

OIL AND GAS LEASE

  
Register of Deeds

THIS AGREEMENT, entered into this 1 day of February, 2012, between CALVIN G. CARTER as Trustee of the Irrevocable Trust Agreement dated February 9, 2007 for ORVILLE L. CARTER and PATSY J. CARTER, (hereinafter called Lessor) and KANSAS ENERGY COMPANY, L.C., P. O. Box 68, Sedan, KS 67361 (hereinafter called Lessee), does witness:

1. That Lessor, for and in consideration of the sum of One Dollar (\$1.00) in hand paid and of the covenants and agreements hereinafter contained to be performed by the Lessee, has this day granted, leased, and let, and by these presents does hereby grant, lease, and let exclusively unto the Lessee the hereinafter described land, for the purpose of carrying on geological, geophysical, and other exploratory work, including core drilling, and the drilling, mining, and operating for, producing, and saving all of the oil, gas, casinghead gas, casinghead gasoline, including all associated hydrocarbons produced in a liquid or gaseous form and including gas found in and produced from coal formations or coal seams and all zones in communication therewith, which gas is sometimes referred to as coal bed methane, coal seam gas or occluded gas and all other gases and their respective constituent vapors, (including coal bed methane gas, helium, and all other constituents and substances produced therewith), including the dewatering for production of coal bed methane gas, and for constructing roads, laying pipe lines, building tanks, storing oil, and erecting other structures thereon which are necessary or convenient for the economical operation of said land to produce, save, take care of, and manufacture all of such substances, said tract of land with any reversionary rights therein being situated in the county of Chautauqua, state of Kansas, and described as follows:

✓ NE/4 NE/4 of Section 16, Township 34, Range 12, Chautauqua County, Kansas, as to everything that can be produced in or above the Weiser formation;

and

✓ SW/4 SW/4 and SW/4 SE/4 SW/4, Section 10, Township 34, Range 12, Chautauqua County, Kansas.

Lessor hereby assigns, sells and conveys unto Lessee all oil and gas pipelines, pump jacks, tank batteries, and equipment of any type currently located upon the leased premises, and this agreement shall constitute the bill of sale.

2. This lease shall remain in force for a term of one (1) year from the effective date hereof, and as long thereafter as oil, gas, casinghead gas, casinghead gasoline, or

any of the products covered by this lease are or can be produced.

3. The Lessee shall deliver to Lessor as royalty, free of cost, on the lease, or into the pipe line to which Lessee may connect its wells, the equal three-sixteenths (3/16ths) part of all oil produced and saved from the leased premises, or at the Lessee's option may pay to the Lessor for such 3/16ths royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks.

4. To pay Lessor for gas of whatsoever nature or kind (with all of its constituents) and all other substances covered hereby, a royalty of three-sixteenths (3/16ths) of the net proceeds realized by Lessee from the sale thereof, less a proportionate part of the ad valorem, production, severance, and other excise taxes and the cost incurred by Lessee in delivering, processing, compressing, transporting, dehydrating, or otherwise making gas or other substances merchantable, with said payments to be made monthly, not more than sixty (60) days following the last day of the month in which gas is delivered into the pipeline and credited to Lessee's account by the gas purchaser.

5. If Lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the Lessee shall have the right to drill such well to completion or complete reworking operations 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 like effect as if such well had been completed within the term of years first mentioned. Drilling operations or mining operations shall be deemed to be commenced when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is done thereon which is necessary for such operations.

6. During any period (whether before, on, or after expiration of the primary term hereof), at any time, and from time to time, when gas is not being sold or used and a gas well capable of producing in paying quantities is shut in on the leased premises, whether or not said well has theretofore actually produced, and there is no current production of oil or gas or operations on the leased premises sufficient to keep this lease in force, this lease shall, nonetheless, remain in full force and effect, and it will be deemed that gas is being produced in paying quantities: as to a well so shut in, whether one or more, Lessee shall be obligated to payor tender to Lessor a royalty of ten dollars (\$10.00) per year per net royalty acre retained hereunder, the payment or tender to be due on or before the anniversary date of this lease next ensuing after the expiration of 120 days from the date the well is shut in and thereafter on the anniversary date of this



lease during the period in which the well is continuously shut in; and this lease shall not terminate for a failure of Lessee to payor tender royalty pursuant to this provision, but Lessee shall be obligated to promptly pay Lessor the amount of the shut-in royalty due. If any payment made hereunder shall be erroneous in any regard (whether deposited in the wrong depository, paid to parties other than the ones entitled thereto as shown by Lessee's records, in an incorrect amount, or otherwise), this lease shall be maintained in the same manner as if such erroneous payment or deposit had been properly made, provided that the erroneous payment or deposit be corrected within thirty (30) after receipt by Lessee of written notice from such Lessor of such error accompanied by and documents and other evidence necessary to enable Lessee to make prompt payment. The provisions of the forgoing "shut-in" gas well clause shall not limit the Lessee's implied duty to market gas producible from the premises.

7. In case said Lessor owns a less interest in the above-described land, other than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid to said 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.

8. The Lessee shall have the right to use gas, oil, and water found on said land for its operations thereon, except water from the wells or ponds of the Lessor. When required by Lessor, the Lessee shall bury its pipe lines below plow depth and shall pay for damage caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to any improved structure now on said premises, without written consent of the Lessor. Lessee shall have the right at any time during, and within six (6) months after the expiration of this lease, to remove all machinery, fixtures, houses, buildings, and other structures placed on said premises, including the right to draw and remove all casing. Lessee shall grade to the original level and restore the surface to its original condition, as nearly as practicable, within six (6) months after the expiration of this lease.

9. If the estate of either party hereof is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, devisees, executors, administrators, successors, and assigns, but no change of ownership in the land or in the rentals or royalties or any sum due under this lease shall be binding on the Lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance

or duly certified copies thereof necessary in showing a complete chain of title back to Lessor to the full interest claimed, and all advance payments of rentals made hereunder before receipt of said documents shall be binding on any direct or indirect assignee, grantee, devisee, administrator, executor, or heir of Lessor.

10. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises nevertheless shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage.

11. Lessor hereby warrants and agrees to defend the title to the land herein-described and agrees that the Lessee, at its option, may pay and discharge in whole or in part any taxes, mortgages, or other liens existing, levied, or assessed on or against the above-described lands and, in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax, or other lien, any royalty or rentals accruing hereunder.

12. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate, provided Lessee (a) resumes production, (b) initiates operations for recompleting an existing well within sixty (60) days from such cessation or (c) initiates operations for drilling a new well within sixty (60) days from such cessation, and this lease shall remain in force during the diligent prosecution of such operations and, if production results therefrom, then as long as production continues.

13. Lessee may at any time surrender or cancel this lease in whole or in part by delivering or mailing such release to the Lessor, or by placing same of record in the proper county. In case said lease is surrendered and canceled as to only a portion of the acreage covered thereby, then all payments and liabilities thereafter accruing under the terms of said lease as to the portion canceled, shall cease and determine and any rentals thereafter paid may be apportioned on an acreage basis, but as to the portion of the acreage not released the terms and provisions of this lease shall continue and remain in full force and effect for all purposes.

14. All provisions hereof, express or implied, shall be subject to all federal and state laws and the orders, rules, or regulations (and interpretations thereof) of all governmental agencies administering the same, and this lease, shall not be in any way terminated wholly or partially, nor shall the Lessee be liable in damages for failure to comply with, any of the express or implied provisions hereof if such failure accords with



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Trust Agreement dated February 9, 2007 for ORVILLE L. CARTER and PATSY J. CARTER.

Reda Talbott

NOTARY PUBLIC

My Appointment Expires: 2/5/13

