

**OIL AND GAS LEASE  
(PAID-UP)**

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**LEASE #**

THIS OIL AND GAS LEASE (PAID UP), hereinafter "Lease", made this \_\_\_\_ day of \_\_\_\_\_, by and between AgriBank, FCB, 30 East 7th Street, Suite 1600, St. Paul, Minnesota, 55101, hereinafter called Lessor, and \_\_\_\_\_ whose post office address is: \_\_\_\_\_ hereinafter called Lessee.

WITNESSETH:

1. **Consideration and Grant** - Lessor, for and in consideration of TEN DOLLARS AND OTHER VALUABLE CONSIDERATION, in hand paid, the royalties provided, and the agreements of the Lessee herein contained, has leased and let, and by these presents does grant, lease and let unto Lessee, with the exclusive right and privilege to prospect (including geophysical exploration) and drill for and extract and produce all of the oil and gas and their associated hydrocarbons in, on, or under the land described below, together with the right to pipe, store, and remove oil and gas, together with such rights as the Lessor may own to enter and use the lands described herein for the purpose of dredging and maintaining canals, constructing roads and bridges, laying pipelines, building tanks, power stations, telephone lines, and such other uses as may reasonably be necessary to carry on the work of prospecting for, extracting, piping, storing, and removing such oil, distillate, gas and such associated hydrocarbons, Lessor's interest in and to the oil and gas in and under the following described property, situated in \_\_\_\_\_ County, State of \_\_\_\_ wit:

containing \_\_\_\_ acres, more or less

The interest hereby covered is an undivided Percent mineral interest in and to the herein described lands and it is expressly understood and agreed that the royalties herein shall be reduced proportionately.

2. **Term** - Subject to the other provisions herein contained, this Lease shall remain in force for a period of \_\_\_\_ years and \_\_\_\_ months from this date, (hereinafter referred to as "primary term") and as long thereafter as oil and gas or either of them is produced from said land, in paying quantities, or as long as any payment is made or any conditions exist, which as hereinafter provided, continues this Lease in force.

3. **Royalty** - Lessor's royalty shall be fraction and/or percent spelled-out Lessor expressly reserves the right, at its option, to take its royalty share of production in kind, as set out below, and Lessee agrees:

- a) **Oil** - On all oil and on all liquid hydrocarbons, such percentage thereof as is produced and saved from the lands, the same to be delivered to Lessor into the storage tanks or into the pipeline to which the wells may be connected, or, at Lessor's option, such oil and liquid hydrocarbons shall be sold with Lessee's oil and liquid hydrocarbons at the highest value of the following: (1) Actual price received by Lessee; (2) Market price at the well, or (3) Comparable third-party sales in the field.

- b) **Gas** - On all gas produced and marketed from said lands (including wet gas, dry gas, casinghead gas, coalbed methane gas, non-hydrocarbon constituent parts, and other vaporous or gaseous substances) such percentage of the gross proceeds or the market value at the wellhead thereof, whichever is greater, at the place of use or sale by Lessee, or at Lessor's option, such percentage of the gas, in kind, at the well or at the outlet side of the separator or the tailgate of any gas processing plant, as the case may be.
- c) **Lessor's Royalty Option** - For oil, Lessor shall have the right on one hundred twenty (120) days notice in writing to Lessee at any time and from time to time, as often as Lessor may desire, to change the method of payment of any or all of its said royalty from payment in kind to payment in money or vice versa. Until Lessor elects otherwise, the entire royalty hereunder shall be payable in money. If Lessor should exercise this option and take its royalty share in kind, Lessor shall be obligated to pay Lessor's proportionate share of transportation and storage only if said oil is transported and stored off the leased premises.
- d) **Shut-In Gas Royalty** - Where there is on the leased premises a well or wells capable of producing gas, and gas is not being used off the premises or marketed therefrom and this Lease is not then being, maintained by other production or Operations, this Lease shall nevertheless remain in full force and effect for a period of 180 days after cessation of production or Operations, or the shutting in of said well if on or before the expiration of said 180-day period, Lessee pays or tenders to Lessor a sum equal to the number of acres covered by this Lease multiplied by the Lessor's undivided interest multiplied by \$1.00, or One Hundred Dollars (\$100.00) per well depending upon which sum is greater. Such payment shall maintain this Lease in full force and effect for a period of one (1) year from the expiration of said 180-day period, and it will be considered that gas is being produced hereunder, and such payments or tender shall have the same effect as the production of gas, for all purposes hereof. Thereafter, annually in like manner, upon like payments or tender, this Lease will continue in force and effect for successive periods of one (1) year each, as long as such payments are made, but not, however, exceeding five (5) successive periods beyond the primary term of the Lease. It is understood that the above provision or shut-in clause shall also apply to any well where gas-oil ratio is such that the Lessee is not permitted to operate such well without the use or sale of gas. Every payment due as a shut-in royalty, beginning with the first such payment due following the shutting-in of a well on the leased premises or on lands pooled or unitized therewith, should be identified as such on the payment receipt.

4. **Delay Rentals** - This Lease is considered fully paid up and requires no delay rentals, notwithstanding anything contained to the contrary herein.

5. **Pooling** - Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this Lease or any portion thereof with any other contiguous land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said premises in compliance with any lawful spacing rules by any duly authorized authority. Lessee shall execute in writing an instrument identifying and describing the pooled acreage. In lieu of the royalties elsewhere herein specified, Lessor shall receive on production from a spacing unit so pooled only such portion of the royalty stipulated herein as the amount of the acreage placed in the spacing unit or the royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular spacing unit involved.

6. **Pugh Clause** - Notwithstanding anything to the contrary herein contained, Drilling Operations on or production from a pooled spacing unit or spacing units established under the provisions of Paragraph 5 hereof or otherwise embracing land covered hereby and other land shall maintain this Lease in force only as to acreage included in such spacing unit or spacing units.

7. **Continuous Drilling Clause** - Production in paying quantities on a portion of the leased premises or lands pooled or unitized therewith will extend this Lease only to such acreage of the leased premises beyond the primary term as may be then included in a producing unit or units, the size and conformity of which have been approved by any duly authorized authority having jurisdiction thereof. However, this Lease shall not terminate if Drilling Operations on any portion of the leased premises, or on lands with which a portion of the leased premises may be pooled or unitized, (such unit having been approved on size and conformity with any duly authorized authority having jurisdiction thereof) are being conducted at the end of the primary term. Such Operations shall continue to maintain this Lease in force and effect beyond the primary term for so long as Drilling Operations are being conducted with no cessation of more than one hundred twenty (120) consecutive days from the date Drilling Operations are completed on one well and the Drilling Operations commence on another well; any well commenced and drilled pursuant hereto after the primary term shall be drilled to a depth sufficient to test the producing horizon in the nearest producing well unless production in paying quantities is encountered at a lesser depth. If Operations taking place at or after the expiration of the primary term are discontinued for longer than one hundred twenty (120) consecutive days, then this Lease shall remain in force and effect only as to the leased premises then included within a spacing unit or spacing units producing or capable of producing in commercial quantities.

8. **Interruption of Production after Primary Term** - If production should cease during the extended term of this Lease, Lessee shall have one hundred twenty (120) days to commence Operations to reestablish production, either by drilling a new well or by commencing Reworking Operations on a previously drilled well, and there shall not be any lapses in said Operations of longer than one hundred twenty (120) days. Lessee shall furnish Lessor with sufficient information to document the Operations being performed. If production is reestablished, this Lease will remain in effect as long as any leased substance is produced hereunder in paying quantities.

9. **Product Use of Operation and Damages** - Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its Operations thereon, except fresh water from wells of Lessor. When requested by Lessor, Lessee shall bury his pipe line below plow depth. No well shall be drilled nearer than 200 feet from any residence or barn on said land without the consent of Lessor. Lessee agrees to protect Lessor from any claim for damages against Lessor resulting from operations of Lessee hereunder and Lessee agrees to pay for all damages to growing crops on the land covered hereby caused by its operation hereunder. Lessee shall have the right at any time, during the primary term, or within three (3) months after the expiration of this Lease to remove all property and fixtures placed by Lessee on said lands, including the right to draw and remove all casings.

10. **Assignments** - If the estate of either party hereto is assigned and the privilege of assigning in whole or part is expressly allowed, the covenants hereof shall extend to their respective successors or assigns, but no change in the ownership of the land or assignments of rentals or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written transfer or assignments or a true copy thereof and it is hereby agreed that in the event this Lease shall be assigned as to part or parts of the above-described land, and the assignee or assignees of such part or parts shall fail to make or default in the payment of the proportionate part of the rentals due from him or them, such default shall not operate to defeat or affect this Lease insofar as it covers a part or parts of the land on which the said Lessee or any assignee shall make due payment of said rentals. **In case Lessee assigns this Lease, in whole or part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions upon furnishing the Lessor with a written transfer or assignment or a true copy thereof.**

11. **Surrender and Relinquishment** - The Lessee may at any time, release this Lease as to part or all of the lands above described, after which all payments thereafter to accrue, as to the lands released, shall cease and desist. In the event of a partial release, the annual delay rental above mentioned shall be reduced proportionately. **The owner(s) and holder(s) of this Lease at the time it expires or is terminated shall discharge this Lease of record and furnish the Lessor with a copy of the recorded release.**

12. **Limited Warranty of Title** - Lessor makes no warranty as to the extent of its ownership or as to its title thereto. It is agreed that Lessee's recourse against Lessor in the event of failure of title shall not extend beyond the return to the Lessee without interest, of such rentals, royalties, and bonuses received by Lessor from the acreage to which title failed. Lessee at his option may discharge any taxes or other liens caused by acts of the Lessor, upon Lessor's interest in the leased land and in the event Lessee does so, Lessee shall be subrogated to such liens, with the right to enforce same and may apply rentals and royalties accruing hereunder towards satisfying same. It is agreed that if Lessor owns an interest less than as herein represented, then the rentals and royalties herein provided for to be paid Lessor shall be reduced proportionately.

13. **Right to Cure** - In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall give written notice to Lessee of such noncompliance. Lessee shall have 60 days from the receipt of such notice to commence and thereafter pursue with reasonable diligence such action as may be necessary or proper to satisfy such obligation of Lessee. No judicial action may be commenced by Lessor for forfeiture of this Lease or for damages until after the 60 day period.

14. **Compliance with Laws** - In all operations under this Lease or on the demised premises, Lessee shall promptly comply with any and all laws, ordinances, rules, regulations, requirements and orders whatsoever, present or future, of the national, state, county or municipal government, and all express and implied obligations of this Lease shall be subject to all valid federal and state laws, executive orders, rules and regulations and this Lease shall not be terminated, in whole or in part, nor Lessee be held liable in damages for failure to comply with such obligations, if compliance is prevented by any such law, order, rule or regulation. If from any such cause Lessee is prevented from conducting Drilling Operations or Reworking Operations on, or producing oil or gas from the leased premises, the time which such Lessee is so prevented shall not be counted against Lessee, and this Lease shall be extended for a period of time equal to that during which such Lessee is so prevented from conducting Drilling Operations or Reworking Operations on, or producing oil or gas from such leased premises, notwithstanding any other provision hereof.

15. **"Operations," "Drilling Operations," and "Reworking Operations."**

- a) The term **"Operations"** as used in this Lease shall mean only (i) the production of oil, gas or other hydrocarbons in paying quantities, (ii) Drilling Operations (as hereafter defined) or (iii) Reworking Operations (as hereafter defined).
- b) The term **"Drilling Operations"** as used in this Lease shall mean the drilling of a well, together with such work in the hole as is necessary to properly complete or abandon the well, conducted with good faith and due diligence and in a good and workmanlike manner. Drilling Operations shall be deemed to have commenced when a rig and machinery capable of drilling to a depth sufficient to test a prospective oil or gas horizon has been erected, and when such well has been spudded in and the bit is rotating under power. Sidetracking, re-entering, reworking, recompletion, plugging back or repairing of an existing well shall not constitute Drilling Operations. Drilling Operations shall be

deemed to have been completed (whether as a dry hole or as a producing well) on the earliest of the following dates: (i) the date on which the initial potential test is run; (ii) the date on which a dry hole is plugged; (iii) the date thirty (30) days after the date on which the total depth has been reached in Drilling Operations; (iv) the date certified to the state agency or department responsible for regulation of oil and/or gas exploration and production on the leased premises as the date a well has been completed as a producing well; or (v) the date the completion rig moves off location.

- c) The term "Reworking Operations" shall mean work in the hole of a well previously completed as a producer, in a good and workmanlike manner, prosecuted with reasonable diligence, in an attempt to recomplete or repair said well to return it to production or to enhance production. "Reworking Operations" shall not include swabbing of a well or applying chemical treatment to increase or restore production.

**AGRIBANK, FCB**

By: \_\_\_\_\_

\_\_\_\_\_  
(Name) (Title)

STATE OF Minnesota

SS.

COUNTY OF Ramsey

The foregoing instrument was acknowledged before me on \_\_\_\_\_  
by \_\_\_\_\_ of AgriBank, FCB

\_\_\_\_\_  
\_\_\_\_\_, Notary Public, Minnesota. My commission expires \_\_\_\_\_.

Prepared by: **AgriBank, FCB, Minerals Management, 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8330**

Recording Information