

64881

0178- 2709169
File 2700169

MANITOWOC - 228

OIL AND GAS LEASE

Billings Blue Print
Billings, Montana

AGREEMENT, Made and entered into this 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 lessor, for and in consideration of ... DOLLARS cash in hand paid, recited as which is hereby acknowledged and of his 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 the said lessee, its successors and assigns for the sole and only purpose of surveying by geological, geophysical and all other methods, mining and operating for oil and gas, 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 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, E4

and containing 320.00 acres, more or less.

It is agreed that this lease shall remain in force for a term of ten years from date, and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee, its successors and assigns:

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

First. The lessee 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 lessee's option, may buy or sell such one-eighth royalty and pay lessee 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 lessee 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 said shall pay a sum equal to the amount of delay rental herein as royalty, and while such royalty is so paid such well shall be held to be a producing well. The lessee in having gas free of charge from any gas well on the leased premises for storage and inside lifts 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 lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the

Bank at Eureka, Nevada 89316

of 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 depository regardless of change in the ownership of the said land, the sum of

Three Hundred Twenty and NO/100 (\$220.00) DOLLARS.

which shall operate as a rental and cover the privilege of deterring the commencement of a well for twelve months from said date. In like manner and upon like terms or tending the commencement of a well for the period for like periods of the same number of months successively. 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 pay any and all other rights conferred. Rentals may be paid by check or draft and may be remitted by mail. Mailing of rental on or before the rental paying date shall be deemed a timely tender thereof 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 lessee on or before the next rental paying date shall resume operation on any portion of the same amount and in the same manner as heretofore provided, and if so agreed upon the resumption of the payment of rentals, as above provided, the last preceding paragraph herein, governing the payment of rentals and the effect thereof, shall continue in force as though there had been no interruption in the rental payment.

If said lessee owns a less interest in the above described land than the entire and undivided fee simple estate thereon, 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 rentals shall be increased at the expiration of each rental anniversary after any reversion having occurred to cover the interest so acquired with or without notice of said reversion to lessee.

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 lessor. 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, and (2) any well commenced 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 any such well this lease shall continue and be in force with like effect as if such well had been completed within the term of years herein first 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, lease or leases in the vicinity thereof at any time and from time to time, whether before or after production, when in lessee'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 larger. Such pooling shall be effective in lessee's executing and filing in the office where this lease is recorded an instrument identifying and describing the pooled acreage. The production of pooled substances and development and operation on any portion of a unit so 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 royalty, 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 well 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 hereof 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 certified copy thereof; and it is hereby agreed in the event this lease shall be assigned in whole or in part or any part of the above described lands and the assignee or assignees of such part or parts shall take or make default in the performance of the obligations hereof, the said lessor or any assignee thereof shall not be obligated to draw or effect this lease in so far as it covers a part or parts of said lands which the said lessor or any assignee thereof shall make due payment of said rentals. An assignment of this lease, in whole or in part, shall be to the extent of such assignment relieve and discharge the lessor of all obligations hereunder.

Compliance with any now or hereafter 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 officers, State or Federal officers, boards, commissions or committees purporting to be made under authority of any such act, bill or statute, shall not constitute a violation of any of the terms of this lease or be considered a breach of any clause, obligation, covenant, undertaking, condition or stipulation contained herein, nor shall it be or constitute a cause for the termination, forfeiture, reversion or revesting of any estate or interest herein 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 suit for the forfeiture or cancellation hereof and while any such purport to be in force and effect they shall when complied with by lessee 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 thereunder to accrue, 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 reform 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 in 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 unnamed herein.

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

Richard E. Kephart (SS)

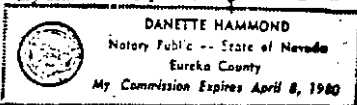
Mari A. Kephart

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 persons whose name is subscribed to the within instrument, and acknowledged to me that
they executed the same.

My commission expires April 8 1980



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

MONTANA ACKNOWLEDGMENTS

STATE OF _____)
COUNTY OF _____) 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 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 _____

Oil and Gas Lease

FROM

TO

Date _____ 19____

Section _____ Township _____ Range _____

Number of Acres _____ County _____

Term _____

STATE OF NEVADA
COUNTY OF EUREKA

This instrument was filed for record on the 21st
day of APRIL 1978
at 10:55 A.M. Book 63 page 283-284

Records. Willis A. DePaoli
of the records of this office. In Official
County XXXXXX Recorder

File No. 64881 Fee \$4.00

By _____ Deputy

When recorded return to

RETURN TO
CITIES SERVICE COMPANY
LAND DEPT.
TULSA, OKLAHOMA 74102

STATE OF _____)
COUNTY OF _____) SS (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 _____

64881