

Tract No. «TRACT_NUMBER»
«SALE_DATE» Sale
Lease No. «LEASE_»

CLO Form 7-1 (revised May 12, 1998)

THE STATE OF OKLAHOMA

OIL AND GAS MINING LEASE

(3 YEAR PAID-UP LEASE)

This lease is made and entered into in duplicate, on «AWARD DATE» by and between the Commissioners of the Land Office of the State of Oklahoma. Acting for and on behalf of the State of Oklahoma, parties of the first part hereinafter designated as Lessor, and «BIDDER», party of the second part. Hereinafter designated as Lessee, whose post office address is «ADDRESS 1», «ADDRESS 2», «HIGH BIDDER CITY», «HIGH BIDDER STATE», «HIGH BIDDER ZIP»? (The post office address of Lessee for all purposes hereunder shall be as stated until Lessor has received written notice of a change thereof.)

UNDER AND PURSUANT TO THE PROVISIONS OF THE CONSTITUTION AND LAWS OF THE STATE OF OKLAHOMA RELATING TO LEASING SCHOOL AND OTHER PUBLIC LANDS BELONGING TO THE STATE OF OKLAHOMA, **WITNESSETH:**

1. The Lessor acknowledges receipt of the amount of «BONUS» Dollars, paid as Lease bonus; plus the additional payment of «DELAY RENTAL», which constitutes payment in full of all Delay Rentals. Lessor, in consideration of said sums, the royalties to be paid, and the covenants, stipulations and conditions to be observed and performed as herein set forth. Does hereby demise, lease and let unto the Lessee for a **primary term of three (3) years** from the date hereof and as hereinafter extended, the following described tract(s) of land situated in the County of «COUNTY», in the State of Oklahoma, to wit:

«LEGAL DESCRIPTION»

Containing «GROSS ACRES» acres, more or less, and does hereby grant to the Lessee the exclusive right and privilege to prospect and drill for, mine and extract all of the oil and natural gas deposits in or under said land. Together with the right to pipe, store, and remove oil and natural gas and, subject to the terms of paragraph 11, below, to occupy and use only so much of the surface of said land as may reasonably be necessary to carry on the work of prospecting for, extracting, piping, storing, and removing such oil, distillate, and natural gas. Also the right to obtain from wells or other sources on said land by means of pipelines or otherwise a sufficient supply of water to carry on said operations. Except the private wells or surface water of the surface owner or Lessee, and also the right to use, free of cost, oil, gas and casing head gas for fuel so far as necessary to the development and operation of said property.

2. The Lessee hereby agrees to deliver or cause to be delivered to the Commissioners of the Land Office of the State of Oklahoma, or their successors, without cost into pipelines, **a royalty of three-sixteenths (3/16)** part of the oil or gas produced from the leased premises and a three-sixteenths (3/16) part of all casing head or drip gas or gasoline or other hydrocarbon substances produced from any well or wells on said premises, or in lieu thereof, pay to Lessor the market value thereof, as the Commissioners may elect. The Lessee shall furnish to the Lessor certified copies of gauge tickets, sales, shipments and amounts of gross production, at its office in Oklahoma City, Oklahoma. Gas is to be metered on the premises in accordance with the Laws of the State of Oklahoma and the rules of the Oklahoma Corporation Commission.

3. If operations for the drilling of a well for oil and gas are not commenced on said land on or before three years from date hereof, this lease shall terminate as to both parties. Operations for the drilling of a well are deemed to have commenced when a drilling rig is on location and conducting continuous drilling operations; however, said operations for the drilling of a well may, for good cause shown, be extended by the Lessor, for an additional thirty (30) days beyond the primary term of this lease, if Lessee submits a written request for the same before the end of the primary term.

4. In addition to the bonus, this lease shall have a Delay Rental payment of \$1.00 per acre, per year for the last two years of the primary term of the lease. These Delay Rentals shall be paid, in full, at the time the lease is paid, and shall be received by Lessor before the lease is issued. For the purpose of the calculation of rental payments, the acreage listed in paragraph (1) shall be controlling.

5. (A) It is expressly agreed that if Lessee shall commence drilling operations at any time during the primary term of this lease, the lease shall remain in force and its term shall continue so long as such operations are diligently prosecuted and, if production results therefrom, then this lease shall be extended as to the stratigraphic equivalent of the producing intervals, if unspaced, and/or the producing common sources of supply, as spaced, as long as production in paying quantities continues; provided that if a gas well is completed and shut-in for lack of a market, Lessee shall pay annually on or before the anniversary date next ensuing, the sum of One Dollar (\$1.00) per acre for the first year, and Three Dollars (\$3.00) per acre for every year thereafter. It is expressly agreed that this lease shall terminate as to all non-producing intervals, if unspaced, and all non-producing common sources of supply, as spaced, at the expiration of the primary term of this lease.

5. (B) Within the last six (6) months before the end of the primary term, Lessee shall have the option to extend the lease, as to all non-producing intervals, if unspaced, and/or all non-producing common sources of supply, as spaced, above the said deepest producing interval or deepest producing common source of supply, in exchange for a payment equal to 50% of the original bonus paid for this lease. Said payment shall be made to Lessor, during office hours, at its office in Oklahoma City, Oklahoma, and if not paid by the end of the primary term, this option shall terminate. However, said option may, for good cause shown, be extended by the Lessor, beyond the primary term, if the Lessee submits a written request for the same before the end of said primary term. If this option is exercised by the Lessee, its successors and assigns, it shall terminate by the cessation of production in paying quantities or by other just cause.

6. Lessee will supply Lessor with a notice of intention to drill, such notice to be sent to Lessor's office in Oklahoma City, Oklahoma, at least five (5) days prior to commencement of operations, unless a lesser time is agreed to, in writing, by Lessor. Lessee additionally will file with Lessor a copy of the Oklahoma Corporation Commission Completion Report and of the Oklahoma Corporation Commission Plugging Report for each well in a unit of which this lease is a part, immediately upon preparation.

7. Lessee shall exercise diligence in sinking wells for oil and natural gas on the land covered by this lease, and shall drill a sufficient number of wells to directly offset the wells upon adjoining contiguous premises, said offset wells to be commenced within sixty (60) days after commencement of marketing of production from the well upon such adjoining contiguous premises unless a longer time is agreed to in writing by the Lessor, and to be prosecuted diligently and continuously until completed. The said Lessee shall operate the leased premises for the production of oil and gas to the same extent as individual and corporate premises are being operated within the general oil and gas fields where such land is located. Failure to faithfully comply with either of these provisions shall be cause for cancellation of this lease.

8. Lessee shall carry on the development and/or operation of this lease in a workmanlike manner, and shall not commit, or suffer to be committed, waste or pollution upon the lands in his occupancy and use. Lessee shall preserve the lands, and upon the termination of this lease, promptly surrender and return the premises to the Lessor. Lessee shall bury and maintain all pipelines below thirty (30) inches unless written permission to bury pipelines at a shallower depth is obtained from the Commissioners of the Land Office, pursuant to their rules and regulations. Lessee shall obtain the consent of the Lessor on the location of any tank batteries and/or lease roads, which consent will not be unreasonably denied.

9. All pipe, casing, equipment and incidentals of exploration, drilling and production shall remain the property of the Lessee, and may be removed at any time prior to or upon the termination of the lease; and the Lessee shall permit any nuisance to be maintained on the premises; and shall not use said premises for any purposes other than those authorized in the lease. Before abandoning any well, Lessee shall securely plug the same in accordance with the rules and regulations of the Oklahoma Corporation Commission and the laws of the State of Oklahoma.

10. The Lessee shall keep an accurate account of all oil and gas mining operations, including but not limited to the following: a log of each well drilled, duly sworn to by the contractor or driller; original gas sales contracts with amendments; gas balancing agreements and schedules; information concerning litigation, settlement agreements, or agreements relating to sales and pricing of gas and oil. All information concerning the operation and management of the lease, including but not limited to the above, shall be furnished to the Commissioners of the Land Office or their representative on demand. The Lessee shall also keep an accurate account showing the sales, prices, dates, purchases, and the whole amount of oil and gas mined or removed, and all sums due as royalties shall be a lien upon the implements, tools and movable machinery or personal chattels used in operating said property, and also upon the unsold oil and gas obtained from the land herein leased as security for the payment of said royalties.

11. The Lessee shall compensate the Lessor, certificate of purchase holder and/or surface lessee of the Commissioners of the Land Office for their respective interests as affected by Lessee's oil and gas mining operations. Landowners' compensation shall be established by determining the comparable rate of compensation for similar oil and gas drilling and related activities, considering any special attributes to the property. In the event the amount of compensation cannot be agreed upon, it shall be determined as provided by law. If compensation to Lessor is not paid in a timely manner, the amount may be recovered from Lessee.

12. This lease shall be subject to the Constitution and laws of the State of Oklahoma and the rules and regulations of the Commissioners of the Land Office now or hereafter in force relative such leases, all of which are made a part and condition of this lease; provided, that no regulation made after the execution of this lease affecting either the length of the term hereof, the rate of royalty, or payment hereunder, or the assignment hereof, shall operate to alter the terms and conditions of this lease.

13. Before this lease shall be in force and effect the Lessee and assigns shall pay a one-time Performance Fee pursuant to Commissioners of the Land Office rules and regulations. Failure to comply with this requirement shall be cause for cancellation of this lease.

14. No transfer or assignment of this lease, or any part thereof, shall be valid, or convey any right to the assignee without the consent in writing of the Commissioners of the Land Office.

15. Upon the violation of any substantial terms or conditions of this lease, the Commissioners of the Land Office shall have the right at any time to declare this lease null and void after hearing upon thirty (30) days notice, by registered mail to the last known address of Lessee, specifying the terms or conditions violated; provided any person affected thereby may appeal in the manner provided by law; and the said Commissioners for and on behalf of the State of Oklahoma, shall be entitled to recover from the Lessee, all royalties, charges, claims of every kind and nature due and owing and accruing and arising out of and by reason of this lease, upon failure to comply with the provisions thereof, and to take immediate possession of the land.

16. The Lessee may at any time hereafter surrender and wholly terminate all of any part of this lease upon payment of all liabilities then accrued and due hereunder, and may exercise such right by filing a formal relinquishment and release of the said lease with the Secretary to the Commissioners of the Land Office, and Lessee specifically agrees to release this lease upon expiration, provided that if such lease has been recorded in the county, the release thereof must be recorded in the county prior to filing with the Secretary to the Commissioners of the Land Office.

17. If Lessor herein owns a lesser interest in the minerals in the 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 its mineral interest ownership bears to the entire and undivided fee estate.

