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0186- 2700169

File 2700169

Allison Blue Point
Billings, Montana

MICHIGAN - 500

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 1st day of February, 1978,
 by and between Richard E. Kephart and Mari A. Kephart, husband and wife,
 Diamond Valley Route,
 Eureka, Nevada 89316

Party of the first part, hereinafter called lessor (whether one or more) and
 Cities Service Company, P.O. Box 300, Tulsa, Oklahoma, Party of the second part, hereinafter called lessee

WITNESSETH, That the said land, for and in consideration of cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinabove contained on the part of lessee to be paid, kept and performed, has granted, demised, leased, and let and by these presents doth grant, lease, let and let unto the said lessee, his successors and assigns, for the sole and only purpose of surveying, geophysical, geophysical and other methods, mining, operating, producing and gathering 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 reverentory rights therein, situate in the County of Eureka.

State of Nevada, described as follows, to-wit:
 Township 22 North, Range 54 East
 Section 33, E $\frac{1}{2}$

and containing .320.00 acres, more or less, produced from said land by the lessor, its successors and assigns:

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

First. The lessor shall deliver to the credit of lessor as royalty, free of cost in 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 lessor's option, may buy or sell such one-eighth royalty and pay lessor the market price for oil of like grade and gravity prevailing in the field on the day such oil is run into pipe lines or into storage tanks.

Second. The lessor shall pay lessor, as royalty, one-eighth of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found and where not sold shall pay a sum equal to the annual delay rental herein as royalty, and while such royalty is so paid such well shall be held to be a producing well. The lessor to have and be free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense.

Third. To pay lessor one-eighth (1/8) of the market value of the well for gas produced from any oil well and used off the premises, or for the manufacture of casing-head gasoline or dry commercial gas.

If no well be commenced on said land on or before the 1st day of February, 1979, this lease shall terminate as to both parties, unless the lessor on or before that date shall pay or tender to the lessor or to the lessor's credit in the

First National Bank at Eureka, Nevada 89316,

or its successor or successors, or any bank with which it may be merged, or consolidated, or which succeeds to its business or assets or any part thereof, by purchase or otherwise, which shall continue as the depositary regardless of changes in the ownership of the said land, the sum of Three Hundred Twenty and NO/100 (\$200.00) DOLLARS,

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 of the same number of months successively. And it is understood and agreed that the consideration first recited, the down payment, can not exceed the rentals entitled on the date when said first rental is payable, and that the lease is option of renewal, that is, if no well is commenced, or is abandoned, or otherwise discontinued. Rents may be paid by check or draft and shall be rendered by mail. Mailing of rental on or before the rental paying date shall be deemed a timely tender therof and shall preclude termination of this lease. 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.

Should any well drilled on the land above described be a dry hole or cease to produce and there are no other producing well or wells on the land or drilling operations are not being conducted thereon, then and in that event if a well is not commenced before the next rental paying date this lease shall terminate as to both parties, unless the lessor on or before the next rental paying date shall resume the payment of rentals in the same amount and in the same manner as heretofore provided, and it is agreed upon the resumption of the payment of rentals, as above provided, the last preceding paragraph hereto, governing the payment of rental and the effect thereof, shall continue in force as though there had been no interruption in the rental payment.

If said lessor's interest in the same described land than the entire 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 undivided fee. However, such rentals shall be increased at the next succeeding rental anniversary after any reversion having occurred to cover the interest so acquired with or without notice of said reversion to lessor.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells and reservoirs of lessors. 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.

Lessee shall pay for all damages caused by its operations on said lands. When requested by the 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 have the right to drill to completion with reasonable diligence and dispatch (1) any well commenced within the term of this lease, even if it may not commence before the completion of a well which has been commenced within such term. If oil and gas or either of them be found in paying quantities in such well, this lease shall continue and be in force as if such well had been completed within the term of years herein mentioned.

Lessee is hereby granted the right and power to pool or combine the acreage covered by this lease, or any portion thereof, with other land, leases or leases in the vicinity thereof at any time and from time to time, whether before or after production, when in lessor's judgment it is necessary or advisable to do so for the prevention of waste and the conservation and greatest ultimate recovery of oil or gas. Such pooling shall be into a unit or units not exceeding in area the acreage prescribed or required in any federal or state law, order, rule or regulation for the drilling or operation of one well, or for obtaining the maximum allowable production from one well, or 40 acres each for the production of oil, or 640 acres each for the production of gas, whichever is the greater. Such pooling shall be effective as of the date when this lease is recorded as instrument identifying and describing the unit. The unit of pooled substances and development and operation on an acre or portion of unit as pooled, including the commencement, drilling, completion and operation of a well thereon, shall be considered and construed, and shall have the same effect, except for the payment of rentals, as production development and operation on the leased premises under the terms of this lease. The royalties herein provided shall accrue and be paid to lessor on pooled substances produced from any unit in the proportion, but only in the proportion, that lessor's acreage interest in the land covered hereby and placed in the unit bears to the total acreage in the land placed in such unit.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants herein shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lease has been furnished with a written transfer or assignment or a certificate of transfer, and it is hereby agreed that the lessor shall be relieved of all obligations and the lessor shall not be liable for any assignments of such part or parts of the well or make default in the payment of the proportionate share 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 which the said lessor or any assignee thereto shall make due payment of said rentals. An assignment of this lease, in whole or in part, shall as to the extent of such assignment relieve and discharge the lessor of all obligations hereunder.

Compliance with any law or ordinance existing act, bill or statute purporting to be enacted by any Federal or State legislative authority, or with orders, judgments, decrees, rules, regulations made or promulgated by State or Federal courts, State or Federal offices, boards, commissions or committees purporting to be made under authority of any such act, bill or statute, shall not constitute a breach of this lease, provided the lessor or lessor's agent or assignee shall not violate any such law, act, bill, or ordinance, or any such rule, regulation, command, order or decree, or any provision of any leasehold interest herein, nor shall any such compliance cause for the termination, forfeiture, reversion or extinguishment of any lease, interest therein and hereby created and set out, nor shall any such compliance confer any right of entry or become the basis of any action for damages or suits for the forfeiture or cancellation hereof; and while any such provision to be in force and effect there shall, when complied with by lessor or assignee, to the extent of such compliance operate as modifications of the terms and conditions of this lease where inconsistent therewith.

Lessee may at any time release this lease as to part or all of the lands above described after which all payments and liabilities theretocease, as to the lands released, shall cease and determine. In the event of a partial release the annual delay rental above mentioned shall be reduced proportionately.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment, any mortgage, 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.

This lease and all its terms, conditions and stipulations binds each executing lessor and shall extend to and be binding on his assigns, heirs and devisees and successors and those of the lessee, though unsigned by other lessees named herein.

IN WITNESS WHEREOF, We sign the day and year last above written

Richard E. Kephart
Richard E. Kephart (SS#)

Mari A. Kephart
Mari A. Kephart (SS#)

(SEAL) (SEAL) (SEAL) (SEAL)

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NEVADA
MONTANA ACKNOWLEDGMENTS

STATE OF NEVADA }
COUNTY OF EUREKA } SS.

(Individual Form)

On this 1st day of February, in the year 1978, before me,

the undersigned a Notary Public,

personally appeared Richard E. Kephart and Mari A. Kephart, husband and wife.

known to me to be the person(s) whose name is R.E.K. subscribed to the within instrument, and acknowledged to me that they executed the same.

My commission expires April 8, 1980



DANETTE HAMMOND
Notary Public -- State of Nevada
Eureka County
My Commission Expires April 8, 1980

Danette Hammond
Notary Public for the State of Nevada
Residing at Eureka, Nevada

STATE OF NEVADA }
COUNTY OF EUREKA } SS.

(Individual Form)

On this _____ day of _____, in the year 19, before me,

a Notary Public,

personally appeared _____.

known to me to be the person(s) whose name _____ subscribed to the within instrument, and acknowledged to me that _____ executed the same.

My commission expires _____

Notary Public for the State of _____

Residing at _____

WHEN RECORDED RETURN TO
CITIES SERVICE CORPORATION
LAND DEPT.
TULSA, OKLAHOMA 74102

STATE OF NEVADA }
COUNTY OF EUREKA }

(Corporate Form)

On this _____ day of _____, in the year 19, before me,

a Notary Public,

personally appeared _____

known to me to be the _____ of the corporation that executed the within instrument and acknowledged to me that such corporation executed the same.

My commission expires _____

Notary Public for the State of _____

Residing at _____

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