

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB No. 1004-0088
Expires January 31, 1986

117496

OFFER TO LEASE AND LEASE FOR OIL AND GAS

Serial No.

N-46122

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, as amended, and the Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Opinion of April 2, 1941 (40 Op. Atty. Gen. 41), or the Act of October 3, 1917 (40 Stat. 309), and the regulations thereunder, with qualifications concerning Federal coal lease holdings provided in Sec. 2(a)(2)(A) of "L.A. Read Instructions Before Completing

1. Name Sabrina F. Ross
Street 115 Sage Road, P.O. Box 4102
City, State, Zip Code Ketchum ID 83340

2. The offer/lease is for: (Check Only One) PUBLIC DOMAIN LANDS ACQUIRED LANDS (percent U.S. interest) _____
Surface managing agency if other than BLM: _____ Unit/Project _____

Legal description of land requested:

T. 15 N. R. 53 E. Meridian Mount Diablo State Nevada County Eureka
sec. 6, A17.

Amount requested: Filing fee \$ 75.00 Rental fee \$ 640.00
Total acres applied for 640.00
Total \$ 715.00

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

SAME AS ITEM 2

NOT IN A KNOWN
GEOLOGICAL STRUCTURE

Total acres to lease 640.00
Rental retained \$ 640.00

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 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 the date of lease issuance, and in compliance with formal orders heretofore promulgated which are inconsistent with these rights granted or specific provisions of this lease.

- Type and primary term of lease:
 Simultaneous noncompetitive lease (ten years)
 Regular noncompetitive lease (ten years)
 Competitive lease (five years)
 Other _____

THE UNITED STATES OF AMERICA
Maria S. Bond
Chief, Branch of Lands and Minerals Operations (Signing Officer)
MAR 26 1987 (Date)

NV-5636-PPP
EFFECTIVE DATE OF LEASE APR 01 1987

*Formerly 3100-1, 2, 3, 3120-1, 7, 3130-4, 5, and 7)

4. (a) Underground contains that this offer is in a state of the United States, an association of such states, a municipality, or a corporation organized under the laws of the United States or of any State or Territory thereof, (2) all portions bearing an interest in the offer are in compliance with 43 CFR 110) and the leasing schedule, (3) offer of a 1/20th interest, 1/40th and 1/80th, or other public domain or acquired lands do not exceed 200,000 acres in oil and gas options on 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 (4) offer is not considered a mineral under the laws of the State in which the lands covered by this offer are located.

(b) Underwriter 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 agreement, 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 part, unless the withdrawal is received by the BLM State Office before this lease, an attachment 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 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. 1091 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.

Signature certifies compliance with qualifications concerning Federal lease lands being offered in Section 1091(b)(1) of the Mineral Lease Act.

Day executed this 24 day of February 1987 at Denver, Colorado

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 of ground covered 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 geophysical 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 constituted by an approved cooperative or unit 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 applicable to oil, the oil, or gas 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 leasee.

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 non-competitive lease, 12.5%;
- (b) Regular non-competitive lease, 12.5%;
- (c) Competitive lease, see attachment; or
- (d) Other, see attachment.

Leasee 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 leasee, in immediately consumable oil on the premises where produced without cost to leasee. Leasee shall not be required to hold such production on storage beyond the last day of the month following the month in which production occurred, nor shall leasee be held liable for loss or destruction of royalties or other products in storage from causes beyond the reasonable control of leasee.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Leasee shall pay such difference at end of lease year. This minimum royalty shall be waived, suspended or reduced, and the above royalty rate 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 (FURMMA) 30 Stat. 2447. Leasee shall be liable for royalty payments on oil and gas lost or waived from a lease unit when such loss or waiver is due to negligence or fault of the operator or to the failure to comply with any rule, regulation, order, or station issued under FURMMA or the leasing authority.

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

Sec. 4. Delays, rate of development, unitization, and drainage—Leasee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to loss of, or waste of leased resources. Leasee reserves right to specify rates of development and production in the public interest and to require leasee to subscribe 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. Leasee shall drill and produce wells necessary to protect leased lands from drainage; or pay compensatory royalty for drainage if amount determined by leasee.

Sec. 5. Documents, evidence, and inspection—Leasee shall file with proper office of lessor, 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 lessor may prescribe, leasee shall furnish detailed statements showing amount and quality of all products removed and sold, proceeds therefrom, and amounts used for production purposes or unavoidably lost. Leasee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs in the form prescribed by lessor. Leasee shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Leasee 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 in the leased lands. Leasee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that

relate to or are claimed as constituting, preparation, and or transportation work. All such records shall be maintained in leasee's accounting offices for future audit by lessor. Leasee shall maintain records required in 43 CFR 110) after they are generated or, if no audit or investigation is underway, until released or the expiration of maximum lease records by leasee.

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—Leasee shall conduct operations in a manner that maintains overall integrity of the land, oil, and water, to cultural, biological, visual, and other resources, and to other land uses of area. Leasee shall bear reasonable measures deemed necessary by lessor to accomplish the intent of this section. If the nature of operations with lease rights granted, such measures may include, but are not limited to, well, water or testing or design of facilities, timing of operations, and specification of surface and land reclamation measures. Leasee reserves the right to continue existing uses and to substitute 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 avoidable surface disturbance with rights of leasee.

Prior to disturbing the surface of the leased lands, leasee shall contact lessor to be apprised of procedures to be followed and manifestations or reclamation measures that may be necessary. Areas to be disturbed may require inventories of special studies to determine the extent of impacts on such resources. Leasee may be required to complete human inventories of 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 individual animals appear or substantial effects are or are likely to occur, leasee shall immediately contact lessor. Leasee 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 oil and gas operations, leasee reserves the right to deny approval of such operations.

Sec. 8. Extraction of bottom deposits—Leasee reserves the option of extracting or having extracted bottom from gas production in a manner specified and by means provided by lessor at its expense or to be leased to another. If the gas leasee shall include in any contract of sale of gas the provisions of this section.

Sec. 9. Damages to property—Leasee 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—Leasee shall pay when due all taxes legally assessed and levied under laws of the United States. Leasee shall employ, wherever applicable, freedom of production, pay all wages at least twice each month in lawful money. If the United States maintains a wage working constraint in accordance with standard industry practice, and such measure is necessary to protect the health and safety of the public, Leasee reserves the right to ensure that production is sold at reasonable prices and to prevent monopsony. If lease operations, pipeline, or other existing interest in a pipeline or a company operating a pipeline, is terminated for a period as provided in or derived from these leased lands, leasee shall comply with Section 25 of the Mineral Leasing Act of 1920.

Leasee 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 leasee nor leasee's subsidiaries shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and reassignment of lease—As required by regulations, leasee shall file with lessor any assignment or other transfer of an interest in this lease. Leasee 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 lessor, leasee shall place affected areas in condition for reversion or abandonment, return the land as specified by lessor and within a reasonable period of time, remove equipment and improvements not ordered necessary by lessor for preservation of productive wells.

Sec. 13. Proceedings in case of default—If leasee 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. Leasee shall also be subject to applicable provisions and penalties of FURMMA (30 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be canceled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor of any other legal and equitable remedies, including a waiver of the default. Any such remedy or waiver shall prevent later cancellation for the same default occurring at any other time.

Sec. 14. Heirs and successors—This lease shall bind the heirs, successors, assigns, and assigns of the lessor, beneficiaries, or assignees of the lessor.

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THE MINSCHUTZ CORPORATION
2400 ANACONDA TOWER
DENVER, COLORADO 80202

RECORDED AT THE REQUEST OF
The Anschutz Corp.
BOOK 175 PAGE 105

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OFFICIAL RECORDS
EUREKA COUNTY, NEVADA
M.M. REGALATI, RECORDER
FILE NO. 117496
FEE \$ 2.00

COPY

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