

67697

MINING LEASE

BY  
AND  
BETWEEN

HAROLD D. SORENSEN

AND

PETRO-SILVER, INC.

MINING LEASE

Table of Contents

<u>Section</u>		<u>Page</u>
1	LESSOR'S WARRANTIES . . . . .	1
2	GRANT . . . . .	2
3	TERM . . . . .	3
4	LEASE PURPOSES . . . . .	4
5	DEFINITIONS . . . . .	5
6A	ADVANCE ROYALTIES . . . . .	6
6B	PRODUCTION ROYALTIES . . . . .	7
6C	TIME AND MANNER OF PAYMENT . . . . .	7
7	TAXES . . . . .	9
8	WEIGHTS; ANALYSIS . . . . .	10
9A	ANNUAL REPORTS . . . . .	10
9B	QUARTERLY REPORTS . . . . .	11
9C	REPORTS ON TERMINATION . . . . .	11
9D	INSPECTION . . . . .	11
9E	AUDIT . . . . .	12
10	MANNER OF MINING . . . . .	12
11	CROSS-MINING . . . . .	12
12A	STOCKPILING ON OTHER LANDS . . . . .	13
12B	STOCKPILING ON THE CLAIMS . . . . .	14
12C	WASTE . . . . .	14
13	MIXING . . . . .	14
14	TREATMENT . . . . .	14
15	INSURANCE; INDEMNITY . . . . .	15
16	TERMINATION; REMOVAL OF PROPERTY . . . . .	16
17	ASSIGNMENT . . . . .	17
18	FORCE MAJEURE . . . . .	18
19	DISPUTES NOT TO INTERRUPT OPERATIONS . . . . .	18
20	MAJORITY INTEREST . . . . .	19
21	NOTICES . . . . .	20
22	CONSTRUCTION OF LEASE . . . . .	20
23	RECORDING . . . . .	21
24	ANNUAL ASSESSMENT WORK . . . . .	22

Table of Contents, Continued:

<u>Section</u>		<u>Page</u>
25	PARTIAL RELEASE OF LEASED PREMISES . . . . .	22
26	CHANGE OF OWNERSHIP. . . . .	22
27	COVENANT TO PERFORM. . . . .	23
28	INTEGRATION. . . . .	23
29	MULTIPLE COUNTERPARTS. . . . .	23

COPY

M I N I N G   L E A S E

THIS AGREEMENT is made and entered into as of the \_\_\_\_\_ day of November, 1978, by and between HAROLD D. SORENSEN, hereinafter called "Lessor", and PETRO-SILVER, INC., d/b/a ENERGY GENERATION CORPORATION, hereinafter called "Lessee", a Utah corporation, licensed and qualified to do business in the State of Colorado, with its principal office in the City and County of Denver, State of Colorado.

W I T N E S S E T H :

For and in consideration of the sum of One Dollar and other good and valuable consideration (\$1.00), paid by Lessee to Lessor, the receipt and sufficiency of which is hereby acknowledged, and in further consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

Section 1. LESSOR'S WARRANTIES.

Lessor represents and hereby warrants it is in full possession of and is the sole, legal and equitable owners of the entire interest except for the paramount title of the United States of America in and to any public domain upon which any unpatented mining claims are located pursuant to Lessor's recorded Mining Lease with Option to Purchase from Freeman E. Churchfield and Jane Churchfield, husband and wife, who filed the Certificate of Locations on the claims, as described below. Lessee agrees to examine both the claims on the ground and the records, and make its own determination as to the strength of the Lessor's title, and to perfect said title in the Lessors at Lessor's expense if they feel there is a deficiency, in and to the following described located mining claims, hereinafter called the "Claims", situated in Eureka County, Nevada:

CLAIMS	DATE RECORDED	BOOK	PAGE
Lucky Jack	September 14, 1978	66	73
"	"	66	74
"	"	66	75
"	"	66	76
"	"	66	77
"	"	66	78
"	"	66	79
"	"	66	80

Lessee agrees to locate additional claims at lessor's expense to cover the possible mineralized area and any such claims that are located within a three (3) mile area of the above mentioned claims shall be transferred into the names of the Lessors and shall become a part of this agreement and shall be bound by all the conditions of the agreement. Said claims shall be conveyed by a Mining Deed and at said time Lessee shall also deliver to Lessor the original filings of the claims certificates and maps. The above transfer shall be made within thirty (30) days of the staking of the claims and should the Lessee choose not to record the claims within the required Ninety (90) day period of location, lessee shall then have no legal claim to the claims not recorded and said claims will then not become a part of this agreement.

Together with any and all veins, lodes and mineral deposits now owned or hereafter acquired by Lessor extending from or into or contained in the above mining claims, all ores and minerals therein, whether now owned or hereafter acquired by Lessor; all right, title and interest of Lessor, now owned or hereafter acquired in and to the surface and subsurface thereof, all water, water rights, ditch rights, easements, and rights of way now or hereafter owned or held by Lessor in, upon or under the Claims, or in any way pertaining thereto, and all the tenements, hereditaments, and appurtenances thereof.

SECTION 2. GRANT:

Lessor hereby grants, leases and demises the Claims unto the Lessee, its successors and assigns, for the term and for the purposes hereinafter provided, including, but not limited to, the surface and subsurface thereof, all ores and minerals and mineral rights, and all water and water rights in, upon and under the Claims, all interests of the Lessor in all easements, licenses and rights of way heretofore reserved or granted in, upon or pertaining to the Claims, and all right, title and interest which may be acquired by or for Lessor, or any of them, in or pertaining to the Claims or any part thereof, during the term of this Agreement, and

warrants peaceable possession and enjoyment of the Claims pursuant to the warranties contained in Section 1 of this Agreement.

SECTION 3. TERM:

This Lease is granted for an initial term of ten (10) years from and after the date hereof, unless sooner extended or terminated in the manner provided in this Agreement. At any time within one year prior to the expiration date of such initial ten-year term, Lessee shall have the right, in its sole discretion, to renew such ten (10) year term; however, for each year during said renewed ten year term, Lessee shall pay to Lessor, as advanced royalty, double the sum specified under Section 6. ROYALTIES: Paragraph A. Advance Royalties. This provision of double royalties applies only to those advance royalties specified in paragraph A under Section 6, and only to those pertaining to the above-described renewed ten (10) year initial term. Lessee shall have the right, at its election, to renew this Lease for nine (9) separate additional terms of ten (10) years each, from and after the date of expiration of the renewed ten-year initial term. Each renewal term of ten years may be made upon the expiration of any previous term, or may be made in total for the remaining number of renewable terms. All renewal terms of ten years shall be made upon the same terms and conditions as are in effect during the ten (10) initial term. This lease shall be deemed automatically renewed without further notice at the end of each term unless Lessee gives Lessor notice in writing, terminating the lease at least three (3) months prior to the date on which the initial term, or any additional term or terms, expire. No renewal ten-year term shall be permitted to be elected unless there has been established a producing mine in the area, and production royalties are to be paid to Lessor by the first quarter of the first year of the first such ten-year renewal period.

BOOK 68 PAGE 597

SECTION 4. LEASE PURPOSES:

The purposes of this Lease are to grant to Lessee, its successors and assigns, the exclusive right to enter into and upon the Claims and each and every part thereof, so long as this Lease remains in effect, and to explore for, develop, mine, remove, leach in place, treat, produce, ship and sell, for its own account, all ores and minerals which are or may be found therein or thereon.

Lessee is hereby granted the right to make any use of uses of the Claims consistent with the foregoing purposes, including, but not limited to, the full right, authority and privilege of placing and using therein excavations, openings, shafts, ditches and drains, and of constructing, erecting, maintaining, using and, at its election, removing any and all buildings, structures, plants, machinery, equipment, railroads, roadways, pipelines, electrical power lines and facilities, stockpiles, waste piles, tailing ponds and facilities, settling ponds, and all other improvements, property and fixtures as may be necessary, convenient or suitable for mining, removing, beneficiating, concentrating, smelting, extracting, leaching, refining and shipping of ores, minerals or products thereof, or for any activities incidental thereto, or to any of the rights or privileges of the Lessee hereunder.

Lessee is further granted the right, insofar as Lessor lawfully may grant the right, to divert streams, to remove lateral and subjacent supports, to cave, subside or destroy the surface or any part thereof, to deposit earth, rocks, waste, lean ore and materials on any parts of the Claims where it will not interfere with mining, to leach the same, and to commit waste to the extent necessary, usual or customary in carrying out any or all of the above rights, privileges and purposes; it is provided, however, that if any of Lessee's operations hereunder result in damage to Lessor's buildings, personal property or growing crops

existing on the Claims on the date this Lease is executed, Lessee shall reimburse Lessors for the reasonable value of the same.

Lessee shall explore, conduct geological and geo-physical investigations, map, drill, or otherwise seek, in the manner and to the extent that Lessee, in its sole discretion, deems advisable, to locate and develop ores, minerals, and metals in commercial quantities in and upon the Claims.

SECTION 5. DEFINITIONS:

The following defined terms, wherever used in this Agreement, shall have the meaning set forth below:

- (a) "Lessor" shall mean all persons, individually and collectively, having an interest in the Claims and executing this Agreement, or a counterpart hereof, other than Lessee.
- (b) "Ore" shall mean material from the Claims, the nature and composition of which, in the sole judgment of Lessee, justifies either (1) mining or removing from place during the term of this Lease, and shipping and selling the same, or delivering the same to a processing plant for physical or chemical treatment, or (2) leaching in place during the term of this Lease.
- (c) "Waste" shall mean earth, rock or material mined or removed from place in the Claims during the term of this Lease, but which is not "Ore" as defined above.
- (d) "Product" shall mean the following:
  - (1) All ore mined or removed from place in the Claims during the term hereof and shipped and sold by Lessee prior to treatment; and (2)
  - All concentrates, precipitates, and mill pro-



ducts produced by or for Lessee from Ore mined or removed from place in the Claims, or from Ore leached in place in the Claims, during the term of this Lease.

(e) "Net Smelter Returns" shall mean the net proceeds received or to be received by Lessee for Product sold by Lessee to a bona fide purchaser, after deduction for all of the following:

(1) Custom smelting costs, treatment charges and penalties, including, but without being limited to, metal losses, penalties for impurities, and charges for refining, selling, and transportation from smelter to refinery and from refinery to market.

(2) Costs of transporting Product from the Claims to a concentrator or other place of Treatment.

(3) Costs of transporting Product from the concentrator to a smelter or other place of treatment.

(4) Production taxes, severance taxes, and sales, privilege and other taxes levied on Product or on the production thereof.

Net Smelter Returns for Product treated at a smelter owned, operated or controlled by Lessee or treated on a toll basis for Lessee, shall be computed in the above manner, with deductions for all charges and items of cost equivalent to the deductions set forth above.

#### SECTION 6. ROYALTIES:

##### A. Advance Royalties:

Contemporaneous with exercising its Lease Option under Section 4 of this Agreement, Lessee shall pay to Lessors, as

an advance royalty for Product produced or to be produced from the Claims, the sum of Five Thousand Dollars (\$5,000) at the time of the signing of this agreement and the sum of One Thousand Dollars (\$1,000.00) on or before the 1st day of October each year thereafter to exercise the Lease Option during the term of this agreement or any extension thereof.

Each sum of advance royalty, paid as above, shall be applied, as far as it will go, in satisfaction of production royalties payable as provided below in Section 6B for Product produced from the Claims and sold during the year for which such advance royalty is paid. If the sum paid as advance royalty for any year or years exceeds the amount of production royalty payable for such year or years, Lessee shall have the right to apply the excess as a credit or set-off, at the production royalty rate set forth below, against production royalty payable for any subsequent year or years while this Lease remains in effect, until by such application, the advance royalty paid by Lessee has been exhausted.

B. Production Royalties:

Lessee shall pay to Lessor a production royalty of Two (2%) percent Net Smelter Returns for all Product, as defined above, shipped from the Claims during the term hereof and sold by or for Lessee, with the exception of the product or mineral called BARITE ( $\text{BaSO}_4$ ) and said production royalty shall be the sum of Four and 50/100 Dollars (\$4.50) per ton of 4.22 Specific Gravity Barite, shipped, sold and delivered from the property. This shall be the total royalty expense of the Lessee. Lessor shall be responsible for all taxes on said royalty and for Lessor's share of severance tax, or any other such tax on mineral that may occur in the future. Advance production royalties in the amount of Thirty Thousand Dollars (\$30,000) shall be paid to Lessor as soon as Lessor produces evidence, satisfactory to Lessee, of merchantable title to the Claims.

C. Time and Manner of Payment:

Advance royalty shall be paid at the time set forth

above. Production royalty shall be paid not later than the expiration of the second (2nd) month in the calendar quarter after the calendar quarter in which the Product is sold or shipped to a smelter or mill for treatment, or within sixty (60) days after Lessee has received a settlement sheet for the last of the Product sold or shipped to a smelter or mill for treatment or shipped to a purchaser in said calendar quarter, whichever is later. At the time of making each such payment, Lessee shall deliver to Lessor a statement showing the amount of such royalty. Should the product of Barite be shipped to another site for mixing or milling, there shall be no freight deduction before royalty is figured and again Lessor shall be provided a statement showing the amount of such royalty and the manner in which it was determined and shall submit to Lessor data reasonably necessary to enable Lessor to verify the determination.

The advance royalty and production royalty to be paid by Lessee hereunder is based upon the interest in and title to all of the Claims as described in Section 1 above and shall be divided among Lessors, and by lessors, as their several interests may appear. If Lessor owns less than the interest in all of the Claims described in Section 1, all payments to be made by Lessee to Lessor hereunder shall be reduced to the same proportion thereof as the interest of Lessor in the Claims bears to the entire Claims.

All payments to be made by Lessee to Lessor hereunder may be made by Lessee's check or draft mailed or delivered to Lessor at Lessor's address for notice purposes, as set forth below, made payable to Harold D. Sorensen, or for the account of Lessor at such bank or banks, or elsewhere, in one of the United States, as Lessor may designate from time to time by written notice to Lessee. Such bank or banks shall be deemed an agent of Lessor for the purpose of receiving, collecting and receipting for such payments. Lessee shall not assume and is not charged with any responsibility as to the division of any payments made hereunder

among the Lessors, and if Lessee makes a payment of payments in accordance with the provisions of this Section, it shall be conclusively deemed that such payment or payments have been received by Lessor.

Section 7. Taxes:

Lessee shall pay promptly before delinquency all taxes and assessments, general, special, ordinary and extra-ordinary, that may be levied or assessed during the term of this Lease upon the Claims then remaining subject to this Lease, and upon all Ore and product therefrom. Severance taxes, if any, shall be pro-rated between Lessor and Lessee on the ratio that the full assessed cost per ton to Lessee of such tax bears to Lessor's basis of Four and 50/100 Dollars (\$4.50) per ton. All such taxes for the year in which this Lease is executed and for the year in which this Lease terminates shall be pro-rated between Lessor and Lessee. Lessee always shall have the right to contest, in the courts or otherwise, in its own name or in the name of Lessor, the validity or amount of any such taxes or assessments, if it deems the same unlawful, unjust, unequal or excessive, or to take such other steps or proceedings as it may deem necessary to secure a cancellation, reduction, readjustment or equalization thereof, before it shall be required to pay the same. Lessee shall not permit or suffer the Claims or any part thereof to be conveyed, or title lost to Lessor, as the result of non-payment of such taxes or assessments. Lessee shall upon request furnish to Lessor duplicate receipts for all such taxes and assessments when paid.

Lessee shall not be liable for any taxes levied on or measured by income, or taxes applicable to Lessor, based upon royalties or payments under this Lease.

Nothing in the foregoing shall be construed to obligate Lessee to pay such portion of any tax as is based upon the value of improvements, structures or personal property made, placed or used on any part or parts of the Claims by or for Lessor or by an owner or lessee of surface rights

other than Lessee. If Lessor receives tax bills or claims which are the responsibility of Lessee hereunder, the same shall be promptly forwarded to Lessee for appropriate action.

Section 8. WEIGHTS; ANALYSIS:

Lessee shall measure Ore, weigh other Product, and take and analyze samples thereof in accordance with sound mining and metallurgical practice, and shall keep accurate records thereof as a basis for computing royalty payments. These records shall be available for inspection by Lessor at all reasonable times, subject to the following Section 9.

Section 9. REPORTS; INSPECTION:

A. Annual Reports:

Lessee shall deliver, each year during the term hereof, to Lessor, upon its request of the same, copies of such maps, cross sections, and other engineering data concerning the quality and location of Ore and material mined from the Claims as Lessee customarily prepares or obtains for its own records, which information shall not require preparation of special records or reports by Lessee. This information shall be furnished, if requested, on or before the first day of May in each year during the term hereof, and the data contained therein shall be stated as it existed at the close of the preceding calendar year.

Lessee shall not be required to disclose its own current estimates and calculations of the grade and tonnage of Ore reserves.

If Lessor or its agents or representatives discloses to a third party, without written authorization from Lessee, information furnished by Lessee in its reports to Lessor, or obtained by Lessor through inspection or audit, Lessee thereafter may withhold any information it deems confidential.

B. Quarterly Reports:

On or before the first day of each January, April, July and October during the term hereof, Lessee shall deliver to Lessor detailed statements for the preceding calendar quarter, showing separately the respective quantity and average analysis of Product produced from the Claims during such quarter, if requested by Lessor.

Lessee shall deliver to Lessor the quarterly statements required under Section 7 above, showing calculation of royalty.

C. Reports on Termination:

Upon termination of this Lease, Lessee shall deliver to Lessor a report of all exploration conducted by Lessee on or in that part of the Claims as to which this Lease is being terminated. This report shall show the location of all such exploration work, the results thereof, the character of any Ore encountered, and Lessee's analysis of such Ore; it is provided, however, that in its above reports upon termination, Lessee shall not be required to disclose information concerning, or which might tend to reveal, processed, techniques or equipment developed by or for Lessee, or with which it may be experimenting, or any processed, techniques or equipment which it is under obligation to any other person or company not to reveal.

D. Inspection:

Lessor and its authorized agents, at Lessor's risk and expense, at all reasonable times, may enter upon the Claims to inspect the same and to measure the quantity and quality of Ore mined therefrom or remaining therein, provided that Lessor shall not unreasonably or unnecessarily hinder or interrupt Lessee's operations. Lessor shall indemnify and save harmless Lessee, its successors and assigns, from and against all liability, claims and causes of action for injury to or death of persons, or damage to property, including, without limitation, the person or property of Lessor and its

agents, and third parties, in any manner resulting wholly or in part from the exercise of the foregoing rights by Lessor or its authorized agent.

E. Audit:

Lessor or its authorized agents shall have the right to audit and inspect Lessee's accounts and records used in calculating production royalty paid to Lessor hereunder, which right may be exercised, as to each quarterly payment of production royalty, at any reasonable time during a period of one (1) year from and after the date on which the quarterly payment of production royalty was paid by Lessee.

Section 10. MANNER OF MINING:

All of Lessee's operations hereunder shall be conducted in a careful and workmanlike manner, in accordance with accepted practices of the mineral industry, without committing any unusual permanent waste or injury to any mine in the Claims, or interference with the subsequent operation thereof, if not reasonably necessary in Lessee's operations.

Lessee shall have no obligation, express or implied, to open or develop any mine or mines in the Claims. Whenever Lessee deems it necessary or advisable, Lessee may discontinue or resume exploration, development, mining and production operations from time to time during the term hereof, so long as it meets its obligations hereunder to pay taxes and advance royalty and to perform assessment work on any unpatented Claims.

Nothing herein shall require Lessee to develop a separate shaft or shafts in the Claims, or prevent Lessee from exercising the cross-mining rights hereinafter provided.

Section 11. CROSS-MINING:

For the purpose of enabling Lessee to conduct, with greater economy and convenience, the mining and removing of Ore from the Claims, Lessee is hereby granted the right, if it



so desire, to mine and remove Ore, Product and materials from the Claims through or by means of shafts, openings or pits which may be made in or upon adjoining or nearby property owned or controlled by Lessee.

Lessee may, if it so desires, use the Claims and any shafts, openings and pits therein for the mining, removal, treatment and transportation of ores and materials from adjoining or nearby property, or for any purpose connected therewith.

For the purpose of enabling Lessee to conduct, to the best advantage of the parties hereto, and with greater economy and convenience, the mining, removal, handling and disposition of Ore and Product from the Claims and from other lands in which Lessee or its affiliated companies may be conducting mining operations, the operations of Lessee and the said operations on other lands may be conducted upon the Claims and upon any and all such other lands as a single mining operation, to the same extent as if all such properties constituted a single tract of land. Nothing herein shall relieve Lessee from its obligations for payments or reports as set forth in this Agreement.

Section 12. STOCKPILING; WASTE:

A. Stockpiling on Other Lands:

Lessee shall have the right, at any time during the term hereof, to stockpile any Ore or Product, mined or produced from the Claims at such place or places as Lessee may elect, either upon the Claims or upon any other lands owned or controlled by Lessee, its successors or assigns. The rights and liens of the Lessor in and to any such Ore or Product stockpiles on other lands shall not be divested by the removal thereof from the Claims but shall be the same in all respects as though such materials had been stockpiled on the Claims. If such other lands are not owned by Lessee, Lessee shall obtain from the owners thereof a properly executed instrument under which the owners of said other lands agree to recognize the interests and liens of Lessor on Ore



and Product stockpiled on said other lands.

The stockpiling of Ore or Product from the Claims on other lands shall not be deemed a removal or shipment thereof requiring payment of royalty thereon.

The tax covenants set forth in this Agreement shall apply to Ore and Product from the Claims stockpiled on other lands.

B. Stockpiling on the Claims:

Lessee shall have the right, at any time during the term hereof, to stockpile on the Claims any Ore or materials mined or produced by Lessee or its affiliated companies from other lands. Lessor agrees to recognize the rights and interests of others in such Ores and materials stockpiled on the Claims and to permit the removal thereof by Lessee at any time during the term of this Lease, or by the owners thereof, for a reasonable time after termination of this Lease, all without liability or expense to Lessor.

All stockpiles on the Claims shall be so placed as not to interfere with mining operations on the Claims.

C. Waste:

Waste, overburden, surface stripping and other materials from the Claims may be deposited on or off the Claims. Such materials from other lands may be deposited on the Claims only if the same will not interfere with mining operations on the Claims. Nothing in this paragraph shall limit the above provisions in Subsections A and B concerning stockpiling Ore and Product on or off the Claims.

Section 13. MIXING:

After Ore and Product from the Claims have been sampled, where necessary, and weighed, or measured by volumetric survey, truck factors, or other industry practices, in such manner as will permit the computation of royalty to be paid hereunder, Lessee may mix the same with Ores, materials or products from other lands.

Section 14. TREATMENT:

Lessee shall have the right, but shall not be required

to beneficiate, concentrate, smelt, refine, leach, and otherwise treat, in any manner, any Ore, Product, and materials mined or produced from the Claims and from other lands. Such treatment may be conducted wholly or in part at a Plant or plants established or maintained on the Claims or on other lands. Such treatment shall be conducted in a careful and workmanlike manner. The tailings and residue from such treatment shall be deemed waste and may be deposited on the Claims or on other lands. Lessor shall have no right, title or interest in said tailings or residue; it is provided, however, that any said tailings or residue remaining on the Claims for a period of one (1) year after the date on which this Lease has expired, or has been terminated by Lessee as to all of the Claims, shall be deemed abandoned by Lessee and thereupon shall become the property of Lessor.

Section 15. INSURANCE; INDEMNITY:

Prior to commencement of operations hereunder, Lessee shall obtain all Workmen's Compensation Insurance, liability insurance, and policies of insurance against fire and other risks for which insurance is customarily obtained in similar mining operations. All such insurance shall be maintained by Lessee at its own expense throughout the duration of this Lease, and whenever Lessor reasonably so requests, Lessee shall furnish to Lessor evidence that such insurance is being maintained.

Lessee covenants and agrees to indemnify and save harmless Lessor from and against any and all liability, claims, and causes of action for injury to or death of persons, and damage to or loss or destruction of property resulting from its use or occupancy of the Claims or its operations hereunder, excepting, however, any liability, claims or causes of action resulting from, or attributable wholly or in part to the exercise of rights reserved hereunder to Lessor, its agents, or those claiming under it, on or about the Claims, it being the intent of this Agreement that Lessee shall have no additional risk of liability by reason of the exercise of such reserved rights.

BOOK 68 PAGE 609

Section 16. TERMINATION; REMOVAL OF PROPERTY:

A. Termination by Lessor:

In the event of any default by Lessee in the performance of its obligations hereunder, Lessor shall give to Lessee written notice specifying the default. If the default is not cured within One Hundred Eighty (180) days after Lessee has received the notice, or if Lessee has not within that time begun action to cure the default and does not thereafter diligently prosecute such action to completion, Lessor may terminate this Agreement by delivering to Lessee written notice of such termination, subject to Lessee's right to remove its property and equipment from the Claims and hereinafter provided. Lessor shall have no right to terminate this Agreement except as set forth in this paragraph.

B. Termination by Lessee:

Lessee shall have the right to terminate this Agreement at any time upon thirty (30) days' written notice delivered to Lessor. Upon such termination, all right, title and interest of Lessee under this Agreement shall terminate, subject to the following paragraph C, and Lessee shall not be required to make any further payments or to perform any further obligations hereunder concerning the Claims, except payments or obligations which have then accrued hereunder pursuant to the express provisions of this Agreement and which have not been paid or performed.

C. Removal of Property:

Upon any termination of this agreement, whether by expiration of the term hereof or by act of either party, Lessee shall have a period of one (1) year from and after the effective date of termination in which to remove from the Claims all of its machinery, buildings, structures, facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports placed in shafts, drifts, or openings in the Claims. Any property of Lessee not so removed at the end of said one (1) year period shall become the property of Lessor. In the event of force majeure, as hereinafter set forth, the terms and conditions of this paragraph shall be appropriately extended.

BOOK 68 PAGE 610

Section 17. ASSIGNMENT:

A. By Lessor:

If, at any time during the term hereof, Lessor intends to sell, assign, transfer or convey the Claims, or any part thereof, Lessor shall deliver to Lessee at least thirty (30) days' prior written notice, describing all of the terms of the proposed sale, assignment transfer or conveyance. Lessee shall have the exclusive right, during the above thirty (30) day period, at its election, to purchase the Claims described in said notice, for a sum of money equal in value to the consideration which would be received by Lessor under the terms set forth in the written notice. If Lessee elects to purchase the Claims described in the notice, Lessee shall so notify Lessor within the thirty (30) day period. If Lessee has not notified Lessor of its above election within the thirty (30) day period, Lessor shall have the right, for an additional thirty (30) day period from and after the expiration of the above notice period, to sell, assign, transfer or convey its interest in the Claims as described in said notice, upon the terms and conditions set forth in said notice, but all subject, however, to this Lease, and all rights of Lessee, its successors and assigns, hereunder, in and to the Claims. Upon expiration of the above second thirty (30) day period, any subsequent sale, assignment, transfer or conveyance of Lessor's interest in the Claims or any part thereof, shall be subject to the Lessee's foregoing right of first refusal, all upon the terms and conditions set forth above.

B. By Lessee:

Lessee shall have the right at any time to assign its rights hereunder, to contract with others to mine and to treat Ore, Product and materials from the Claims, and to sublet the same for all purposes of this Lease, with the same rights and privileges as are granted herein to Lessee; it is provided, however, that any such assignment, contract or sublease shall not operate as a release or discharge of Lessee from the performance of its obligations hereunder until and unless Lessor has consented thereto in writing.

C. Binding Effect:

All of the covenants, conditions and provisions of this Lease, including the obligation to pay royalty as required hereunder, shall run with the land and shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

Section 18. FORCE MAJEURE:

Lessee shall not be liable for failure to perform any of its obligations hereunder during periods in which performance is prevented by any cause reasonably beyond Lessee's control, which causes hereinafter are called "force majeure." For purposes of this Agreement, the term "force Majeure" shall include, but shall not be limited to, fires, floods, wind-storms, and other damage from the elements, strikes, riots, unavailability of transportation or necessary equipment, action or government authority, litigation, acts of God and acts of the public enemy. The duration of this Lease shall be extended for a period equal to the period for which performance is suspended by reason of force majeure. All periods of force majeure shall be deemed to begin at the time Lessee stops performance hereunder by reason of force majeure. Lessee shall notify Lessor of the beginning and ending date of each such period.

Section 19. DISPUTES NOT TO INTERRUPT OPERATIONS:

Subject to the above right of Lessor to terminate this Agreement, disputes or differences between the parties hereto shall not interrupt performance of this Agreement or the continuation of operations hereunder. In the event of any dispute or difference, operations may be continued, and settlements and payments may be made hereunder in the same manner as prior to such dispute or difference, until the matters in dispute have been finally determined between the parties, and thereupon such payments or restitutions shall be made as may be required under the terms of the settlement or final determination of the dispute.

Section 20. MAJORITY IN INTEREST:

Except for the right of the owner of an undivided interest in the Claims to maintain an action for the recovery of his proportionate share of payments to be made hereunder, the rights of Lessors, including the right of termination for default, may be exercised only by joint action of the owner or owners of more than one-half ( $\frac{1}{2}$ ) of the entire Lessors' interest in the Claims. Any act of Lessors authorized or required herein in the nature of approval, consent, demand or notice may be performed only by those owning such majority interest.

The owners of such majority interests may agree with Lessee upon modification, amendment or interpretation of this Agreement but shall not impose any affirmative duty or obligation upon any Lessor not consenting thereto. Any consideration or beneficial interest accruing to any Lessor by reason of such modifications, amendments, interpretations or agreements shall be received in trust for, and inure to the benefit of, all holders of undivided interests as Lessors under this Agreement.

The power or agency of the majority in interest of Lessors, as created hereby, shall be irrevocable so long as this Agreement remains in effect, and Lessee shall have the right at all times to rely upon the acts of the majority authorized hereby; it is provided, however, that the holders of the majority in interest shall not have any of the rights and powers granted hereby if, to make up such majority, it is necessary to include any right or interest held by Lessee.

Subject to the foregoing, each Lessor agrees to be bound by any such amendment or modification made hereunder and hereby designates the other Lessors constituting such majority in interest as his attorneys in fact to make and execute such amendments and modifications in his name.

Each Lessor severally agrees that for the purpose of determining the majority interest among them in the Claims, each Lessor shall be deemed to have a One Hundred (100) interest in the Claims.

Section 21. NOTICES:

Any notice required or permitted to be given hereunder shall be conclusively deemed properly given and received upon delivering the same to the party to be notified, or upon mailing the notice, by registered or certified mail, return receipt requested, to the party to be notified, at the address hereinafter set forth, respectively, or such other address within the United States of America as the party to be notified may have designated prior thereto by written notice to the other.

LESSOR:

HAROLD D. SORENSEN

P. O. Box 2

Crescent Valley, Nevada 89821

LESSEE:

PETRO-SILVER, INC.  
3333 Quebec Street, Suite 10F  
Denver, Colorado 80207

Routine or regular reports and statements hereunder may be sent by regular mail addressed as above. If, after the proper mailing thereof, any of such reports and statements are not received when due, the addressee will notify Lessee in accordance with the above provisions for notice, and Lessee shall have a reasonable time to secure the delivery of the statement or report or a duplicate thereof without being in default hereunder.

Section 23. CONSTRUCTION OF LEASE:

This Lease, and the rights and obligations of the parties hereunder, shall be governed by the laws of the state in which the claims are located.

Section headings in this Agreement are for convenience only and shall not be considered a part of this Agreement or used in its interpretation.

Should any section or provision of this Agreement be declared void or unenforceable, such declaration shall affect only that portion of the Lease so held void and unenforceable, and insofar as possible, all other sections, terms, covenants and conditions of the Lease shall remain in full force and



effect, and the Lease shall be deemed to be amended to conform with any such declarations.

Section 23. RECORDING:

If requested by Lessee, the parties hereto shall execute a memorandum or short recording counterpart of this Lease, which counterpart shall be in a form sufficient to constitute notice of this Lease to third parties under the law of the state in which the Claims are located, but which counterpart shall not contain the amounts or rates of royalty hereunder, or other terms of this Lease which Lessee may elect not to disclose of record. The execution and recording of the above recording counterpart shall not limit, decrease or increase, or in any manner affect, any of the terms of this Lease, or any rights, interests or obligations of the parties hereto.

Section 24. ANNUAL ASSESSMENT WORK:

Lessee shall perform all annual assessment work required by law to hold the unpatented Claims for each assessment year, as defined by statute, within the period beginning upon the date hereof and ending upon the date on which this Lease expires or terminates for any reason; it is provided, however, that if this Lease expires or is terminated on or before the first day of June in any such assessment year, Lessee shall have no obligation to perform assessment work for such assessment year or thereafter.

If this Lease expires or is terminated after the first day of June in any assessment year, Lessee shall have the right to enter onto the unpatented Claims at any time or times during the remainder of said assessment year to perform or complete the above required assessment work for said assessment year, without payment or other obligation to Lessor or others.

Lessee shall prepare and record, for and on behalf of Lessor, an affidavit of labor and improvements during each assessment year for which Lessee performs the above assessment



work, which affidavit shall be prepared and recorded as required by the statutes of the state in which the unpatented Claims are located, also recorded per Federal Statutes. The assessment work to be performed by Lessee hereunder may consist of, but is not limited to, excavation, road building, drill site preparation, drilling, trenching, pitting, geological or other surveys, or other work selected by Lessee in its sole discretion, provided that the work so performed is of a type customarily accepted as assessment work and is of the value of at least the amount to fulfill the requirements of the law.

Section 29. PARTIAL RELEASE OF LEASED PREMISES:

Lessee may at any time while this Lease is in full force and effect, execute and deliver to Lessor or place of record a release of all or any part of the Claims (in groups of claims or otherwise), from the interests of Lessee hereunder; and thereupon, all provisions hereof shall terminate as to the part of the Claims described in such release.

Section 26. CHANGE OF OWNERSHIP:

No change of ownership of the Leased Premises, as permitted herein, shall be binding upon Lessee except at Lessee's option in any particular case, whether Lessee has actual or constructive knowledge of such change of ownership, until thirty (30) days after Lessee shall have been furnished by certified or registered United States mail at Lessee's office address as set out herein with a certified copy of the recorded instrument or instruments satisfactory in the opinion of Lessee to evidence such change of ownership and to establish the right, title or interest of the claiming party and the extent thereof. Irrespective of any such ownership change, all payments which Lessee may make hereunder shall be made in accordance with the terms of Sections 3 and 4 hereof, and no change of ownership shall entitle any person to receive payments in any manner different from that provided for in

said paragraphs or shall require Lessee to separately sample, assay or mill Ore derived from any portion of the Leased Premises.

Section 27. COVENANT TO PERFORM:

Lessor's warranties under Section 1, above, are based on the Mining Lease between Freeman E. Churchfield and Jane Churchfield, husband and wife, and Harold D. Sorensen, Lessor herein. Lessee agrees to meet the Minimum Work Requirements in the Churchfield Lease and, in addition, to perform all covenants and requirements of Lessee under this Lease so as to cause no default by Lessor in the Churchfield Lease. Lessee has examined Lessor's other duties and covenants under the Churchfield Lease and agrees to perform all work and duties hereunder so as to meet Lessor's obligations under the Churchfield Lease.

Section 28. INTEGRATION:

This document embodies the entire understanding of the parties, and there are no terms or conditions, express or implied, other than those herein set forth. No amendment of this Lease shall be effective, unless in writing, and executed by the parties with the same formality as this document.

Section 29. MULTIPLE COUNTERPARTS:

This document may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Lease on the day and year first above written.

LESSEE: Petro-Silver, Inc.

By R. W. Hofer  
Ronald W. Hofer, President

LESSOR:

Harold D. Sorensen  
Harold D. Sorensen

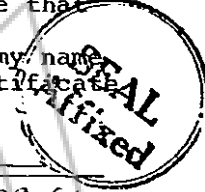
BOOK 68 PAGE 617

STATE OF Colorado )  
City & COUNTY OF Denver ) ss.

On this 22nd day of November, 1978, before me,  
M. Elaine Martin, A Notary Public for the  
State of Colorado, personally appeared Ronald W. Hofer, Pres.,  
of Petro-Silver, Inc., known to me to be the person whose name is  
subscribed to the within instrument and acknowledged to me that  
he executed the same.

IN WITNESS WHEREOF, I have hereunto subscribed my name  
and affixed my Notarial Seal the day and year in this certificate  
first above written.

M. Elaine Martin  
My commission expires: 8-29-81



STATE OF Colorado )  
City & COUNTY OF Denver ) ss.

On this 22nd day of November, 1978, before me,  
M. Elaine Martin, a Notary Public for the State  
of Colorado, personally appeared Harold D. Sorensen  
known to me to be the person whose name is subscribed to  
the within instrument and acknowledged to me that he executed  
the same.

IN WITNESS WHEREOF, I have hereunto subscribed my  
name and affixed my Notarial Seal the day and year in this cer-  
tificate first above written.

M. Elaine Martin  
My commission expires: 8-29-81



67697

RECORDED AT THE REQUEST OF C. E. Horton  
on February 9, 19 79 at 06 mins. past 10 A. M. in  
Book 68 of OFFICIAL RECORDS, page 592-618, RECORDS OF  
EUREKA COUNTY, NEVADA. WILLIS A. DePAOLI Recorder  
File No. 67697 Fee \$ 29.00

BOOK 68 PAGE 618