

OIL AND GAS LEASE

(PAID-UP)

THIS AGREEMENT, made and entered into this _____ day of _____, 200____, by and between _____

_____ whose address is _____

_____ hereinafter called

Lessor (whether one or more), and _____

_____ whose address is _____

_____ here-in-after called **Lessee** (whether one or more).

1. WITNESSETH: That the Lessor, for and in consideration of Ten Dollars (\$10.00) cash in hand paid, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on the part of the Lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease, and let exclusively unto Lessee, only the exclusive right of drilling, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind, and of laying pipelines, storing oil and building tanks, telephone lines, roads and structures thereon to produce, save, care for, treat and transport said substances produced from the land leased hereunder on the following land situated in _____ County, State of _____, to wit:

and containing _____ acres, more or less.

2. Subject to the other provisions hereof, this Lease shall be for a term of _____ () years from this date (called "Primary Term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land or lands with which said land is pooled hereunder and the royalties are paid as provided.

3. Lessee shall pay the following royalties, subject to the following provisions

- (a) Lessee shall either pay the Lessor _____ () of the market value at the well of all oil and other liquid hydrocarbons recovered or separated on the leased premises, produced and saved from the leased premises; or after sixty (60) days written notice from Lessor, which notice may be given from time to time, deliver free of cost to Lessor at the wells or to the credit of Lessor into the pipeline to which the well may be connected such percentage of all oil and other liquid hydrocarbons produced and saved from the leased premises.
- (b) Lessee shall pay the Lessor _____ () of the market value at the well for all gas (including all substances contained in such gas) produced from the leased premises and sold by Lessee or used off the leased premises, including sulfur produced in conjunction therewith; provided, however, that there shall be no deductions from the value of Lessor's royalty by reason of any required processing, cost of dehydration, compression, transportation, or other matter to market such gas.
- (c) Lessee shall pay Lessor royalty on all gas produced from a well on the leased premises or on lands pooled with the leased premises and sold or used off the leased premises regardless of whether or not such gas is produced to the credit of Lessee or sold under a contract executed by or binding on Lessee. Should gas be sold under a sales contract not binding on Lessee, Lessor's royalty will be calculated based on the highest price paid to an entity not owned or controlled by Lessee for any of the gas produced from the well from which such is produced. In no event will the price paid Lessor for Lessor's share of gas be less than the price paid Lessee for Lessee's share of gas.
- (d) While there is a well on the leased premises capable of producing gas in paying quantities but the production thereof is shut-in or suspended for any reason, Lessee may pay as royalty on or before ninety (90) days after the date on which (i) production from any such well is shut-in or suspended or (ii) this Lease is no longer maintained by compliance with other provisions hereof, whichever is the later date, and thereafter at annual intervals, a sum in the amount of One Dollar (\$1.00) per acre of leased premises, or a minimum of Fifty Dollars (\$50.00), whichever is greater, for each and every shut-in gas well; and if such payment is made or tendered in accordance with the terms hereof, this Lease shall not terminate but shall continue in full force, subject to the provisions of paragraph 15, and it will be considered that gas is being produced from the leased premises in paying quantities within the meaning of each pertinent provision of this Lease, and in no event shall shut-in well payments maintain this Lease in force for a period exceeding _____ () years. Lessee shall not be entitled to recover any shut-in royalty payments from the future sale of gas. Should the shut-in period extend beyond the expiration of the primary term, such shut-in provision will pertain only to the producing unit of such gas well as provided for in paragraph 15. Should such shut-in royalty payments not be made in a timely manner as provided in this paragraph, it will be considered for all purposes that there is no production or no excuse for delayed production of gas from any such well or wells and unless there is then in effect other preservation provisions of this Lease, this Lease shall terminate at midnight on the last day provided for the payment of such shut-in royalties, and Lessee shall thereupon furnish to Lessor a release of all its interest in and to this Oil and Gas Lease.
- (e) Lessee agrees that before any gas produced from the leased premises is used or sold off the leased premises, it will be run, free of cost to Lessor, through an adequate oil and gas separator of a conventional type or equipment at least as efficient, to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered on the Lease.

- (f) Lessee agrees that it will not enter into any contract of sale of production from this Lease which shall extend more than three years from the effective date of such sales contract unless such contract has adequate provisions for redetermination of price intervals of not less frequently than three (3) years to assure that production from this Lease is not being sold for less than the then current fair market value. Lessee, its successors or assigns, shall advise Lessor of the price and other pertinent terms under which gas from the premises shall be sold and Lessor shall within thirty (30) days of receiving such notice notify Lessee as to whether Lessee may sell Lessor's royalty share of gas under Lessee's sales contract or whether Lessor shall take and separately dispose of its royalty share of gas. Lessor shall be furnished with copies of all past and currently existing gas contracts on the leased premises upon written request. In the event Lessor elects to take and separately dispose of its royalty share of gas, appropriate gas balancing agreement shall be entered into between the parties.
- (g) Lessee shall initiate the payment of royalties under this Lease within ninety (90) days following the receipt of payment for production of oil or gas produced from the leased premises. If not paid within said ninety (90) days, royalties shall be deemed to be delinquent. Unless the failure of Lessee to timely commence royalty payments as provided herein is due to a legitimate title problem, the delay of royalty owners in executing and returning to Lessee appropriate title curative instruments (but not division orders whose contents alter, amend, or add to this Lease agreement), or some other circumstances reasonably beyond the control of Lessee, Lessee shall pay interest on the amount of delinquent royalty at the prime rate of interest of _____ BANK, and its successors and assigns, plus two percent (2.0%) per annum, or the highest interest rate then permitted by law, whichever is greater, calculated from ninety (90) days following the receipt of payments on production of oil or gas and continuing until the date that the payment of royalties is initiated by Lessee. After royalty payments commence, royalty payments will be paid on a monthly basis, subject to previously described interest penalty for delays of payment. In the event title matters are shown to exist which necessitate curative work, royalties payable shall be suspended only to the extent that they are adversely affected by such title problem or dispute. Division orders which alter, add to, or amend any provisions or language in this Lease shall not be used as a basis for suspending royalty payments, and any payments suspended for such reason shall accrue interest as provided above. In the event Lessee shall be delinquent with any royalty payment to Lessor(s), its heirs or assigns, under the term of this Lease agreement for a period in excess of one hundred eighty (180) days, and such delinquency is due to or resulting from circumstances reasonably within the control of Lessee, then Lessor(s) shall have the right to terminate this agreement following thirty (30) days written notice to Lessee of such delinquency and default. Lessee shall have the right to maintain the Lease by payment to Lessor(s) of all delinquent sums and interest thereon prior to the expiration of the thirtieth (30th) day following said notice. In the event of such declared forfeiture by Lessor(s), Lessee shall lose all of its rights and estates under all producing acreage hereunder; however, forfeiture shall not relieve Lessee from its responsibility of paying accrued royalties and interest thereon. Acceptance by Lessor(s) of royalties which are past due shall not act as a waiver or estoppel of its right to receive or recover any and all interest due thereon under the provisions hereof unless the written acceptance or acknowledgment by Lessor(s) to Lessee expressly so provides. Any tender or payment to Lessor(s) of a sum less than the total amount due to Lessor(s) hereunder which is made or intended to be made as an offer of settlement or accord and satisfaction by or on behalf of Lessee must be accompanied by a Notice of Settlement Offer, so denominated, addressed to each Lessor. Any such offer of settlement submitted solely by the tender of a check containing language of settlement or accord and satisfaction printed or otherwise inserted thereon shall not be deemed an offer of settlement or accord and satisfaction, unless preceded by such a Notice of Settlement Offer. Lessee shall pay all reasonable attorney's fees incurred by Lessor(s) in connection with any lawsuit in which Lessor(s) are successful in recovering any royalties or interest or in terminating this Lease due to Lessee's failure to pay royalties within the period set forth herein above. (Lessor(s) may, at Lessors' election, require accounting and payment of royalties to Lessor(s) directly from the purchaser of production rather than from Lessee.)
4. This is a PAID-UP LEASE. In consideration of the cash down payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the Primary Term. Lessee may at any time or times during or after the Primary Term surrender this Lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor a recordable release or releases.
5. Lessee is hereby granted the right to pool or combine the land covered by this Lease, or any part or parts thereof, as to all strata or any stratum, with any other land, as to all strata or any stratum, for the production of oil or gas. Pooling in one or more instances shall not exhaust the right of Lessee hereunder to pool this Lease or portion thereof into other or different units. Units pooled for oil hereunder shall not exceed forty (40) acres each, and units pooled for gas hereunder shall not exceed six hundred forty (640) acres each, provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based in whole or in part on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such spacing pattern or allowable. Lessee shall file a written unit designation and surveyors plat outlining any of such unit and describing the participating tracts in the county conveyance records in which the leased premises are located. Each such unit shall be designated before the completion of any unit well and a copy of the unit designation shall be furnished to Lessor within thirty (30) days after it is filed in the appropriate county records, and if Lessee fails to do so, such unit may be declared invalid by Lessor by an instrument filed in such county records. Drilling or reworking operations and production on any part of the pooled acreage shall be treated for all purposes hereof (except the payment of royalties on such production) as if such drilling or reworking operations were upon or such production was from the land described in this Lease whether the well or wells be located on the land covered by this Lease or not. For the purpose of computing the royalties and other payments out of production to which the owners of such interests shall be entitled on production of oil and gas, or either of them, from any such pooled unit, there shall be allocated to the land covered by this Lease and included in such unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis; thus, there shall be allocated to the acreage covered by this Lease and included in the pooled unit (or to each separate tract within the unit if this Lease covers separate tracts with the unit) that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this Lease (or in such separate tract) and included in the unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it is oil and gas, or either of them so allocated to the land covered by this Lease and included in the unit just as though such production were from such land. In the event only a part, or parts, of the land covered by this Lease is pooled or unitized with other land, or lands, so as to form a pooled unit, or units, operations on or production from such unit, or units, will maintain this Lease in force only as to the land included in such unit, or units. This Lease may be maintained in force as to any land covered hereby and not included in such unit or units in any manner provided for herein, provided that if it be by rental payments, rental payments shall be reduced in proportion to the number of acres covered hereby and included in such unit or units.
6. If, prior to discovery of oil or gas on said land or land pooled therewith, Lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil or gas, the production thereof should cease from any cause, this Lease shall not terminate if Lessee commences reworking or actual drilling within sixty (60) days thereafter. If, at the expiration of the primary term, oil or gas is not being produced on said land or land pooled therewith and Lessee is then engaged in actual drilling or reworking of any well thereon, this Lease shall remain in full force so long as drilling or reworking is prosecuted with no cessation of more than sixty (60) consecutive days, and if such operation results in production, so long thereafter as oil or gas is produced in paying quantities from said land or land pooled therewith. In the event a well or wells producing oil or gas should be completed on adjacent land within six hundred feet (600') of the leased premises for an oil well or within twelve hundred feet (1,200') of the leased premises for a gas well, Lessee agrees to commence the drilling of an offset well within one hundred twenty (120) days or release that portion of the leased acreage that would be allocated to such well unit. If oil or gas is discovered on the land covered by this Lease, or on land pooled therewith, Lessee agrees to further develop said land covered by this Lease as a reasonably prudent operator would under the same or similar circumstances.

7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells, tanks, creeks, rivers, streams and springs, for all operations hereunder, provided that no surface water or underground fresh water will be used for water flood or pressure maintenance purposes. Lessee shall have the right at any time within one hundred eighty (180) days after the expiration of this lease to remove all property and fixtures placed by the Lessee on said land, including the right to draw and remove all casing. In the event Lessee has drilled and completed an underground freshwater well on the leased premises, Lessor shall have the right of first refusal to accept that well for Lessor's future use and benefit. Lessee will, at Lessor's request remove the casing from and plug and abandon such freshwater wells at Lessee's expense. Lessee will, at Lessor's request, remove the casing from and plug and abandon such water well at Lessee's sole expense. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within four hundred (400') feet of any residence or barn now on said land without Lessor's consent. Lessor shall have the privilege, at its risk and expense, of using gas from any well on the leased premises for household or agricultural needs out of any surplus gas not needed for operations hereunder.
8. In the event Lessor owns all or any part of the surface estate, Lessee will conduct its operations hereunder as not to interfere unreasonably with Lessor or its assigns in the use of the surface of the lands covered by this Lease provided, that any use of the surface will require written consent of Lessor in advance. Lessor agrees that such consent will not be unreasonably withheld. Prior to any use of the surface, Lessee will present to Lessor a plat of the property showing the area proposed to be used and the type of use to be made, including drill-site locations, access roads, points of ingress and egress, and proposed production facilities. Within thirty (30) days of the receipt of such notice, Lessor will either deliver written consent or propose a reasonable alternative area for such use. Lessee will provide at Lessee's expense all protective measures to prevent any loss or damage to the property of Lessor on account of any operations by Lessee. Lessee will pay for all damages to the surface of or crops or improvements on the leased lands or suffered by any tenant of Lessor and caused by or arising out of operations under this Lease. Pits and excavations made during drilling operations or otherwise will be filled by Lessee and the surface restored, as nearly as reasonably possible, to its original condition; and if Lessee shall fail to do so, Lessee shall pay the cost to Lessor of such filling and restoration. Furthermore, Lessee shall also reimburse Lessor for the fair market value of damages to the livestock, fences, roads, personal property, buildings, or other improvements of Lessor caused by Lessee's operations on the leased premises. All improvements, such as fences, gates, cattle guards, and the like, made to Lessor's property shall become the property of Lessor at the time of cessation of production or lease termination, whichever comes first.
9. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division of ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the Lessee. However, no assignment of this Lease or interest therein by Lessee, its heirs and assigns, may be made without the prior written approval of the Lessor which written approval shall not be unreasonably withheld. Furthermore, no such change or division in the ownership of the land, rentals or royalties shall be binding upon Lessee for any purpose until Lessee shall have been furnished with the instrument or instruments, or certified copies thereof, evidencing such change or division. In the event of assignment of this Lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area owned by each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder, and liability for breach of any obligation hereunder shall rest exclusively upon the owner of this Lease or a portion thereof who commits such breach.
10. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure, except any and all monetary payments due under the terms of this Lease. The term "force majeure" as employed herein shall mean: any act of God including but not limited to storms, floods, washouts, landslides, and lightning. If Lessee is required, ordered or directed by any federal, state or municipal law, executive order, rule or regulation enacted or promulgated under color of authority to cease drilling operations, reworking operations or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated and for a period of sixty (60) days after such termination each and every provision of this Lease or implied covenant arising thereunder that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this Lease shall continue in full force, provided, however, that in no event will the primary term be extended unless Lessee has begun the actual drilling of a well prior to the date of the expiration of the primary term.
11. If Lessor owns an interest in said land less than the entire and undivided fee simple estate therein, then the royalties and rental herein provided shall be paid the Lessor in the proportion, which Lessor's interest bears to the entire and undivided fee simple estate therein.
12. Lessor makes no warranties of title either express or implied. Lessee, at its option, may discharge any tax lien upon the interest herein leased; and in the event Lessee does so, Lessee shall have the right to apply rentals and royalties accruing hereunder to reimburse such payment.
13. In the event this Lease expires for any reason as to all or any portion of the land described in this Lease, Lessee shall furnish Lessor promptly with a written, recordable release instrument covering all of the land as to which this Lease has so expired.
14. Lessee shall advise Lessor in writing as to the location of each well drilled upon the leased premises, or on land pooled therewith, on or before thirty (30) days prior to commencement of operations, and shall advise Lessor in writing as to the date of completion or abandonment of each such well drilled within thirty (30) days after such completion or abandonment.
15. If at the end of the primary term this Lease is still in force, this Lease shall expire as to all that part of said land (as hereinafter described) on which there is not a producing oil or gas well or on which Lessee is not then drilling or reworking a well. At the end of the primary term, Lessee shall select and designate a producing unit around and including each producing oil or gas well or drilling or reworking well, the area of such unit to be limited to and conform with the minimum area provided for or established directly or indirectly in the applicable rules and regulations of the appropriate governing body of the state in which the subject acreage is located with reference to the spacing of wells or the size of producing units. As to each producing unit so designated, this Lease shall continue in force so long as oil or gas is produced in paying quantities therefrom or so long as drilling or reworking operations are prosecuted thereon as provided in paragraph 6 and shall be limited in depth from the surface down to the base of the deepest producing formation; and Lessee shall execute a release of this Lease as to the balance of the land covered hereby as well as formations at depths below the respective producing units. In the absence of field rules promulgated by the appropriate governing body of the state in which such acreage is located, the term "producing unit" as used herein means the following number of acres, depending on the depth to which the well has been drilled, and whether the well is an oil or gas well: A) 40 acres for an oil well completed at any depth; B)(i) 80 acres for a gas well completed at a depth of less than 2,000 feet subsurface; (ii) 160 acres for a gas well completed at a depth of 2,000 feet subsurface to 6,000 feet subsurface; (iii) 320 acres for a gas well completed at a depth of 6,000 feet subsurface to 9,000 feet subsurface; (iv) 640 acres for a gas well completed at a depth greater than 9,000 feet subsurface. If a portion of Lessee's rights terminate as provided in this Paragraph 15, then Lessee shall designate in writing the acreage it is allowed to retain around each oil well and each gas well and such written designation shall be filed for record in the county in which such acreage is located. Lessee shall be entitled to designate the number of acres above specified in the form of a square or rectangle as nearly as practicable. The provisions of this paragraph 15 shall not have the effect of relieving Lessee of its obligations to develop the Lease with reasonable diligence after oil or gas is first discovered in paying quantities.
16. If Lessor files a legal action to enforce any express or implied obligation of this Lease and receives a favorable judgment from a court of competent jurisdiction, then Lessee shall reimburse Lessor for all costs of such legal proceedings including reasonable attorney's fees.
17. Lessee shall conduct his operations in compliance of all rules and regulations of any regulatory body having jurisdiction on such operations.
18. Lessee and his heirs and assigns shall be liable for, and shall exonerate, indemnify and defend Lessor and its successors in title, and all surface owners and surface renters of lands to which this oil, gas and minerals Lease pertains, against any and all claims, including claims relating to saltwater, salt water disposal and contamination of freshwater aquifers, losses, damages and costs including response costs, arising from any acts or omissions pertaining to activities or operations of Lessee, its employees, representatives, agents, invitees, guests or contractors, and any and all expenses connected therewith (including, without limitation, attorneys' fees). Such liability, exoneration and indemnification shall, without limitation, (1) cover bodily injury, death, damage to property or natural resources, and compliance with all legal obligations (including without limitation, any governmental order, directive or demand to test for, monitor, clean-up, remove, contain, treat, detoxify or neutralize any pollutants or to conduct any corrective action and to undertake any response, removal or remedial activity, and to pay the costs thereof), arising from any presence, treatment, storage, disposal, dispersal, discharge, release or escape of hydrocarbons, chlorides, gas vapors or other irritants, or contaminants, pollutants, hazardous material, hazardous substance or waste, chemical waste, or any other toxic substance, or oil or gas or fractions thereof even if not considered hydrocarbons, and any spillage therefrom, and (2) be deemed a continuing liability, exoneration and indemnification, without limitation of duration, that shall survive the expiration or termination of this Lease and of the activities and operations of Lessee, and shall apply after discovery of conditions and matters that were not actually discovered prior to such expiration or termination of the Lease.

19. Parties in Interest. Lessee represents that it is not an officer, director, or employee of Wachovia Bank N. A., nor is Lessee acting on behalf of any such officer, director, or employee.

EXECUTED on the date first above written

TAX I.D./S.S.N. _____

ACKNOWLEDGMENTS

State of _____)
County of _____)ss.

INDIVIDUAL

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 200_____, personally appeared _____ and _____ to me known to be the identical person_____, described in and who executed the within and foregoing instrument of writing and acknowledged to me that _____ duly executed the same as _____ free and voluntary act and deed for the purposes therein set forth..

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

My Commission Expires _____ Notary Public
Address: _____

State of _____)
County of _____)ss.

INDIVIDUAL

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 200_____, personally appeared _____ and _____ to me known to be the identical person_____, described in and who executed the within and foregoing instrument of writing and acknowledged to me that _____ duly executed the same as _____ free and voluntary act and deed for the purposes therein set forth.

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

My Commission Expires _____ Notary Public
Address: _____

State of _____)
County of _____)ss.

CORPORATE

Before me, a Notary Public, in and for said State and County, on this _____ day of _____, 200_____, before me, personally appeared _____ that is described in and that executed the within instrument and acknowledged to me that such Corporation executed the same.

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

My Commission Expires _____ Notary Public
Address: _____