

## OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (lessee) offers to lease all or any of the lands in area 2 that are available for lease pursuant to the Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Order of April 2, 1941 (40 OP. Atty. Gen. 41), or the

Read Instructions Before Completing

1. Name Hobie Inc.

Street 1580 Lincoln Street, No. 1200

City, State, Zip Code Denver, Colorado 80203

 PUBLIC DOMAIN LANDS ACQUIRED LANDS (Percent U.S. interest \_\_\_\_\_)

2. This offer/lease is for: (Check Only One)

Surface managing agency if other than BLM:

User/Pt year

Legal description of land requested:

T 28 N., R. 52 E., Meridian Mt. Diablo State Nevada County Eureka

sec. 4, Lots 1, 2, 3, 4, S<sub>1</sub>NE<sub>1</sub>, S<sub>2</sub>E<sub>1</sub> (A11);  
 sec. 6, Lots 1 thru 7, S<sub>2</sub>NE<sub>1</sub>, SE<sub>1</sub>NE<sub>1</sub>, E<sub>1</sub>SW<sub>1</sub>, SE<sub>1</sub>S<sub>2</sub> (A11);  
 sec. 8, NE<sub>1</sub>, N<sub>2</sub>SE<sub>1</sub>;  
 sec. 9, N<sub>2</sub>S<sub>2</sub>;  
 sec. 10, N<sub>2</sub>NW<sub>1</sub>, NW<sub>1</sub>SW<sub>1</sub>, SW<sub>1</sub>NW<sub>1</sub>, SE<sub>1</sub>SW<sub>1</sub>;  
 sec. 15, NW<sub>1</sub>NE<sub>1</sub>, SW<sub>1</sub>NNW<sub>1</sub>, S<sub>2</sub>;  
 sec. 16, NE<sub>1</sub>, N<sub>2</sub>SE<sub>1</sub>, SE<sub>1</sub>SE<sub>1</sub>;  
 sec. 17, W<sub>1</sub>SW<sub>1</sub>, SE<sub>1</sub>SW<sub>1</sub>;  
 sec. 20, W<sub>1</sub>, SE<sub>1</sub>, W<sub>1</sub>NE<sub>1</sub>, SE<sub>1</sub>NE<sub>1</sub>;  
 sec. 21, NE<sub>1</sub>NE<sub>1</sub>, SW<sub>1</sub>, S<sub>2</sub>SE<sub>1</sub>;  
 sec. 22, N<sub>2</sub>, S<sub>2</sub>SW<sub>1</sub>; 75.00

sec. 27, A11;  
 sec. 28, A11;  
 sec. 29, A11;  
 sec. 32, A11;  
 sec. 33, A11;  
 sec. 34, W<sub>1</sub>.

Total acres applied for 7505.54  
Total \$ 7581.00

Amount retained: Filing fee \$

Retain fee \$ 7506.00

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T.

R.

Meridian

State

County

SAME AS ITEM 2

NOT IN A KNOWN GEOLOGIC  
STRUCTURE

7505.54  
Total acres in lease  
Retain retained \$ 7506.00

In accordance with the above offer, or the previously submitted relinquishments of oil and gas lease application or cooperative bid, this lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in area 2 together with the right to build and maintain necessary improvements thereon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and forest orders as effectives at lease issuance, and to regulations and forest orders hereinafter promulgated which are inconsistent with lease rights granted or specific provisions of this lease.

Type and primary term of lease:

- Simultaneous noncooperative lease (ten years)
- Regular noncooperative lease (ten years)
- Cooperative lease (five years)
- Other \_\_\_\_\_

Formerly 3110-1, 2, 3, 3120-1, 7, 3130-4, 5, and 71

668621

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EFFECTIVE DATE OF LEASE

MAR 01 1986

Acting Chief, Branch of Lands &amp; Minerals Operations

FEB 13 1986

(Signature)

4. (a) Undersigned certifies that (1) offeror is a citizen of the United States; an association of such citizens; a municipality; (2) a corporation organized under the laws of the United States or of any State or Territory thereof; (2) all persons holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities; (3) offeror's assignable interests, direct and indirect, in either public domain or acquired lands do not exceed 200,000 acres to oil and gas options or 245,000 acres in options and leases in the same State, or 300,000 acres in leases and 200,000 acres in options in either leasing District in Alaska; and (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located.

(b) Undersigned agrees that signature to this offer constitutes acceptance of this lease, including all terms, conditions, and stipulations, of which offeror has been given notice, and any amendment or separate lease that may include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from this lease. The offeror further agrees that the offer cannot be withdrawn, either in whole or part, unless the withdrawal is received by the BLM State Office before this lease, its amendment to this lease, or a separate lease, whichever covers the land described in the withdrawal, has been signed on behalf of the United States.

This offer will be rejected and will afford offeror no priority if it is not properly completed and accepted in accordance with the regulations, or if it is not accompanied by the required payments. 19 U.S.C. Sec. 1001 makes it a crime for any person knowingly and wilfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

HOBE, INC.

By: *E.B.O'Hara*  
E.B.O'Hara, President

Officer of Lessee or Attorney-in-fact

Duly executed this 31st day of January, 1986.

ATTEST:

*Paul Stav*  
Assistant Secretary

LEASE TERMS

Sec. 1. Rentals—Rentals shall be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

- (a) Simultaneous noncompetitive lease, \$1.00 for the first 5 years, thereafter, \$3.00;
- (b) Regular noncompetitive lease, \$1.00;
- (c) Competitive lease, \$2.00; or
- (d) Other, see attachment.

If all or part of a noncompetitive leasehold is determined to be within a known geological structure or a favorable petroleum geological province, annual rental shall become \$2.00, beginning with the lease year following notice of such determination. However, a lease that would otherwise be subject to rental of more than \$2.00 shall continue to be subject to the higher rental.

If this lease or a portion thereof is converted to an approved cooperative or to a plan which includes a well capable of producing leased resources, the plan operator's proportionate share of allocation of production royalties shall be paid from the production allocated to this lease. However, annual rentals shall continue to be due at the rate specified in (a), (b), (c), or (d) for those lands not within a participating area.

Failure to pay annual rental, if due, on or before the anniversary date of this lease (or next official working day if office is closed) shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by lessee.

Sec. 2. Royalties—Royalties shall be paid to proper office of lessor. Royalties shall be computed in accordance with regulations on production removed or sold. Royalty rates are:

- (a) Simultaneous noncompetitive lease, 12½%;
- (b) Regular noncompetitive lease, 12½%;
- (c) Competitive lease, see attachment; or
- (d) Other, see attachment.

Lessor reserves the right to specify whether royalty is to be paid in value or in kind, and the right to establish reasonable minimum values on products after giving lessee notice and an opportunity to be heard. When paid in value, royalties shall be due and payable on the last day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessor, in merchantable condition on the premises where produced without cost to lessor. Lessor shall not be required to take such production or storage beyond the last day of the month following the month in which production occurred, nor shall lessor be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessor.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessor shall pay such difference at end of lease year. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this lease if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (96 Stat. 2447). Lessor shall be liable for royalty payments on oil and gas lost or wasted from a lease site when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or citation issued under FOGRMA or the leasing authority.

Sec. 3. Bonds—Lessee shall file and maintain any bond required under regulations.

Sec. 4. Diligence, rate of development, utilization, and drainage—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require lessor to submit to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection—Lessee shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessor shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidable loss. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to parties to interest, expenditures, and depreciation costs. In the form prescribed by lessor, lessor shall keep a daily drilling record, a log, information on well surveys and tests, and a record of surface investigations and furnish copies to lessor when required. Lessee shall keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or to the leased lands. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that

supports claims claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessor's accounting offices for future audit by lessor. Lessee shall maintain required records for 6 years after they are generated or, if no audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section shall be closed to inspection by the public in accordance with the Freedom of Information Act (4 U.S.C. 552).

Sec. 6. Conduct of operations—Lessee shall conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee shall take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modifications to siting or design of facilities, timing of operations, and specification of materials and equipment to implement measures. Lessor reserves the right to continue existing uses and to authorize new uses or uses changes in the leased lands, including the approval of exercises or rights-of-way. Such use shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessor.

Prior to disturbing the surface of the leased lands, lessor shall contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require surveys or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor corrections or short term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessor shall immediately contact lessor. Lessee shall cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations—To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium—Lessor reserves the option of extracting or buying extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessor or owner of the gas. Lessor shall include in any contract or sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessor shall pay lessor for damage to lessor's improvements, and shall save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Lessor shall: pay when due all taxes legally assessed and levied under laws of the State or the United States; accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If lessor operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible in oil derived from these leased lands, lessor shall comply with section 28 of the Mineral Leasing Act of 1976.

Lessor shall comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessor nor lessor's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessor shall file with lessor any assignment or other transfer of an interest in this lease. Lessor may relinquish this lease or any legal subdivision by filing in the proper office a written relinquisher, which shall be effective as of the date of filing, subject to the continued obligation of the lessor and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of that lease are returned to lessor, lessor shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of productive wells.

Sec. 13. Proceedings in case of default—If lessor fails to comply with any provision of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation. Lessor shall also be subject to applicable penalties and penalties of FOGRMA (96 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be cancelled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time.

Sec. 14. Heirs and successors-in-interest—Each obligation of this lease shall extend to and be binding upon, and every benefit hereof shall accrue to the heirs, executors, administrators, successors, beneficiaries, or assigns of the respective parties hereto.

MULE DEER SPECIAL STIPULATION

The following described lands have been identified as critical habitat for wintering herds of mule deer. Therefore, prior to entry onto the lands within the described area, the lessee (operator) will discuss the proposed activities with the appropriate Bureau of Land Management's authorized officer who may require additional measures for the protection of mule deer. Such measures may include:

- a. Restriction of activity in identified areas during the winter months of November through March;
- b. No surface occupancy of selected sites;
- c. Special reclamation techniques.

Description of Lands

This limitation does not apply to maintenance and operation of producing wells. Exceptions to this limitation, in any year, may be specifically authorized in writing by the Bureau of Land Management's authorized officer.

Parcel NV-124 All lands

RECORDED AT REQUEST OF  
Finance Production Co.  
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87 MAY 27 A10: 59 OG-31

OFFICIAL RECORDS  
EUREKA COUNTY, NEVADA  
M.J. REBALEAH RECORDS  
FILE NO. 108140  
REF # 7.00

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