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Form 110-11
(August 1987)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial No.

OFFER TO LEASE AND LEASE FOR OIL AND GAS

N-47616

The undersigned (reverse) offers to lease all or any of the lands in item 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 Opinion of April 2, 1941 (401)P, 415, Gen. 411. Signatory certifies compliance with qualifications concerning Federal coal leaseholdings provided in Sec. 20a(2)(A) of the Mineral Leasing Act.

Read Instructions Before Completing

1. Name **Gary Williams Oil Producer, Inc.**
Street **116 Inverness Drive East**
City, State, Zip Code **Englewood, CO 80112-5115**

2. This offer lease is for (check only one) PUBLIC DOMAIN LANDS ACQUIRED LANDS (percent U.S. interest _____)
Surface managing agency if other than BLM _____ and Project _____
Legal description of land requested _____

T	19 N.	R	48 E.	Meridian	Mount Diablo	State	Nevada	County	Esmeralda and Lander
	sec. 12, All;						sec. 26, All;		
	sec. 13, All;						sec. 27, All;		
	sec. 19, lots 1, 2, 3, 4, E1/2, F1;						sec. 28, All;		
	sec. 20, All;						sec. 29, All;		
	sec. 21, All;						sec. 30, lots 1, 2, 3, 4, E1/2, F1;		
	sec. 22, All;						sec. 31, lots 1, 2, 3, 4, E1/2, F1;		
	sec. 23, All;						sec. 32, All;		
	sec. 24, All;								
	sec. 25, All;								

Amount remitted Filing fee \$ 75.00 Rental fee \$ 10,178.00 Total acres applied for 10,178.00 Total \$ 10,253.00

DO NOT WRITE BELOW THIS LINE

3. Land included in lease
T. _____ R. _____ Meridian _____ State _____ County _____

LEASE AS ITEM 2

NOT IN A KNOWN GEOLOGICAL STRUCTURE

Total acres in lease 10,178.00
Rental retained \$ 10,178.00

In accordance with the above offer, or the previously submitted simultaneous oil and gas lease application or competitive bid, this lease is issued granting the nonexclusive right to conduct oil and gas geophysical exploration, and the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in item 3 together with the right to build and maintain necessary improvements thereupon 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 formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

Type and primary term of lease:

- Simultaneous, non-competitive lease (ten years)
- Regular non-competitive lease (ten years)
- Competitive lease (five years)
- Other _____

THE UNITED STATES OF AMERICA

By Marla B. Bohl
Chief, Branch of Lands
and Minerals Operations

(Signing Officer)

JAN 18 1988

(Date)

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EFFECTIVE DATE OF LEASE

FEB 01 1988

*Form 110-11 (2, 3, 3120-1, 7, 3130-4, 5, and 7)

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A. (a) Undersigned certifies that this offer is in compliance with the laws of the United States or of any State or Territory thereof, (2) all parties holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities, direct and indirect, in either public domain or acquired lands do not exceed 240,000 acres in oil and gas options or 240,000 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 (3) no offer 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 amendments 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 this offer cannot be withdrawn, either in whole or in part, unless the withdrawal is received by the BLM State Office before this lease, an 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 executed in accordance with the regulations, or if it is not accompanied by the required payments. 18 U.S.C. Sec. 1601 makes it a crime for any person knowingly and willfully 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.

GARY-WILLIAMS OIL PRODUCER, INC.

Duly executed this 28th day of December, 19 87.

Pat Keating, Attorney-in-Fact

LEASE TERMS

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

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

If all or part of a non-competitive 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 case 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 committed to an approved cooperative oil and gas plan which includes a well capable of producing leased resources, and the plan contains a provision for allocation of production, royalties shall be paid on 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 lessee. Royalties shall be computed in accordance with regulations on production estimated or sold. Royalty rates are:

- (a) Simultaneous non-competitive lease, 12 1/2%.
- (b) Regular non-competitive lease, 12 1/2%.
- (c) Competitive lease, see attachment, or
- (d) Other, see attachment.

Lessee 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 first day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessee, in proportionate condition on the premises where produced and without cost to lessee. Lessee shall not be required to hold such production in storage beyond the last day of the month following the month in which production occurred, nor shall lessee be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessee.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee 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, if it 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 (FROGMA), 96 Stat. 2447. Lessee 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 instruction issued under FROGMA of the leasing authority.

Sec. 3. Bonds--Lessee shall file and maintain any bonds 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. Lessee reserves right to specify rates of development and production in the public interest and to require lessee to conform to a cooperative oil and gas plan within 30 days of notice, if deemed necessary for proper development and operations of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to properly leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessee.

Sec. 5. Documents, systems, and inspection--Lessee shall file with proper office of lessee, not later than 30 days after effective date thereof, any contract or evidence of other arrangements for sale or disposal of production. At such times and in such form as lessee may prescribe, lessee shall furnish detailed statements showing amounts and quality of all production, mined oil and sold, proceeds therefrom, and amount used for production purposes of unavailability had. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to partners in interests, expenditures, and attributable costs. In the form prescribed by lessee, lessee shall keep a daily drilling record, a log, a subdivision of well surveys and logs, and a record of substantial geologic and human copies to lessee when required. Lessee shall keep open at all reasonable times for inspection by any authorized office of lessee, 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 in the leased lands. Lessee shall maintain copies of all contracts, lease agreements, accounting records, and other information such as billings, invoices, or similar documentation that

supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessee's accounting offices for future audit by lessee. Lessee shall maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until relieved of the obligation to maintain such records by lessee.

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 (5 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, historical, biological, visual, and other resources, and to other land uses or users. Lessee shall take reasonable measures deemed necessary by lessee to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification of timing or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessee reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-way. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

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

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

Sec. 9. Damages to property--Lessee shall pay lessee for damage to lessee's improvements, and shall save and hold lessee 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--Lessee shall pay within due all taxes legally assessed and levied under laws of the State or the United States, except 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.

Lessee reserves the right to ensure that production is sold at reasonable prices and to prevent monopsony. If lessee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee shall comply with section 28 of the Mineral Leasing Act of 1920.

Lessee shall comply with Executive Order No. 11224 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Further lessee and lessee's subcontractors shall maintain segregated facilities.

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

Sec. 12. Delivery of premises--At such time as all or portions of this lease are returned to lessee, lessee shall place affected wells in condition for suspension or abandonment, re-lean the land as specified by lessee and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessee for preservation of producible wells.

Sec. 13. Proceedings in case of default--If lessee fails to comply with any provisions of this lease, and the non-compliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation. Lessee shall also be subject to applicable provisions and penalties of FROGMA (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 lessee 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 inure to the heirs, executors, administrators, successors, beneficiaries, or assigns of the respective parties hereto.

NOTICE TO LESSEE

Provisions of the Mineral Leasing Act (MLA) of 1920, as amended by the Federal Coal Leasing Amendments Act of 1976, affect an entity's qualifications to obtain an oil and gas lease. Section 2(a)(2)(A) of the MLA, 30 U.S.C. 201(a)(2)(A), requires that any entity that holds and has held a Federal coal lease for 10 years beginning on or after August 4, 1976, and who is not producing coal in commercial quantities from each such lease, cannot qualify for the issuance of any other lease granted under the MLA. Compliance by coal lessees with Section 2(a)(2)(A) is explained in 43 CFR 3472.

In accordance with the terms of this oil and gas lease with respect to compliance by the initial lessee with qualifications concerning Federal coal lease holdings, all assignees and transferees are hereby notified that this oil and gas lease is subject to cancellation if: (1) the initial lessee as assignor or as transferor has falsely certified compliance with Section 2(a)(2)(A) or (2) because of a denial or disapproval by a State Office of a pending coal action, i.e., arms-length assignment, relinquishment, or logical mining unit, the initial lessee as assignor or as transferor is no longer in compliance with Section 2(a)(2)(A). The assignee or transferee does not qualify as a bona fide purchaser and, thus, has no rights to bona fide purchaser protection in the event of cancellation of this lease due to noncompliance with Section 2(a)(2)(A).

Information regarding assignor or transferor compliance with Section 2(a)(2)(A) is contained in the lease case file as well as in other Bureau of Land Management records available through the State Office issuing this lease.

RECORDED AT THE REQUEST OF
Gary Williams Oil Producer
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NOTARY PUBLIC
EUREKA COUNTY CALIFORNIA
FILE NO. 115955
FEE \$ 4.00

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

The foregoing instrument was acknowledged before me this 28th day of December, 1987, by PAT KEATING, as Attorney-in-Fact for GARY-WILLIAMS OIL PRODUCER, INC., a Delaware Corporation, on behalf of the corporation.

WITNESS my hand and official seal.

My Commission Expires:
Sept. 23, 1988

SEAL
Affixed

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Mary Kay White
Mary Kay White, Notary Public
115 Inverness Drive East
Englewood, Colorado 80112