

OIL AND GAS LEASE

THIS AGREEMENT, made and entered into this 8th day of February, 19 88 by and between

R. D. DAMELE and ARLENE W. DAMELE, husband and wife, P.O. Box 342 of Eureka, Nevada 89316

hereinafter called lessor (whether one or more) and HANAGAN PETROLEUM CORPORATION, P.O. Box 1737, Roswell, New Mexico 88201 hereinafter called lessee:

1. WITNESSETH That the lessor, for and in consideration of a \$10.00 OR MORE cash in hand paid, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained on the part of the lessee to be paid, kept and performed, has granted, demised, leased and let and the covenants does grant, demise, lease and let exclusively unto said lessee, with the exclusive right of mining, exploring by geophysical and other methods and operating for and producing therefrom and all gas of whatsoever nature or kind, and laying pipe lines, telephone and telegraph lines, housing and boarding employees, building tanks, power stations, gasoline plants, ponds, roadways, and structures thereon to produce, save, market and take care of said products and the exclusive surface and subsurface rights and privileges related in any and all such operations and any and all other rights and privileges necessary, incident to, or convenient for the economical operation above or conjointly with neighboring land for such purposes, all that certain tract or tracts of land situated in the County of Eureka State of Nevada described as follows, to-wit:

SEE EXHIBIT "A" ATTACHED HERETO

more of Section XXX Township XXX Range XXX and containing 1.584.10 acres

2. It is agreed that this lease shall remain in force for a term of five years from date and as long thereafter as oil or gas of whatsoever nature or kind, or gas on said land, or on acreage pooled therewith, lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas production thereafter, or if it be within the primary term of this lease, lessee commences or resumes the payment or tender of rental on or before the rental-paying date next ensuing after the expiration of three (3) months from the date of completion of a dry hole or cessation of production. If the expiration of the primary term of this lease, or if it be within the primary term of this lease, lessee is then engaged in drilling or reworking operations thereon, then this lease shall continue in force so long thereafter as drilling or reworking operations are being continuously prosecuted on said land, or on acreage pooled therewith, or operating unit which includes all or a part of said land, and drilling or reworking operations shall be considered to be continuously prosecuted if not more than sixty days shall elapse between the completion or abandonment of one well or wells drilled, being drilled or reworked at or after the expiration of another well. If oil or gas shall be discovered and/or produced from any such well or wells drilled, being drilled or reworked at or after the expiration of the primary term of this lease, this lease shall continue in force so long thereafter as oil or gas is produced from the leased premises or from any such unit which includes all or a part of said lands.

3. In consideration of the premises the said lessee covenants and agrees: (a) To deliver to the credit of lessor, free of cost in the pipe line to which lessee may connect his wells, the equal one-eighth part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such one-eighth royalty, the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe lines or into storage tanks.

(b) To pay lessor for gas of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth, at the market price at the well for the gas sold, used off the premises, or in the manufacture of products therefrom. Where gas from a well producing gas only is not sold or used, lessee may pay or tender as royalty One Dollar per year per net royalty acre retained hereunder, such payment and tender to be made on or before the anniversary date of this lease during the period such well is shut in, to the royalty owners or to the royalty owners' credit in the depository bank herein designated. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

4. If operations for the drilling of a well for oil or gas are not commenced or if there is no oil or gas being produced on said land or on acreage pooled therewith as hereinafter provided on or before one year from the date hereof, this lease shall terminate as to both parties, unless the lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the First Interstate Bank at P.O. Box 325 Eureka, Nevada 89316 or its successors, which shall continue as the depository for rental regardless of changes in the ownership of said land, the sum of ONE THOUSAND FIVE HUNDRED EIGHTY-FOUR and 10/100** DOLLARS

1.584.10 which shall operate as a rental and cover the privilege of deferring the commencement of operations for drilling of a well for twelve months from said date. In like manner and upon like payments or tenders the commencement of operations for drilling of a well may be further deferred for like periods, when in lessee's option, all payments or tenders may be made by check or draft of lessee or of any assignee thereof, mailed or delivered on or before the rental paying date. It is understood and agreed that consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable at aforesaid, but also the lessee's right of extending that period as aforesaid, and any and all other rights conferred. Should the depository bank hereafter cease without a successor, lessee or its assignee may deposit rental or royalties in any National bank located in the same county with the first named bank, due notice of such deposit to be mailed to lessor at last known address.

5. Lessee, at its option is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production on drilling or reworking operations or a well shut in for want of a market anywhere on any unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease, such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands of any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land, and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Lessor shall formally express its consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee.

6. Lessor may, at any time, release this lease as to any stratum or strata and as to part or all of the lands above described, after which all payments and liabilities thereafter to accrue, as to the lands released, shall cease and determine. In the event of a partial release, the annual delay rental above mentioned shall be reduced proportionately.

7. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operation thereon, except water from ditches, ponds, reservoirs, or wells of lessor. When requested by the lessor, lessee shall bury its pipe lines on cultivated portions below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor. Lessee shall pay for damages caused by his operation to growing crops on said lands. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

8. If the estate of either party herein is assigned, and the privilege of assigning in whole or in part is expressly allowed, although it is agreed that no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the lessee, the covenants hereon shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessor until after the lessee has been furnished with certified copies of a statement of title designating title from lessor, and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above-described lands and the assignee or assignees of such part or parts shall fail to make default in the payment of the proportionate part of the rent due on or from them, such default shall not operate to default or affect this lease insofar as it covers a part or parts of said lands as in which the said lessee or assignee thereof shall make due payment of said rental in the event of death of any person entitled to rentals hereunder, lessee may pay or tender such rentals to the credit of the deceased or the estate of the deceased until such time as lessee is furnished with proper evidence of the appointment and qualification of an executor or administrator of the estate, or if there be none, then until lessee is furnished with evidence satisfactory to it as to the heirs or devisees of the deceased.

9. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to pay for any mistake, taxes or other liens on the above-described lands in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and lessor hereby agrees that any such payments made by the lessee for the lessor may be deducted from any amounts of money which may become due the lessor under the terms of this lease.

10. If said lessee owns a less interest in the above-described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the lessor in proportion which his interest bears to the whole and undivided fee. Any interest in the petroleum from the land herein described to which the interest of lessor may be subject shall be deducted from the rentals herein reserved.

11. Lessee shall comply with all laws and regulations of any Governmental body purporting to exercise taxing authority over the lands covered by this lease or the person of the lessee herein and in so complying lessee shall not be responsible for determining the legality, validity or constitutionality of any such law or regulation enacted or issued by any such Governmental body. In determining the residence of lessee for purposes of complying with such laws or regulations or regulation lessee may rely upon the address of lessee herein set forth or upon the last known address of lessee. Neither any error in the determination of the residence or status of lessee nor an error in the payment of any sums of money due or payable to lessor under the terms of this lease which is made during the course of or as a result of lessee's good faith efforts to comply with any such laws or regulations shall terminate this lease or constitute grounds for any cause of action against lessee. All of lessee's obligations and covenants hereunder, whether express or implied, shall be suspended at the time or from time to time as compliance with any thereof is prevented or hindered by or is in conflict with Federal, State, County, or municipal laws, rules, regulations or Executive Orders asserted as open market or transportation thereof, war, strikes, lockouts, riots, or other conditions or circumstances not wholly controlled by lessee, and this lease shall not be terminated in whole or in part, nor lessee held liable in damages for failure to comply with any such obligations or covenants if compliance therewith is prevented or hindered by or is in conflict with any of the foregoing eventuality. The time during which lessee shall be prevented from conducting drilling or re-working operations during the primary term of this lease, under the contingencies above stated, shall be added to the primary term of the lease, provided, however, that delay rentals as herein provided shall not be suspended by reason of the suspension of operations and if this lease is extruded beyond the primary term above stated by reason of such suspension, lessee shall pay an annual delay rental on the anniversary dates hereof in the manner and in the amount above provided.

12. Should any person, firm or corporation have an interest in the above-described land not leased to lessee, or should any one or more of the parties named above as lessor not execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

13. The undersigned lessors for themselves and their heirs, successors, and assigns, hereby expressly release and waive all rights under and by virtue of the homestead exemption laws of said state, insofar as the same may in any way affect the purposes for which this lease is made as recited herein.

IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

R. D. Damele
R. D. DAMELE
 S.S. # [REDACTED]

Arlene W. Damele
ARLENE W. DAMELE
 S.S. # [REDACTED]

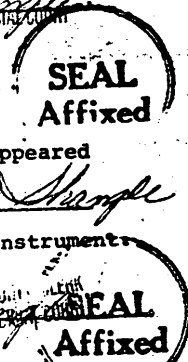
14. ACKNOWLEDGMENTS

STATE OF NEVADA
 COUNTY OF Lumbia

On April 5, 1988 personally appeared
R. D. Damele
 before me, a notary public,
 who acknowledged that he executed the above instrument.

STATE OF NEVADA
 COUNTY OF Lumbia

On April 5, 1988 personally appeared
Arlene W. Damele
 before me, a notary public,
 who acknowledged that she executed the above instrument.



No. Oil

Date No. Acres Term This lease the recorded in records of

STATE OF _____ }
 COUNTY OF _____ }
 On this _____ day of _____ in the year _____ before me, a Notary Public,
 personally appeared _____
 known to me to be the _____ of the Corporation that is described in and that executed the within instrument and
 acknowledged to me that such Corporation executed the same.
 My commission expires: _____
 Notary Public.

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF
THAT CERTAIN OIL AND GAS LEASE
DATED FEBRUARY 8, 1988, BETWEEN
R. D. DAMELE AND ARLENE W. DAMELE,
LESSORS, AND HANAGAN PETROLEUM
CORPORATION, LESSEE.

DESCRIPTION

TOWNSHIP 24 NORTH, RANGE 49 EAST
SECTION 12: NE $\frac{1}{4}$ SE $\frac{1}{4}$

TOWNSHIP 24 NORTH, RANGE 50 EAST
SECTION 2: LOT 3, SE $\frac{1}{4}$ NW $\frac{1}{4}$
SECTION 7: LOT 2

TOWNSHIP 25 NORTH, RANGE 50 EAST
SECTION 24: SE $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$
SECTION 25: S $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$
SECTION 28: W $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$
SECTION 32: SE $\frac{1}{4}$ NE $\frac{1}{4}$
SECTION 33: NW $\frac{1}{4}$ NW $\frac{1}{4}$
SECTION 35: E $\frac{1}{2}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$
SECTION 36: NW $\frac{1}{4}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$

TOWNSHIP 25 NORTH, RANGE 51 EAST
SECTION 19: SE $\frac{1}{4}$ SW $\frac{1}{4}$
SECTION 30: NW $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ NW $\frac{1}{4}$, LOT 2, LOT 3
SECTION 35: N $\frac{1}{2}$ NW $\frac{1}{4}$

14. Lessor hereby accepts as sufficient the bonus consideration given by lessee and agrees that no additional cash amount is required as bonus consideration for signing this lease. Lessee, however, agrees to pay lessor additional amounts in the event that lessee acquires additional leasehold interest in the lands described above from any other mineral owner within two (2) years from the date of this lease. The amount to be paid by lessee shall be equal to the difference between the per acre price paid to lessor herein for bonus consideration and the highest per acre price paid to any subsequent lessor times the number of gross acres leased from the subsequent lessor and proportionately reduced by the fractional interest lessor herein has in the subsequently leased tract.

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RECORDED AT THE REQUEST OF
BOOK 179 PAGE 075

'88 JUN 14 10:42
Hanagan Petroleum
OFFICIAL RECORDS
EUREKA COUNTY, NEVADA
M.N. REBALLATI, RECORDER
FILE NO. FEE \$ 7.00
119203