State of Montana
OIL AND GAS LEASE
For Land Located in North Dakota

DS-423-ND
October 2015

No. _____

THIS INDENTURE OF LEASE, entered into between the State of Montana, through its Fish and Wildlife Commission, hereinafter referred to as lessor, and the person, company, or corporation herein named, hereinafter referred to as lessee, pursuant to the provisions of Title 87, Chapter 1, Parts 2 and 3, and Title 77, Chapter 3, Part 4, M.C.A., and all acts amendatory thereof and supplementary thereto, WITNESSETH:

1. GRANTING CLAUSE--The lessor, in consideration of the annual rentals herein stated, the receipt of which for the first year of this lease is hereby acknowledged, the royalties to be paid, and the covenants to be kept and performed by the lessee, hereinafter set forth, hereby grants, demises, leases and lets to the lessee, for the purpose of mining and operating for oil and gas, and of laying pipelines, building tanks, power stations, and other structures thereon necessary in order to produce, save, care for, dispose of and remove the oil and gas, all the lands herein described, as follows:

Date this lease takes effect:

Name of Lessee: Address:

Land Located in: Township 150 North, Range 91 West County: McLean County, North Dakota

Description of land: Section 6: An undivided 8% net mineral interest in Lots 4, 5, E½SW¼

Total number of acres, more or less, 11.6976 net acres, belonging to Montana Department of Fish, Wildlife & Parks Region 1, Hooked on Fishing

Annual rental, payable each year in advance: _____ first year; $100.00 each year thereafter.

2. TERM AND HORIZONTAL LIMITATION--This lease is granted for a primary term of five years and so long thereafter as oil and gas in paying quantities shall be produced from the land, subject to all of the terms and conditions herein set forth; provided, however, that the extended term of this lease shall apply only to those formations discovered, developed or drilled during the primary term of five years, and the interest of the lessee in the premises herein described shall thereafter be limited to such formations.

IT IS MUTUALLY UNDERSTOOD, AGREED AND COVENANTED BY AND BETWEEN THE PARTIES TO THIS LEASE AS FOLLOWS:

3. LEASE EXTENSION--The Commission may grant reasonable extensions of the primary term of this lease upon a showing that lessee, despite due care and diligence, is or has been directly or indirectly prevented from exploring, developing, or operating this lease or is threatened with substantial economic loss due to litigation regarding this lease, or adverse conditions caused by natural occurrences.

4. RENTAL--The lessee shall pay to the lessor an annual money rental in the amount hereinabove stated being not less than one dollar and fifty cents ($1.50) for each acre of land held under this lease from year to year, provided, however, that the amount of such money rental so payable shall in no case be less than one hundred dollars ($100.00) per annum. The first year's rental must be paid before the issuance of the lease. The rentals for each subsequent year of the lease shall be due and payable before the beginning of such subsequent lease year. Upon failure to make the rental payment, the lease terminates unless there is a well currently being drilled, a producing well, or a shut-in well approved by the Department of Natural Resources and Conservation, Trust Land Management Division (Department) on the lease. Rental paid for any year must be credited against any royalty that accrues during that year.

5. ROYALTY ON OIL--The lessee shall pay in money or in kind to the lessor at its option as hereinafter provided during the full term of this lease a royalty of 18.75% for each calendar month. Lessee agrees to pay lessor the royalty on oil based on the gross production or the fair market value thereof, at the option of the lessor, such value to be determined by 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale, whichever is greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of the lessor, the requirement that such gas be run through such separator or other equipment may be waived upon such terms and conditions as prescribed by lessor.

6. ROYALTY ON GAS--The lessee shall pay in money or in kind to the lessor at its option as hereinafter provided during the full term of this lease, a royalty of 18.75% on any gas produced and marketed, based on gross production or the fair market value thereof, at the option of the lessor, such value to be based on gross proceeds of sale where such sale constitutes an arm's length transaction.

SAMPLE

7. POOLING AND UNITIZATION--Upon receiving the written consent of the Department, the lessee shall have the right to commit the lands hereby leased to a pooling, unit, cooperative or other plan of development or operation with other State lands, Federal lands, privately-owned lands or Indian lands. Such agreements shall not change the percentage of royalties to be paid to the state from the percentages as fixed herein. Oil or gas produced from any lands included in such an agreement which encompasses the lands hereby leased are considered to be produced from the lands hereby leased.

8. DRILLING EXTENSION--If at the expiration of the primary term hereof oil or gas is not being produced from the lease premises in paying quantities, but the owner of the lease is then engaged in drilling on the premises for oil and gas, then the lease continues in effect so long as such drilling operations are being diligently prosecuted. If oil or gas is recovered from any such well drilled or being drilled at or after the expiration of the primary term hereof, the lease continues in effect so long as oil or gas in paying quantities is being produced from the leased premises.

9. DUE DILIGENCE—Upon completion of a commercially productive oil or gas well upon the leased premises, the lessee shall proceed with reasonable diligence to drill such additional wells to the depth of the formation found commercially productive, or to such depth as may be necessary to economically test, develop and operate the deposits discovered.

10. OFFSET PROTECTION--The lessee shall commence promptly and diligently drill to completion all wells necessary on the lands under this lease in order to fairly offset commercially producing oil or gas wells on contiguous lands or pay a compensatory royalty.

11. WASTE PROHIBITED--In conducting all explorations, mining or drilling operations under this lease, the lessee shall exercise all reasonable care and precautions in order to prevent waste of oil and gas. The lessee shall also at all times use all reasonable care and precautions to prevent the entrance of water to the oil or gas bearing strata to the destruction or injury thereof.

12. PRODUCTION REPORTS AND PAYMENT OF ROYALTY--The lessee further agrees on or before the last day of each month to make a report to the Department for operations covering the preceding calendar month, which report shall be in such form as the Department may prescribe and shall show the amount of oil or gas produced and saved during the preceding calendar month, the price obtained therefor, the total amount of all sales, whether any bonus or other increase in price was actually paid or agreed to be paid and such additional information as may be required. Such report shall be signed by the lessee or by some responsible person having knowledge of the facts contained therein. The report shall be accompanied by payment of the amount due the State as royalty for the month covered by the report where payment is required in money in place of oil or gas.

13. LESSOR'S RIGHT TO INSPECT--Representatives of the lessor shall have reasonable access to all records of the lessee insofar as they contain information relating to the production obtained under this lease, the price obtained therefor, and the fair market value of the production.

14. ASSIGNMENTS--The lessee may assign this lease either in whole or as to any regular subdivision thereof, embracing not less than forty (40) acres, to any qualified assignee, providing that such assignment shall not be binding upon the State until it has been filed with the Department accompanied by the required fees. No assignment to two or more assignees will be approved until one of the assignees is designated to act as agent for the assignees. Each lessee executing this lease, or accepting an assignment of an interest in this lease, is jointly and severally liable for all obligations attributable to the entire working interest under this lease.

15. INDEMNIFICATION–Lessee agrees to indemnify lessor from any and all lawful claims against lessor for loss, injury or damage resulting from the activities of the lessee under this lease.

16. COMPLIANCE WITH LAWS, RULES AND REGULATIONS—The lessee agrees to comply with all applicable laws, rules and regulations in effect at the date of this lease. The lessee agrees to comply with all applicable laws, rules and regulations which may, from time to time, be adopted and which do not impair the obligations of this contract and which do not deprive the lessee of an existing property right recognized by law. This lease is subject to the regulatory authority of the State of North Dakota.

17. WARRANTY OF TITLE--It is understood and agreed that this lease is issued only under such title as the State of Montana may now have or hereafter acquire, and that the lessor shall not be liable for any damages sustained by the lessee, nor shall the lessee be entitled to or claim any refund of rentals or royalties theretofore paid to the lessor in the event the lessor does not have the title to the oil and gas in the leased lands. If the lessor owns a lesser interest in the leased lands than the entire and undivided fee simple estate in underlying oil and gas for which rental and royalty is payable, then the rentals and royalties herein provided shall be paid the lessor only in the proportion which its interest bears to the whole and undivided fee simple estate in the oil and gas for which royalty is payable.

18. EXECUTING PARTIES BOUND--All covenants and agreements herein set forth between the parties hereto shall extend to and bind their successors, heirs, executors and assigns.

19. SPECIAL PROVISIONS—

The following four wells have been drilled and completed in the spacing unit and the lessee's interest in these four wells is subject to a 50% risk penalty pursuant to NDCC 38-08-08.3.b: Peterson 6-5-4HQ, Peterson 6-5-4HD, Peterson 6-5-4HC, and Peterson 6-5-4HZL.

The Department may receive election-to-participate notices for the following four proposed wells prior to the issuance of this lease: North Segment 6-5-4HA, North Segment 6-5-4HW, North Segment 6-5-4HB, and North Segment 6-5-4HY. If received, the lessee shall elect whether to participate in the drilling operations for any or all of the proposed wells by December 18, 2015, or within 30 days of the Department's receipt of election notices, whichever is later.

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IN WITNESS WHEREOF, the State of Montana and the lessee have caused this lease to be executed in duplicate and the Director of the Department of Fish, Wildlife and Parks, pursuant to the authority granted him by the Fish and Wildlife Commission, has hereunto set his hand below:

Lessee

_____
Signature

_____
Printed Name

_____
Title (if applicable)

_____
Company (if applicable – must match lessee on page 1)

_____
Date

_____ _____
M. Jeff Hagener Date
Director of the Department of Fish, Wildlife and Parks

SAMPLE