

**OIL AND GAS LEASE
Rental Lease**

TAXPAYER #61-1659350

**RC-
LEASE NUMBER:**

AGREEMENT, Effective as of _____, by and between: CoBank, FCB, a federally chartered instrumentality of the United States, P.O. Box 2940, Wichita, Kansas, 67201-2940, Party of the first part hereinafter called Lessor and _____, Party of the second part, hereinafter called Lessee.

WITNESSETH. That the said Lessor, for and in consideration of One and No/100 DOLLARS, cash in hand paid, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on the 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 said Lessee for the sole and only purpose of mining and operating for oil and natural hydrocarbon gas, including methane gas produced from coal beds, and laying pipe lines, and building tanks, power stations, and structures thereon to produce, save, and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of _____, State of _____, described as follows, to-wit:

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

It is agreed that this lease shall remain in full force for a term of _____ from this date, and as long thereafter as oil and natural hydrocarbon gas, or either of them, is produced from said land by the Lessee, or the premises are being developed or operated. In consideration of the premises the said Lessee covenants and agrees:

1. To deliver to the credit of Lessor, free of cost, in the pipe line or lines to which it may connect the well or wells producing hereunder, or in the containers of such other carrier as may be used in transporting the oil from the leased premises, the equal _____ part of all oil produced and saved from said land, such oil to be marketable crude when so delivered; provided, however, that in the event of the storage of oil by Lessee, such storage shall be at the expense of the Lessee without charge to Lessor.

2. To pay the Lessor royalty for natural hydrocarbon gas, herein after called "gas," produced from said land including wet gas, casinghead gas and other vaporous or gaseous substances used for the extraction of gasoline, distillate, condensate, or other petroleum products as follows:

(a) If such gas is sufficiently impregnated with liquid hydrocarbons that paying quantities of such products can be separated therefrom and liquefied as a practical lease operation by means of traps, separators, or other devices used in the industry for such purpose, Lessee will install such traps, separators, or other devices and separate so much of said liquid hydrocarbons, whether gasoline, distillate, condensate, or other liquid petroleum products as can be separated from such gas by such devices, and Lessor shall receive _____ of the gasoline, condensate, distillate, or other liquid petroleum products recovered in such manner, same to be delivered free of cost to credit of Lessor in the same manner as hereinabove provided for oil royalty, and _____ of the market value of the gas there sold or used off the leased premises.

(b) When the gas that remains after such operation on the leased premises is not sold or used off the leased premises but is taken to an extraction plant for further processing, Lessee shall also deliver to credit of Lessor at such plant _____ of the gasoline, condensate, distillate, or other petroleum products extracted therefrom less the reasonable cost of extraction, provided, however, such costs shall not exceed 50% of the market value of the products so extracted, and pay to Lessor _____ of the market value at the outlet side of the plant of all residue gas remaining after such plant operation if such residue gas is sold or used off the premises.

(c) If such gas is not sufficiently impregnated with liquid hydrocarbons that paying quantities of such products can be separated therefrom and liquefied as a practical lease operation by means of traps, separators, or other devices used in the industry for such purpose before taking the gas to an extraction plant, Lessee will, at the plant, deliver to the credit of Lessor _____ of all gasoline, condensate, distillate, or other petroleum products extracted therefrom subject to a reasonable charge for the cost of such extraction, provided, however, such costs shall not exceed 50% of the market value of the products so extracted, and pay to Lessor _____ of the market value at the outlet side of the plant of all residue gas remaining after such plant operation, if such residue gas is sold or used off the premises.

(d) On dry natural gas to pay Lessor _____ of the market value of such gas sold or used off the leased premises, free of cost, into the initial purchasers pipeline.

(e) Where there is on the leased premises a well or wells capable of producing gas, and gas is not being used off the premises or marketed therefrom and this lease is not then being maintained by other production or operations, this lease shall nevertheless remain in full force and effect for a period of 90 days after cessation of production or operations or the shutting-in of said well if on or before the expiration of said 90-day period, Lessee pays or tenders to Lessor a sum equal to the annual rental per acre hereinafter set forth for the number of acres then covered by this lease, or One Hundred Dollars (\$100) per well depending upon which sum is greater. Such payment shall maintain this lease in full force and effect for a period of six (6) months after the expiration of said 90-day period, and it will be considered that gas is being produced hereunder, and such payments or tender shall have the same effect as the production of gas, for all purposes hereof. Thereafter, semi-annually in like manner, upon like payments or tender this lease will continue in force and effect for successive periods of six (6) months each, so long as such payments are made, but not, however, exceeding six (6) such successive periods beyond the primary term of said lease. It is understood that the above provision or shut-in clause shall also apply to any well where gas-oil ratio is such that the Lessee is not permitted to operate such well without the use or sale of gas.

If no well be commenced on said land on or before ____(anniversary 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 CoBank, FCB, at Wichita, Kansas, or its successors, which shall continue as the depository regardless of changes in the ownership of said land, the sum set out in the Rental Division Order, which shall operate as a rental and cover the privilege of deferring the commencement of a

well for twelve months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods or the same number of months successively. All such payments or tenders of rental may be made by check or draft of Lessee or any assignee thereof, mailed or delivered on or before the rental paying day 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 privileges 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.

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 the expiration of the last 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.

As to the oil and gas leasehold estate hereby granted, Lessee is expressly granted the right and privilege to consolidate said oil and gas leasehold with any other adjacent or contiguous oil and gas leasehold estates to form a consolidated oil and gas leasehold estate which shall not exceed a total area of approximately 640 acres for gas and 80 acres for oil. If, however, the state regulatory agency having jurisdiction should issue a spacing order for horizontally drilled wells, then Lessee may include additional acreage allocated or permitted for the said well. In the event Lessee exercises the right and privilege of consolidation, as herein granted, the consolidated oil and gas leasehold estate shall be deemed, treated and operated in the same manner as though the entire consolidated leasehold estate were originally covered by and included in this lease, and all royalties which shall accrue on oil or gas, produced and marketed from the consolidated estate, including all royalties payable hereunder, shall be prorated and paid to the Lessors of the various tracts included in the consolidated estate in the same proportion that the acreage of each said Lessor bears to the total acreage of the consolidated estate, and a producing oil or gas well on any portion of the consolidated estate shall operate to continue the oil and gas leasehold estate hereby granted so long as oil or gas is produced therefrom.

It is expressly agreed that should this lease be extended by production beyond the primary term, Lessee agrees to release all formations lying below the deepest producing formation for which production is being allocated to the lease acreage not later than two (2) years after the expiration of the primary term. This shall not limit the right of the Lessee to continue the drilling and completion of any well commenced during the primary term of this lease or any extension thereof. In the event this lease acreage, or any part thereof, shall subsequently be included in any unit or cooperative plan of development, it is understood that the reconveyance of the interest in the non-producing formations above described shall be governed as provided herein regardless of the terms of any subsequent unit or cooperative plan of development agreement to the contrary.

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.

Lessee shall have the right to use, free of cost, gas, oil, and water produced on said land for its operation thereon, except water from wells or ponds of Lessor.

When requested by Lessor, Lessee shall bury its pipelines 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 to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the Lessee shall commence to drill a well within the term of this lease or any extension thereof, the Lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with the like effect as if such well had been completed within the term of years herein first mentioned.

If the estate of either party hereto is transferred, and the privilege of transferring in whole or in part is expressly allowed, or if the rights hereunder of either party hereto are vested by descent or devise, the covenants hereof shall extend to and be binding on the heirs, devisees, executors, administrators, successors, or assigns, but no change in the ownership of said land or of any right hereunder shall be binding on the Lessee until after Lessee has been furnished with the original or a certified copy thereof of any transfer by Lessor or with a certified copy of the will of Lessor together with a transcript of the probate thereof or, in the event Lessor dies intestate and his estate is being administered, with a transcript of the administration proceedings or, in the event of the death of Lessor and no administration being had on the estate, with an instrument satisfactory to Lessee executed by Lessor's heirs authorizing payment or deposit or tender for deposit to their credit as hereinbefore provided, at least thirty days before said rentals and royalties are payable or due, and it is hereby agreed 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 payments of said rentals. 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. If the leased premises are now or hereafter owned in severalty or in separate tracts, the premises, nevertheless, may be developed and operated as an entirety, and the royalties shall be paid to each separate owner in the proportion that the acreage owned by him bears to the entire leased area. 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 hereafter be divided by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks for the oil produced from such separate tracts.

Lessor hereby agrees that the Lessee shall have the right at any time to redeem for Lessor by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof and may reimburse itself from any rental or royalties accruing hereunder.

Lessor expressly does not warrant or agree to defend its title as to any interest granted herein.

The terms, covenants, and conditions hereof shall run with said land and herewith and shall be binding upon the parties

hereto, their heirs, administrators, devisees, executors, successors and assigns; however, all express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable 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.

IN WITNESS WHEREOF, I sign the day and year first above written.

CoBank, FCB

By: _____
Nancy Morford, Director, Minerals

STATE OF KANSAS

COUNTY OF SEDGWICK

The foregoing instrument was acknowledged before me this _____ day of _____ by **Nancy Morford, Director, Minerals** of CoBank, FCB, a federally chartered instrumentality of the United States.

My commission expires

Amy Stone
Notary Public
P.O. Box 2940
Wichita, KS 67201-2940

Form 72101 R10-10