gas produced from any part of the above described lands covered by this lease on such stated date at each such owner's address as last known to Lessee, or to the credit of each such owner in the depository bank named herein, in the manner provided herein for payment of delay rentals, a shut-in gas royalty for such period, which shut-in gas royalty shall be determined as follows:

The total amount of shut-in gas royalty payable to all such owners shall be determined by multiplying One Dollar (\$1.00) by the total number of acres of land covered by said lease on such stated date, and each such owner shall receive that part thereof which is in the proportion that his royalty acreage interest in said land bears to the total number of acres of land covered by such lease on such stated date. Provided, however, that if on such stated date this lease is being maintained in force and effect otherwise than by reason of any such shut-in gas well or shut-in gas wells, Lessee shall not be obliged to pay or tender any such sum of money as shut-in gas royalty. The language "a gas well capable of producing gas only", as used in this Section 3(c) shall mean and include a well capable of producing natural gas only or a well capable of producing natural gas and/or condensate, or distillate, or a well classified as a gas well by any governmental authority or any well in which the gas-oil ratio is so high that a governmental authority will not permit liquid hydrocarbons to be produced therefrom unless the gas is marketed.

4. If operations for the drilling of a well for oil or gas are not commenced or if there is no oil or gas being produced on said land or on acreage pooled therewith as hereinafter provided on or before one year from the date hereof, this lease shall terminate as to both parties, unless the lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the Bank at

or its successors, which shall continue as the depository for rental regardless of changes in the ownership of said land, the sum of DOLLARS

(5) which shall operate as a rental and cover the privilege of deferring the commencement of operations for drilling of a well for twelve months from said date. In like manner and upon like payments or tenders the commencement of operations for drilling of a well may be further deferred for like periods of the same number of months successively. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. It is understood and agreed that the consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable as aforesaid, but also the lessee's right of extending that period as aforesaid, and any and all other rights conferred. Should the depository bank hereafter close without a successor, lessee or its assigns may deposit rentals or royalties in any National bank located in the same county with the first named bank, due notice of such deposit to be mailed to lessor at last known address.

5. With respect to the payment of and the right to receive delay rentals and royalties (including shut-in gas royalties), it is agreed that the termination of a life estate, term mineral interest or other precedent estate whereby the Lessor shall come into possession or use of an interest in said land shall, subject to all the provisions of this lease, become effective from and after the date when such Lessor shall have furnished satisfactory evidence to Lessee showing the termination of such life estate, term mineral interest or other precedent estate, but for all other purposes this lease shall cover such interest as and when the Lessor shall so come into the possession or use of it.

6. Lessee, at its option, is hereby authorized to combine the land covered by this lease, or any portion thereof, or to subdivide the same, or to lease, or to mortgage, or to otherwise dispose of, in whole or in part, as may be necessary or advisable to do in order to carry out the purposes of this lease.

7. If prior to discovery of oil or gas on said land, or on acreage pooled therewith, lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas production thereafter should cease for any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter, or (if it be within the primary term) commences or resumes the payment or tender of rental on or before the rental-paying date next ensuing after the expiration of three (3) months from the date of completion of a dry hole or cessation of production. If at the expiration of the primary term oil or gas is not being produced on said land, or on acreage pooled therewith, but lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in effect so long as operations are prosecuted, either on the same well or any other well thereafter commenced, with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil or gas, this lease shall remain in effect so long thereafter as such production continues.

8. If said lessor owns a less interest in the above-described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor only in proportion which his interest bears to the whole and undivided fee. Any interest in the production from the lands herein described to which the interest of lessor may be subject shall be deducted from the royalty herein reserved.

9. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for lessee's operation thereon, except water from the wells of lessor. When requested by lessor, lessee shall bury lessee's pipe lines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of lessor.

Lessee shall pay for damages caused by lessee's operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

10. If the estate of either party hereto is assigned—and the privilege of assigning in whole or in part is expressly allowed—the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land, or assignments of rental or royalties shall be binding on the lessee until after the lessee has been furnished with certified copies of muniments of title deraining title from lessor; and it is hereby agreed that in the event this lease shall be assigned as to a part or as to parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of said lands upon which the said lessee or any assignee thereof shall make due payment of said rental. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment. In the event of death of any person entitled to rentals hereunder, lessee may pay or tender such rentals to the credit of the deceased or the estate of the deceased until such time as lessee is furnished with proper evidence of the appointment and qualification of an executor or administrator of the estate, or if there be none, then until lessee is furnished with evidence satisfactory to it as to the heirs or devisees of the deceased. If at any time two or more persons be entitled to participate in the rental payable hereunder, Lessee may pay or tender said rental jointly to such persons or to their joint credit in the depository named herein; or, at Lessee's election, the proportionate part of said rentals to which each participant is entitled may be paid or tendered to him separately or to his separate credit in said depository; and payment or tender to any participant of his portion of the rentals hereunder shall maintain this lease as to such participant.

11. Lessee may, at any time, and from time to time, execute and deliver to Lessor or place of record a release or releases covering either a full interest or an undivided interest in all or any part of the leased premises or in any one or more zones, formations or depths underlying all or any part of the leased premises and thereupon shall be relieved of all obligations thereafter to accrue with respect to the area, zones, formations, depths or undivided interests covered by such release. In the event of a release of this lease as to all rights in only a part of the area embraced in the leased premises, or as to an undivided interest in all formations in all or a part of the leased premises, thereafter the delay rentals hereinabove provided for shall be reduced proportionately.

12. When drilling, production or other operations are delayed, interrupted or stopped by lack of water, labor, material, inability to obtain access to leased premises, fire, flood, war, rebellion, insurrection, riot, strike, differences with workmen, failure of carriers to transport or furnish facilities for transportation of any product produced hereunder, lack of available or satisfactory market, in Lessee's opinion, for the oil or gas produced, or as a result of an order of any governmental agency, (including but not

limited to orders restricting production) or as a result of any cause beyond the control of Lessee, the time of such delay, interruption or stoppage shall not be counted against the Lessee under any provision of this lease, and this lease shall not terminate by reason of any such delay, interruption or stoppage, and the period of such delay, interruption or stoppage shall be added to the term of this lease.

13. Lessor hereby warrants and agrees to defend the title to the land herein described, and agrees that the Lessee, at its option, may pay and discharge any taxes, mortgages, or other liens existing, levied or assessed on or against the above described lands and, in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and, in addition to its other rights, may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder. The undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in so far as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

ACKNOWLEDGMENT FOR NATURAL PERSONS

(For use in Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington and Wyoming)

STATE OF _____ }
 COUNTY OF _____ } ss.

I, the undersigned Notary Public, do hereby certify that on the _____ day of _____, 19____, personally and in person appeared _____

and his/her wife/husband, the signer... of the above instrument, and personally known to me to be the person... described in and who executed the foregoing instrument and whose name... is/are subscribed thereto and duly acknowledged to me that _____ freely and voluntarily signed, sealed, executed and delivered the same as _____ free and voluntary act and deed for the uses and purposes therein specified and set forth.

Given under my hand and official Notarial seal this _____ day of _____, 19_____.

My commission expires: _____

Notary Public, whose place of residence is _____

(For use in Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington and Wyoming)

STATE OF _____ }
 COUNTY OF _____ } ss.

I, the undersigned Notary Public, do hereby certify that on the _____ day of _____, 19____, personally and in person appeared _____

and his/her wife/husband, the signer... of the above instrument, and personally known to me to be the person... described in and who executed the foregoing instrument and whose name... is/are subscribed thereto and duly acknowledged to me that _____ freely and voluntarily signed, sealed, executed and delivered the same as _____ free and voluntary act and deed for the uses and purposes therein specified and set forth.

Given under my hand and official Notarial seal this _____ day of _____, 19_____.

My commission expires: _____

Notary Public, whose place of residence is _____

OIL AND GAS LEASE

FROM

TO

LotBlock.....Addition.....
 SectionTownship.....Range.....
 No. of AcresCountry,.....
 Term.....

STATE OF _____ }
 COUNTY OF _____ } ss.

This instrument was filed for record on the _____ day of _____, 19____, at _____ o'clock _____ M., and duly recorded in Book _____ Page _____ of the records of this office.

County Clerk—Register of Deeds.

By _____ Deputy.
 When Recorded _____
 Return to _____

CORPORATION FORM ACKNOWLEDGMENT

(For use in Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington and Wyoming)

STATE OF _____ }
 COUNTY OF _____ } ss.

I, the undersigned Notary Public, do hereby certify that on the _____ day of _____, 19____, before me personally appeared _____

to me known to be the identical person who is described in and who subscribed the name of the maker thereof to the foregoing instrument as its _____ President, and to me personally known to be the _____ President of the corporation that executed the above and foregoing instrument on behalf of said corporation and who being by me duly sworn upon oath did say that he was authorized to execute said instrument and did say that he is the _____ President of said corporation, and that he is acquainted with the seal of said corporation and the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed on and in behalf of said corporation by authority of its Board of Directors and the signatures to said instrument were made by the officers of said corporation on said instrument as indicated thereon, and acknowledged to me that said corporation executed said instrument freely and voluntarily, and said _____

_____ to me and before me duly acknowledged said instrument to be his own free and voluntary act and deed, and to me and before me duly acknowledged said instrument to be the free and voluntary act and deed of said corporation, which executed and delivered the same for the uses and purposes therein specified and set forth.

Given under my hand and official Notarial seal this _____ day of _____, 19_____.

My commission expires: _____

Notary Public, whose place of residence is _____

OIL AND GAS LEASE

THIS AGREEMENT. Entered into this the _____ day of _____, 19____

between _____
_____ hereinafter called lessor,
and _____ hereinafter called lessee, does witness:

1. That lessor, for and in consideration of the sum of _____ Dollars in hand paid and of the covenants and agreements hereinafter contained to be performed by the lessee, has this day granted, leased, and let and by these presents does hereby grant, lease, and let exclusively unto the lessee the hereinafter described land, ~~and with the right to combine this lease or any part thereof with other oil and gas leases on all or any part of the~~ ~~land hereinafter described, or hereinafter to be described, for the purpose of carrying on geological, geophysical and other exploratory work, including core drilling, and the drilling, mining, and operating for, producing, and saving all of the oil, gas casinghead gas, casinghead gasoline and all other gases and their respective constituent vapors, and for constructing roads, laying pipe lines, building tanks, storing oil, building powers, stations, telephone lines and other structures thereon necessary or convenient for the economical operation of said land alone or conjointly with neighboring lands, to produce, save, take care of, and manufacture all of such substances, and for housing and boarding employes, said tract of land with any reversionary rights~~ therein being situated in the County of _____, State of _____, and described as follows:

_____, and containing _____ acres, more or less.

2. This lease shall remain in force for a term of _____ years and as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of the products covered by this lease is or can be produced.

3. The lessee shall deliver to lessor as royalty, free of cost, on the lease, or into the pipe line to which lessee may connect its wells the equal one-eighth part of all oil produced and saved from the leased premises, or at the lessee's option may pay to the lessor for such one-eighth royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks.

4. The lessee shall monthly pay lessor as royalty on gas marketed from each well where gas only is found, one-eighth (1/8) of the proceeds if sold at the well, or if marketed by lessee off the leased premises, then one-eighth (1/8) of its market value at the well. The lessee shall pay the lessor: (a) one-eighth (1/8) of the proceeds received by the lessee from the sale of casinghead gas, produced from any oil well; (b) one-eighth (1/8) of the value, at the mouth of the well, computed at the prevailing market price, of the casinghead gas, produced from any oil well and used by lessee off the leased premises for any purpose or used on the leased premises by the lessee for purposes other than the development and operation thereof. Lessor shall have the privilege at his own risk and expense of using gas from any gas well on said land for stoves and inside lights in the principal dwelling located on the leased premises by making his own connections thereto.

Where gas from a well or wells, capable of producing gas only, is not sold or used for a period of one year, lessee shall pay or tender as royalty, an amount equal to the delay rental as provided in paragraph (5) hereof, payable annually at the end of each year during which such gas is not sold or used, and while said royalty is so paid or tendered this lease shall be held as a producing property under paragraph numbered two hereof.

5. If operations for the drilling of a well for oil or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessee shall, on or before one year from this date, pay or tender to the lessor or for the lessor's credit in the

_____ Bank at _____, or its successors, which bank and its successors are the lessor's agent and shall continue as the depository of any and all sums payable under this lease, regardless of changes of ownership in said land or in the oil and gas, or in the rentals to accrue thereunder, the sum of _____

_____ Dollars (\$ _____) which shall operate as rental and cover the privilege of deferring the commencement of drilling operations for a period of one year. In like manner and upon like payments or tenders, the commencement of drilling operations may be further deferred for like periods successively. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Notwithstanding the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors, and administrators of such person.

6. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein then the royalties and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rental shall be increased at the next succeeding rental anniversary after any reversion occurs to cover the interest so acquired.

7. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced by the next ensuing rental paying date, or provided the lessee begins or resumes the payment of rentals in the manner and amount hereinabove provided, and in this event the preceding paragraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

8. The lessee shall have the right to use, free of cost, gas, oil and water found on said land for its operations thereon, except water from the wells of the lessor. When required by lessor, the lessee shall bury its pipe lines below plow depth and shall pay for damage caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of the lessor. Lessee shall have the right at any time during, or after the expiration of, this lease to remove all machinery, fixtures, houses, buildings and other structures placed on said premises, including the right to draw and remove all casing, but lessee shall be under no obligation to do so, nor shall lessee be under any obligation to restore the surface to its original condition, where any alterations or changes were due to operations reasonably necessary under this lease.

9. If the estate of either party hereto is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, devisees, executors, administrators, successors, and assign, but no change of ownership in the land or in the rentals or royalties or any sum due under this lease shall be binding on the lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance or duly certified copies thereof necessary in showing a complete chain of title back to lessor to the full interest claimed, and all advance payments of rentals made hereunder before receipt of said documents shall be binding on any direct or indirect assignee, grantee, devisee, administrator, executor, or heir of lessor.

10. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises nevertheless shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage. There shall be no obligation on the part of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise, descent or otherwise or to furnish separate measuring or receiving tanks. It is hereby agreed that in the event this lease shall be assigned as to a part or as to parts of the above described land and the holder or owner of any such part or parts shall make default in the payment of the proportionate part of the rent due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part of said land upon which the lessee or any assignee hereof shall make due payment of said rentals.

11. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge in whole or in part any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

12. Notwithstanding anything in this lease contained to the contrary, it is expressly agreed that if lessee shall commence operations for drilling at any time while this lease is in force, this lease shall remain in force and its terms shall continue so long as such operations are prosecuted and, if production results therefrom, then as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of the products covered by this lease is or can be produced.

13. If within the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided operations for the drilling of a well shall be commenced before or on the next ensuing rental paying date; or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinbefore provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for drilling or reworking a well within sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations and, if production results therefrom, then as long as production continues.

14. Lessee may at any time surrender or cancel this lease in whole or in part by delivering or mailing such release to the lessor, or by placing same of record in the proper county. In case said lease is surrendered and cancelled as to only a portion of the acreage covered thereby, then all payments and liabilities thereafter accruing under the terms of said lease as to the portion canceled shall cease and determine and any rentals thereafter paid may be apportioned on an acreage basis, but as to the portion of the acreage not released the terms and provisions of this lease shall continue and remain in full force and effect for all purposes.

15. All provisions hereof, express or implied, shall be subject to all federal and state laws and the orders, rules, or regulations (and interpretations thereof) of all governmental agencies administering the same, and this lease shall not be in any way terminated wholly or partially nor shall the lessee be liable in damages for failure to comply with any of the express or implied provisions hereof if such failure accords with any such laws, orders, rules or regulations (or interpretations thereof). If lessee should be prevented during the last six months of the primary term hereof from drilling a well hereunder by the order of any constituted authority having jurisdiction thereover, or if lessee should be unable during said period to drill a well hereunder due to equipment necessary in the drilling thereof not being available on account of any cause, the primary term of this lease shall continue until six months after said order is suspended and/or said equipment is available, but the lessee shall pay delay rentals herein provided during such extended time.

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16. Lessee is hereby expressly granted the right and privilege (which Lessee may exercise at any time either before or after production has been obtained upon these premises or any premises consolidated herewith) to commit the interests of both Lessee and Lessor under this lease to a Unit Agreement and Unit Operating Agreement, provided the same are satisfactory to and approved by the Secretary of the Interior of the United States of America or his duly authorized representative for the area involved insofar as any Federal owned or supervised lands in such Unit area are concerned. This right shall be deemed to have been exercised upon the filing of an executed copy of such Unit Agreement and Unit Operating Agreement in the records of the county in which the land herein leased is situated. Upon said instruments being so recorded, this lease shall be deemed to be amended to the extent necessary to conform to the terms and provisions of said Unit Agreement and Unit Operating Agreement.

18. SPECIAL PROVISIONS:

19. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor and lessee.
IN WITNESS WHEREOF, we sign the day and year first above written.

**ACKNOWLEDGMENT
(INDIVIDUAL)**

STATE OF NEW MEXICO, }
 } ss.
COUNTY OF

On this _____ day of _____, 19____, before me personally appeared _____ to me known to be the person _____ described in and who executed the foregoing instrument, and acknowledged that _____ executed the same as _____ free act and deed.

Witness my hand and seal the day and year last above written.

My commission expires _____ _____
Notary Public

**ACKNOWLEDGMENT
(INDIVIDUAL)**

STATE OF NEW MEXICO, }
 } ss.
COUNTY OF

On this _____ day of _____, 19____, before me personally appeared _____ to me known to be the person _____ described in and who executed the foregoing instrument, and acknowledged that _____ executed the same as _____ free act and deed.

Witness my hand and seal the day and year last above written.

My commission expires _____ _____
Notary Public

**ACKNOWLEDGMENT
(CORPORATE)**

STATE OF NEW MEXICO, }
 } ss.
COUNTY OF

On this _____ day of _____, before me personally appeared _____ to me personally known, who being by me duly sworn, did say that he is _____ of the State of _____ a corporation organized under the laws of the State of _____, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its board of directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Witness my hand and seal on this the day and year first above written.

My commission expires _____ _____
Notary Public

OIL AND GAS LEASE

AGREEMENT, made as of the _____ day of _____, 19____, between _____

Lessor (whether one or more), and _____ Lessee, WITNESSETH:

1. Lessor in consideration of \$ _____ in hand paid, of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and all gas of whatsoever nature or kind, including all associated hydrocarbons produced in liquid or gaseous form, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products.

the following described land, including any revisionary rights therein, in the County of _____, State of _____, to wit:

containing _____ acres, more or less.

This lease is subject to an existing oil and gas lease of record in the above specified County in Book _____ at Page _____ and shall become effective upon the expiration of such lease on such date herein called "Effective Date" and all references herein to "anniversary date" shall be considered a reference to an anniversary of the Effective Date); provided that if said existing oil and gas lease has not expired prior to one (1) year after its primary term, this lease shall automatically terminate. This lease is also subject to an unrecorded Supplemental Agreement between the parties hereto dated as of the _____ first above written which affects the provisions of this lease. Subject to the other provisions herein contained, this lease shall be for a primary term of ten years from the Effective Date and for as long thereafter as oil or gas is produced from the above described land or from land pooled with all or any part thereof.

Royalties on production under this lease shall be paid by Lessee to Lessor as follows: (a) One-eighth of all oil produced and saved, to be delivered at the well or to Lessor's credit into the pipeline to which Lessee may connect the well. At Lessee's option Lessee may, at any time or from time to time, purchase Lessor's oil at the well, paying therefor the market price for oil of like grade and gravity prevailing for the field where such oil is produced on the date of purchase. (b) One-eighth of the net proceeds realized by Lessee from the sale of gas, including casinghead gas and other gaseous substances sold by Lessee (except the net proceeds subject to refund by Lessee to any purchaser of said gas pursuant to any order, rule or regulation of the Governmental Regulatory body), as calculated at the wellhead; but if gas, including casinghead gas and other gaseous substances, is used by Lessee off the above described land or land pooled with all or any part thereof, one-eighth of the market value calculated at the wellhead. (c) Solely for the purpose of paying royalties on oil and gas hereunder, the term "oil" means any hydrocarbon produced or separated at the well as a liquid, including but not limited to crude oil and condensate, and the term "gas" means any hydrocarbon or other substance produced or separated in a gaseous state at the well. (d) If a well on the above described land or on land pooled with all or any part thereof is capable of producing gas but is shut in and no gas therefrom is sold or used, such shut-in well shall, under all of the provisions of this lease, be considered a well on such land producing gas in paying quantities and shall continue this lease in force at all times while such well is so shut in, whether during or after the primary term. If there be one or more of such shut-in gas wells and if there is no current production or operation on said land, Lessee shall pay or tender as royalty One Dollar (\$1.00) per year per net royalty acre contained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing or within 90 days after such date and thereafter on or before the anniversary date of this lease during the period such well is shut in, to the royalty owners or to the royalty owners' credit in the depository bank herein designated.

If operations for the drilling of a well for oil or gas are not commenced or if there is no oil or gas being produced on said land or on land pooled with all or any part thereof as hereinafter provided on or before one year from the Effective Date, this lease shall terminate as to both parties, unless the Lessee on or before that date shall pay or tender to the Lessor or to the Lessor's credit in the

Bank at _____, or its successors, which shall continue as the depository for rental regardless of

changes in the ownership of said land, the sum of _____ DOLLARS (\$ _____) which shall operate as a rental and cover the privilege of deferring the commencement of operations for drilling of a well for twelve months from said date. In like manner and upon like payments or tenders the commencement of operations for drilling of a well may be further deferred for like periods of the same number of months successively. All payments or tenders may be made by check or draft of Lessee or any assignee thereof, mailed or delivered on or before the rental paying date. It is understood and agreed that the consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable as aforesaid, but also the Lessee's right of extending that period as aforesaid, and any and all other rights conferred. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument, naming another bank as agent to receive such payments or tenders.

_____ shall, on or before any rental date, _____ to a Lessor entitled thereto, and shall be deemed to be Lessor's records as of the date prior to

_____ in the record (whether deposited in _____ or otherwise) and shall be deemed to be Lessor's records as of the date prior to

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_____ in the record (whether deposited in _____ or otherwise) and shall be deemed to be Lessor's records as of the date prior to

13. This lease may be executed in any number of counterparts and each such counterpart so executed shall have the same force and effect as an original instrument. Should any one or more of the parties above named as Lessor fail to execute this lease or any counterpart thereof, it shall nevertheless be binding upon all such parties who do execute it as Lessor.
 14. The undersigned parties, for themselves and for their heirs, successors and assigns hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.
 15. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this Section. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail or telegram prior to expiration of said 15-day period. Lessee shall promptly thereafter furnish to Lessor the new lease for execution on behalf of Lessor(s) along with Lessee's sight draft payable to Lessor in payment of the specified amount as consideration for the new lease, such draft being subject only to approval of title according to the terms thereof. Upon receipt thereof, Lessor(s) shall promptly execute said lease and return same along with the endorsed draft to Lessee's representative or through Lessor(s) bank of record for payment.
 IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

STATE OF _____ }
 COUNTY OF _____ } ss. INDIVIDUAL ACKNOWLEDGMENTS
 (Colo., Mont., N. D., S. D., Utah, Wyo.)
 On this _____ day of _____, 19____, before me personally appeared _____

known to me to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that _____ executed the same.
 IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

 Notary Public
 My commission expires _____ Residing at _____

STATE OF _____ }
 COUNTY OF _____ } ss.
 On this _____ day of _____, 19____, before me personally appeared _____

known to me to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that _____ executed the same.
 IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

 Notary Public
 My commission expires _____ Residing at _____

No. _____
Oil and Gas Lease
 FROM _____
 TO _____
 This instrument was filed for record
 on the _____ day of _____, 19____,
 at _____ o'clock _____ M., and
 duly recorded in Book _____,
 Page _____ of the _____
 records of this office.
 Register of Deeds.
 By _____, Deputy
 When recorded return to _____

STATE OF _____ }
 COUNTY OF _____ } ss. CORPORATE ACKNOWLEDGMENT
 (Colo., Mont., N. D., S. D., Utah, Wyo.)
 On this _____ day of _____, 19____, before me _____
 Notary Public, personally appeared _____

known to me to be the _____ President of _____
 the corporation described in and that executed the within instrument, who, being by me duly sworn, did say that he is the _____
 _____ President of said corporation and that said instrument was signed in behalf of said corporation by authority of its bylaws or a
 resolution of its Board of Directors and said _____
 acknowledged to me that said corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year above written.

 Notary Public
 My commission expires _____ Residing at _____