

62779

AGREEMENT, Made and entered into this 7th day of February, 19 77, by and between Tony Sestanovich and Lorraine Sestanovich, husband and wife, Pine Valley, Carlin, Nevada 89822 party of the first part, hereinafter called lessor, (whether one or more) and Filon Exploration Corporation, 1700 Broadway, Denver, Colorado 80202, party of the second part, hereinafter called lessee.

WITNESSETH: That the lessor for and in consideration of Ten and more (\$10.00+) Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided, and of the agreements of lessee herein contained, hereby grants, demises, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas and other hydrocarbons and including all other products produced therefrom; laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, and the following described land in Eureka County, State of Nevada, to-wit:

Township 27 North, Range 52 East, M.D.B. & M.

Section 11: NW $\frac{1}{4}$ NW $\frac{1}{4}$

Section 23: W $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$

including all minerals hereinafter named underlying lakes, streams, roads, easements and rights-of-way which traverse or adjoin said lands owned or claimed by lessor, or which may hereafter be established to be owned by lessor, and also in addition to the above described land and rights, any and all strips or parcels of land, other than those constituting regular governmental subdivisions, adjoining or contiguous to the above described land and owned or claimed by lessor, all of the foregoing land being hereinafter referred to as said land or leased premises. For the purpose of calculating the rental payments for which provision hereinafter is made, said land shall be treated as comprising Two hundred eighty and no/100ths (280.00) acres whether it actually comprises more or less.

TO HAVE AND TO HOLD the same (subject to the other provisions herein contained) for a term of ten years from this date (called primary term) and as long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them, is produced therefrom or as much longer thereafter as the lessee in good faith shall conduct drilling operations or reworking operations thereon and should production result from such operations, this lease shall remain in full force and effect as long as oil, gas, casinghead gas or other hydrocarbons shall be produced therefrom.

In consideration of the premises it is hereby mutually agreed as follows:

1. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or lessee may from time to time at its option purchase any royalty oil in its possession, paying the market price thereof prevailing for oil of like grade and gravity in the field where produced on the date of purchase.

2. The lessee shall pay lessor, as royalty, on gas, including casinghead gas or other gaseous substances, produced from the leased premises and sold or used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth of the gas sold or used, provided that on gas sold the royalty shall be one-eighth of the amount realized from such sale. The amount realized from the sale of gas shall be the price established by the gas sales contract entered into in good faith by lessee and a gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed. If a well capable of producing gas or gas and gas-condensate or distillate in paying quantities located on the leased premises (or on acreage pooled with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut-in and no gas or gas-condensate or distillate therefrom is sold or used off the premises for the manufacture of gasoline or other products, nevertheless such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessor shall use reasonable diligence to market gas or gas-condensate or distillate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in lessee's judgment exercised in good faith, are unsatisfactory. Lessee shall be obligated to pay or tender to lessor within 45 days after the expiration of each period of one year in length (annual period) during which such well is so shut-in, as royalty, an amount equal to annual delay rental herein provided applicable to the interest of lessor in acreage embraced in this lease as of the end of such annual period; provided that if gas or gas-condensate or distillate from such well is sold or used as aforesaid before the end of such annual period, or if, at the end of such annual period, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, lessee shall not be obligated to pay or tender, for that particular annual period, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered to lessor or to lessor's credit in the designated depository bank in the manner prescribed for the payment of delay rentals. Royalty ownership as of the last day of each such annual period as shown by lessee's records shall govern the determination of the party or parties entitled to receive such payment.

3. If operations for the drilling of a well for oil or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessee shall, on or before one year from this date, pay or tender to the lessor or for the lessor's credit in First National Bank of Nevada, Elko Branch ~~XXXX~~ Elko, Nevada 89801, or its successor or successors, which bank and its successors are lessor's agents and which shall continue as the depository regardless of changes in the ownership of the land or in the oil or gas or the rentals to accrue hereunder, the sum of TWO HUNDRED EIGHTY AND NO/100THS. (\$280.00) Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well for a period of one year. In like manner and upon payments or tenders, the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of this lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check, or draft, of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Lessee may at any time execute and deliver to lessor or check of record, or release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases.

4. If prior to discovery of oil or gas on said premises Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas all wells thereon should become incapable of producing for any cause, this lease shall not terminate if Lessee commences operations for additional drilling or for reworking within sixty (60) days thereafter or if it be within the primary term commences or resumes the payment or tenders of rentals on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of dry hole or cessation of production. If at the expiration of the primary term there is no well upon the leased premises capable of producing oil, gas, casinghead gas or other hydrocarbons, but lessee has commenced operations for drilling or reworking thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than sixty (60) days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil, gas, casinghead gas or other hydrocarbons, so long thereafter as oil, gas, casinghead gas or other hydrocarbons or either or any of them is produced from the leased premises.

5. If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate herein, then the royalties and rentals herein provided for shall be paid the lessor only, in the proportion which his interest bears to the whole and undivided fee.

6. Lessee shall have the free use of oil, gas, casinghead gas and water (regardless of the source) from said land, except water from lessor's wells, for all operations hereunder, and the royalty on oil, gas and casinghead gas shall be computed after deducting any so used.

When requested by lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time (but not the obligation) to remove all improvements, machinery, and fixtures placed or erected by lessor on said premises, including the right to pull and remove casings.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto. Notwithstanding any actual or constructive knowledge of or notice to lessee, no change or division in the ownership of the lands, royalties, or rentals, however accomplished, shall be binding upon the lessee (except at lessee's option in any particular case), until sixty (60) days after lessee shall have been furnished with the original, a copy certified by the official recorder of the county where the land or some part thereof is located, or a photostatic of the recorded instrument or instruments evidencing the change or transfer, including any intermediate transfer from the lessor or his assigns not theretofore furnished to lessee, and such change or transfer shall not affect any payments made prior to said date whether or not due. In case of death of any person entitled to receive royalties or rentals, the evidence of change in ownership shall consist of letters of administration or final decree of distribution of the estate of the decedent issued by a court of competent jurisdiction of the decedent's estate including his interest in the lands above described. Lessee may until such date continue to pay such royalties and rentals as if such change or transfer had not been made, or may pay the same according to the interests of record as disclosed by the last certification of an abstract in lessee's possession subsequent to the date of the lease, or at lessee's option, may suspend the payment thereof until sixty (60) days after such evidence is received. No change or division in the ownership of the land, royalties, or rentals shall operate to enlarge the obligations or diminish the rights of the lessee. No division of royalties shall be made effective except at the end of a calendar month. If the ownership of royalties becomes changed into separate divided portions of said land and the owner of any such royalty desires separate gauges for production from such separate tracts, he shall request the lessee to set separate measuring and receiving tanks and pay to the lessee in advance the lessee's estimated cost of procuring and setting such tanks and making the connections therefor; and unless and until such is done, lessee may pay such royalties to the separate owners jointly or may suspend payment until such time as said separate owners shall agree in writing upon an apportionment of such royalties and furnish lessee with the original agreement. In event of assignment of this lease as to a segregated portion or portions of said land, all rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. The acreage included in any assignment as recited therein in good faith shall be conclusive for the purpose of payment of rentals. Whether or not this lease be owned by one party or by two or more different parties, production under the terms of this lease, or drilling or reworking operations on any portion of the land above described, shall keep this lease in effect upon all the land herein leased. The lessee shall not be liable for the failure of any subsequent owner of any portion of the land above described, shall keep this lease, conditions and obligations of this lease, express or implied. Offsetting shall never be required to protect one portion of the leased premises against drainage through a well or wells on another portion of the leased premises. If six or more parties become entitled to royalty hereunder, lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating a trustee to receive payment for all.

8. Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land, and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Lessor shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee.

* For additional paragraphs 17 through 21, inclusive, see addendum marked EXHIBIT "A" attached hereto and made a part hereof.

9. In addition to and not in limitation of the rights granted in paragraph 6 hereof, lessee is hereby granted the right and option to consolidate, pool or combine the lands covered by this lease, or any portion or portions thereof or any stratum or strata thereunder, with other lands or like strata thereunder for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons or any or all of said products, when in lessee's discretion and judgment it is advisable so to do for proper development or operation of the premises, or to conform to zoning or other rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessee may elect provided that any such unit when completed shall be composed of tracts each of which is contiguous to, touches or corners with some one or more of the other tracts in the unit in such manner as to form one connected tract or unit, and provided, further, that any tracts included in any such unit separated only by a street, alley, road, railroad, canal, stream, right-of-way or other similar strip or parcel of land shall be considered as contiguous, corners or touches within the meaning of this paragraph. Any unit formed under this paragraph for production of oil and casinghead gas shall not exceed one hundred sixty-three (163) acres in surface area, and for production of dry or gas well gas or casinghead gas or dry or gas well gas or dry or gas well gas and condensate or distillate is permitted or prescribed by lawful authority, then in such event such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this lease, the size of any of the units mentioned herein may be increased to the size of the there existing governmental survey unit nearest in size to the unit acreage prescribed herein. The right and option herein granted to lessee may be exercised at any time or from time to time, whether before or after production is secured and whether or not a unit may theretofore have been created for some other product, by executing in writing an instrument identifying and describing the unit created, and by delivering a copy thereof to lessor or by recording a copy thereof in the county where the land is located. The lands in any such unit shall be developed or operated as one tract and any operations for the drilling of a well on or production from such unit, whether or not from lands described in this lease, shall be deemed to be drilling operations on or production secured on lands subject to this lease for all purposes except for the purpose of payment of royalty hereunder; provided, further, that any operations for drilling and completing a well on any such unit shall be deemed to be operations on the lands described in this lease and under the terms thereof regardless of whether said operations result in a well of the type covered in the instrument declaring such unit or a well of a type not covered by such instrument. In lieu of the royalties elsewhere herein specified, the lessor shall receive from production on any such unit only such portion of the royalty, at the rate stipulated elsewhere herein, as lessor's acreage in the unit (or his royalty interest therein) bears to the total acreage of the unit. Formation of any unit as herein provided shall in no manner affect the ownership or amount of any rental which may be payable under the terms of this lease.

10. In the interest of conservation, the protection of reservoir pressures and recovery of the greatest ultimate yield of oil and/or gas, lessee shall have the right to combine the leased premises with other premises in the same general area for the purpose of operating and maintaining repressuring and recycling facilities, and for such purpose may locate such facilities, including input wells, upon the leased premises, and no royalties shall be payable hereunder upon any gas used for repressuring and recycling operations benefiting the leased premises.

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 any taxes, mortgage, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder of 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. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any acts by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder.

13. All express and implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damage for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation, or if such compliance is prevented by or failure is the result of inability of lessee through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

14. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

15. With respect to and for the purpose of this lease, lessor, and each of them if there be more than one, hereby release and waive the right of homestead.

16. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessors. * * See above WHEREOF witness our hands as of the day and year first above written.

Lorraine Sestanovich
Lorraine Sestanovich

Tony Sestanovich
Tony Sestanovich

S. S. # _____

S. S. # _____

S. S. # _____

S. S. # _____

COLORADO AND WYOMING INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____ } ss.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,

by _____
Witness my hand and official seal.

Notary Public

My commission expires: _____

Place of Residence _____

UTAH INDIVIDUAL ACKNOWLEDGMENT

STATE OF NEVADA } ss.
COUNTY OF ELKO }

On the 14 day of March, 1977, personally appeared before me Tony Sestanovich

and Lorraine Sestanovich, husband and wife
the signer of the above instrument, who duly acknowledged to me that they executed the same.

Notary Public
By Commission Expires: 1-12-80

Annette Felise
Notary Public

Elko Nevada 89801
Place of Residence

No. _____
OIL AND GAS LEASE
FROM _____
TO _____
State of _____ County _____

This instrument was filed for record on the _____ day of _____, 19____ at _____ o'clock, _____ M., and duly recorded in Book _____, Page _____ of the records of this office.

County Clerk - Register of Deeds
By _____ Deputy
When recorded return to _____

EXHIBIT "A"

Attached to and made a part of Oil and Gas Lease dated February 7, 1977 by and between Tony Sestanovich and Lorraine Sestanovich, husband and wife, and Filon Exploration Corporation, 1700 Broadway, Denver, Colorado, 80202

17. Lessee shall consult with Lessor in selecting all well locations and routes for access roads to such well locations on the leased premises, but Lessor will not prohibit the drilling of any wells in search for oil and gas, or the building of an access road to any well location on said leased premises.

18. Lessee shall not install living quarters or dwellings on the premises the subject of this lease, without the prior written consent of the Lessor.

19. In the event that Lessee abandons any well which will produce water, Lessor shall have the option to purchase as much casing in the well at its fair market price at the time as is necessary to maintain said well. If Lessor exercises this option, upon purchase of the casing he will thereafter hold Lessee harmless for any expense incurred in connection with the operation of the water well.

20. No forfeiture or termination of this lease by the Lessee shall be effective until such time as Lessee has executed and delivered to Lessor a release or quitclaim deed to the property the subject of this lease.

21. Lessee shall not conduct its operations pursuant to this lease in such a manner as to prevent or unreasonably disturb Lessor's irrigation, haying, cattle pasturing, or other ranching operations.

Signed for identification:

James K. Wollard
James K. Wollard, for Filon
Exploration Corporation

Tony Sestanovich
Tony Sestanovich

Lorraine Sestanovich
Lorraine Sestanovich

62773

RECORDED AT THE REQUEST OF Filon Exploration Corp.
on MARCH 14, 1977, at 25 mins. past 1 P.M. in
Book 58 of OFFICIAL RECORDS, page 376-378, RECORDS OF
EUREKA COUNTY, NEVADA. WILLIS A. DePAOLI Recorder
File No. 62773 Fee \$ 5.00

BOOK 58 PAGE 378-A