

Tessie Damele, Charles Damele,)
 Leo J. Damele and John V.)
 Damele,)
)
 to) OPTION
)
 Last Frontier Oil Company, Inc.)

OPTION FOR OIL AND GAS MINING LEASE

THIS AGREEMENT, made this _____ day of August, 1953, by and between TESSIE DAMELE, CHARLES DAMELE, LEO J. DAMELE and JOHN V. DAMELE, all of the County of Eureka, State of Nevada, first parties, and LAST FRONTIER OIL COMPANY, INC., a Nevada Corporation, second party,

W I T N E S S E T H:

That the said first parties, for and in consideration of the sum of TEN DOLLARS (\$10.00) lawful money of the United States of America, the receipt whereof is hereby acknowledged, hereby agree to lease to the said second party, and the said second party shall have an option of taking a lease of the property hereinafter described upon the terms and conditions hereinafter set forth, provided that the second party shall commence an oil well drilling operation within that certain area of Eureka County, Nevada, described as Townships 26 or 27 North, in Ranges 50 or 51 East, M. D. B. & M.

It is agreed that if such oil well drilling operation is commenced within ninety days from the date hereof, said first parties, as lessors, shall make and deliver to the second party, its successors or assigns, an oil and gas mining lease upon the following terms and conditions:

1. The property to be demised by said lease is as follows:

IN T. 26 N., R. 50 E., M.D.B. &M.

Sec. 1: $SE\frac{1}{4}$ $NE\frac{1}{4}$; $E\frac{1}{2}$ $SE\frac{1}{4}$
 12: $E\frac{1}{2}$ $NE\frac{1}{4}$; $NE\frac{1}{4}$ $SE\frac{1}{4}$
 24: $E\frac{1}{2}$ $SE\frac{1}{4}$

IN T. 26 N., R. 51 E., M.D.B. &M.

Sec. 6: Lots 3, 4, 5, 6 and 7; $SE\frac{1}{4}$ $NW\frac{1}{4}$; $E\frac{1}{2}$ $SW\frac{1}{4}$
 7: Lots 1, 2, 3 and 4
 18: Lots 1, 2, 3 and 4
 19: Lots 1, 2, 3 and 4
 30: Lots 1, 2, 3 and 4; $E\frac{1}{2}$ $SW\frac{1}{4}$
 31: $NW\frac{1}{4}$ $NE\frac{1}{4}$; $E\frac{1}{2}$ $NW\frac{1}{4}$

IN T. 27 N., R. 51 E., M.D.B. &M.

Sec. 30: $S\frac{1}{2}$ $NE\frac{1}{4}$; $N\frac{1}{2}$ $SE\frac{1}{4}$; $E\frac{1}{2}$ $SW\frac{1}{4}$; Lot 4
 Sec. 31: Lot 1

Together with the sole and exclusive right of prospecting for, mining and producing oil and gas, casinghead gas and gasoline, laying pipe line, building tanks, storing oil, building power stations, telephone lines and other structures thereon to produce, save, take care of and market all of such substances as is economically necessary for the production thereof, all in accordance with the best methods of producing such oil and gas, Lessee shall have the right to erect housing and buildings for its employees, with right for such purposes to the free use of oil, gas or water from said lands, subject to those provisions hereinafter contained. It shall be the purpose of the parties hereto to demise and let to the lessee the mineral rights to all oil, gas, casinghead gas or gasoline

in connection with the above property and the rights to such of the surface as is necessary to carry out the production and marketing thereof. The lessors shall otherwise retain the right to the free use of said property.

EXCEPTING, HOWEVER, from said lease, all meadow lands included within the above described property that are now used by the lessors in cutting, harvesting and storing hay or other forage crops.

2. The term of said lease is to be as follows:

The lessee to have and to hold said lands and all rights and privileges granted thereunder, unto the lessee, its successors and assigns, as long as an oil well drilling operation is carried on by said lessee as provided in this lease, and as long thereafter as oil, gas casinghead gas or gasoline, or any of them, is, or can be, produced therefrom, subject to the prompt and punctual performance of all of the conditions contained in said lease.

3. The said lease shall contain the following additional terms and conditions:

Lessee shall have the right to remove, either during or after the term of said lease, all and any property and improvements placed or erected on the premises by the lessee, including the right to pull all casing. Lessee shall exercise this right with reasonable diligence, and all such property shall be removed within one year from the date of any termination of said lease, otherwise said property shall go to and become the property of the lessors.

The lessee shall pay the lessors in cash at the prevailing field market price at the time of production, the value in its natural state of the equal 1/8 (one-eighth) part of all oil and gas, or other marketable minerals produce, saved and marketed from the above described premises. Settlement therefore shall be made on the twentieth day of each month for minerals produced during the preceding calendar month.

No change of ownership in the lands or in the rentals or royalties shall be binding upon the lessee until after it shall have been furnished with a written transfer or assignment, or a certified copy thereof. Should suit be brought involving the ownership of said rentals or royalties accruing thereunder, or of the said land, the lessee may, at its option, deposit all of the accruing rentals or royalties in a suitable depository pending the final determination of said suit, in lieu of making payments to the lessors.

The lessors shall have the right to use gas free of charge from any gas well on the leased premises for all stoves and inside lights in the principal dwelling house situate on said land by making their own connections with the well, the use of said gas to be at the lessors' sole risk and expense at all times, and said right to be subject to the prior right of lessee to gas from said well for operating purposes as herein set out.

Lessee shall agree to offset all paying, producing wells drilled outside of and within 250 feet of the boundary lines of the tract covered by the said lease, or will forfeit the 40 acres tract or subdivision thereof opposite such adjacent foreign well. There shall be no obligation on the part of the lessee to offset wells on separate tracts in which the land covered by said lease may be divided by sale, lease or otherwise.

Lessee may at any time surrender the said lease by delivering the release thereof, or mailing same, to the lessors, or by placing a release thereof of record in the proper county, and thereupon, all payment and liability of the lessee hereunder shall cease and the lease shall become void, provided that the said lessee is not in default in the performance of any of the covenants and conditions to be performed by said lessee. In the same manner, the lessee, may surrender any part of said land and terminate lessee's obligation as to the land surrendered, without terminating the lease as to the remaining land.

Should the lessee so far fail in the compliance with the terms of the lease as to justify a forfeiture thereof, no forfeiture shall be declared unless the lessors shall first notify the lessee in writing, addressed to the lessee at 818 South Virginia Street, Reno, Nevada, or at such other address as may be designated by the lessee, in writing, specifying the exact nature of the default, and unless the said lessee shall fail to remedy said default within thirty days from date of mailing of said notice. Should the lessee fail to remedy said default within the time allowed, said lease shall be forfeited, and the lessors may then re-enter and take possession of said premises without any further proceedings and may apply to the escrow holder hereafter named for delivery of the quitclaim deed to be deposited with said escrow holder.

Lessors agree that the lessee, at the lessee's option, may pay and discharge any delinquent taxes, mortgages of which the mortgagee has an existing right to foreclose, or other liens, existing, levied or assessed against the above described lands, and in the event the lessee exercises such option, lessee shall be subrogated to the rights of any holder of holders thereof, and may be reimbursed by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing to the said lessors under said lease. In case the lessors own a less interest therein than the entire and undivided fee simple estate in said lands, then the royalties and rentals provided for shall be paid the said lessors only in the proportion which the lessors' interest bears to the whole and undivided fee. Provided, however, that in the event that the United States of America or the State of Nevada assert and successfully establish their paramount title to the oil and mineral rights on said lands by virtue of any reservations in patents or otherwise, the lessors shall receive the royalties reserved to them hereunder from any oil, gas or other minerals produced from the lands demised herein, in the event that the lessee shall be able to secure such oil and mineral rights by lease, purchase or otherwise from the said United States of America or the State of Nevada. It is agreed that any royalty assessed or collected by the State of Nevada pursuant to N. C. L. 5545, 1929, shall be paid by the lessors and lessee share and share alike.

The lessee, complying with all of the terms and conditions herein, shall have the peaceful and quiet enjoyment of the premises demised herein, subject to any paramount title to the oil and mineral rights which may exist in favor of the United States of America or the State of Nevada by virtue of reservations contained in patents or otherwise.

The lessee, if requested, shall bury all pipelines below plow depth, and no well shall be drilled nearer than 200 feet to any house or barn now on said land without the lessors' written consent. The lessee shall pay the taxes upon all structures, tools, and appliances placed upon said lands by the lessee for the purpose of conducting operations under and by virtue of said lease. Any increased taxes levied by virtue of any increase in the valuation of the lands leased hereunder by virtue of any oil well drilling operation or production from said lands or any taxes levied and assessed upon the proceeds of oil and minerals produced from said lands shall be said as follows: 1/8 by lessors and 7/8 by the lessees.

The lessee shall have the right to the free use of water from said lands, but not from the lessors' water wells, provided that the use of such water would not hinder the normal ranching operations of the lessors. Lessee shall have the right to drill wells for water, or otherwise develop water for the use of lessee, provided that such development of water shall not hinder the normal ranching operations of lessors. In the event such additional water be obtained, appropriation of such water shall be made in the name of the lessors; provided, however, that the lessee shall have the right to the use of all of such water as may be necessary to carry on the operations of the lessee. It is agreed by the parties hereto that none of such water shall be used by the lessee on lands other than those deformed by this lease without the written consent of the lessors. Lessee agrees to comply with all of the laws of the State of Nevada relative to the appropriation and development of underground waters. Upon the termination of said lease, lessors shall have the right to purchase all well casing in place in any of such water wells, at the cost price to the lessee, by notifying lessee of their desire to purchase such casing, and by paying therefor the full amount of the cost price of such casing within ten days after having received notice from the lessee as to the purchase price of said casing. Lessee agrees not to remove such casing without first notifying the lessors of the purchase price of said casing.

Lessee shall pay lessors for any damage to crops, livestock or normal ranching operations caused by the lessee in carrying out any of the right granted to the lessee hereunder.

In the event that oil, gas, casinghead gas or gasoline are discovered and are capable of being produced from the lands demised herein in marketable quantities, lessee agrees to use reasonable diligence in marketing and producing said minerals; lessee agrees that it will not cap such wells and store the minerals therein for a period of more than five years from the discovery of oil or other minerals, in marketable quantities, in each well.

In the event that lessee shall exercise the option granted hereunder by commencing drilling operations as above described, lessee agrees to commence drilling operations upon the lands owned by lessors and demised in said lease within one year from the date that drilling operations commence in the area hereinabove described as Townships 26 and 27 North, in ranges 50 and 51 East, M.D.B. & M.

The second party herewith agrees to execute a quitclaim deed to all of the property demised herein, or on which an option to secure a lease is given, and to deposit the same with the First National Bank of Nevada, Elko, Branch, Elko, Nevada, with appropriate instructions to be delivered to the lessors in the event that said option is not exercised, or the lease is forfeited or otherwise terminated. No assignment of all or any part of the premises demised by said lease shall be binding upon the lessors unless such assignee shall also execute a quitclaim deed to said property and deposit the same with the escrow holder herein named to be held according to the same instructions to be delivered to the escrow holder.

Lessee shall comply with all laws, State, Federal and local, in its use and occupation of said premises, and shall not allow any liens, encumbrances or other claims to attach to the lands demised herein, and will post and keep conspicuously displayed about any wells, buildings or other structures such notices of non-liability as may be furnished to it by the lessors, and said lessee shall carry industrial insurance with the Nevada Industrial Commission on all employees of the lessee.

Any lease executed pursuant hereto shall inure to and be binding upon the heirs, executors, administrators and assigns of the first parties and the successors and assigns of the second party, except as herein expressly excepted. The second party shall have the right to assign this option or any lease executed pursuant thereto, or any interest therein, or any portion of the acreage covered thereby, provided that written notice of such assignment by the second party shall be given to the first parties.

It is understood that the words "oil well drilling operation" as used in this option and any lease executed pursuant thereto is defined to mean the placing of materials upon the land for the construction of a derrick and other necessary structures for the drilling of an oil well, followed diligently by the construction of such derrick and other structures and by the actual operation of drilling in the ground, provided that reasonable delays shall be granted in the event that weather conditions prevent such oil well drilling operations, and provided further that a delay of not to exceed four months shall be allowed between the abandonment of one well and the commencement of another well for the purpose of making necessary tests and examinations.

IN WITNESS WHEREOF, the first parties have hereunto set their hands the day and year first above written, and the second party has caused this agreement to be executed by its President and Secretary, duly authorized, and by affixing the corporate seal hereto.

Tessie Damele

Charles Damele

Leo J. Damele

John V. Damele

FIRST PARTIES

LAST FRONTIER OIL COMPANY, INC.

ATTEST:

BY

Secretary

President

STATE OF NEVADA)
) SS.
COUNTY OF EUREKA)

On this 8 day of August, 1953 personally appeared before me, a Co. Recorder and Auditor in and for said County and State, known to me to be the persons described in and who executed the foregoing instrument, TESSIE DAMELE, CHARLES DAMELE, LEO J. DAMELE and JOHN V. DAMELE, and acknowledged to me that they executed the same freely and voluntarily and for the uses and purposes therein mentioned.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal the day and year in this Certificate last above written.

(Seal)

R. W. Gibson
Co. Recorder & Auditor
Eureka Co., State of Nevada.

Recorded at Request of Last Frontier Oil Co., Inc. Aug. 14 A.D. 1953 At 46 min. past 11 A.M.

R. W. Gibson--Recorder.