

OIL AND GAS LEASE

Producers 88 1959

THIS AGREEMENT, made and entered into this 8th day of February, 1988 by and between

JOHN V. DAMELE and ROBERTA M. DAMELE, husband and wife,
P.O. Box 295 of Eureka, Nevada 89316

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

1. WITNESSETH: That the lessor, for and in consideration of \$10.00 OR MORE cash in hand paid, receipt of which is hereto acknowledged, and of the contents and agreements hereinafter contained on the part of the lessee, to be paid, kept and performed, has granted, devised, leased and let and by these presents does grant, demise, lease and let exclusively unto said lessee, with the exclusive right of mining, exploring by geophysical and other means and operating for and producing therefrom or out of all sort of whatsoever nature or kind, and laying pipe lines, telephone and telegraph lines, running and boarding employees, buildings, 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 subterranean rights and privileges related in any manner to any and all such operations and any and all other rights and privileges necessary, incident to, or convenient for the economical operation alone 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

of Section XXX Township XXX Range XXX and containing 2,121.90 acres, more or less.

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 either of them is produced from said land or premises pooled therewith or drilling operations are conducted as hereinafter provided. If upon no discovery of oil 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, such production should cease for any cause, this lease shall not terminate if lessee or lessee's 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 at the expiration of the primary term of this lease, or if it be within the primary term of this lease, production of oil or gas is not being produced on or from said land or said pooled premises but 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 shall be continuously prosecuted on said land or on an acreage pooled therewith or 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 rental 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. If not more than sixty days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling or reworking 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 lease may connect his wells, the equal one-eighth part of all oil produced and saved from the leased premises, or as 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 line or into storage tanks.

(b) To pay lessor for gas of whatsoever nature or kind produced and sold, or used off the premises, or 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 any products therefrom, such payment to be made or tendered on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and a well producing gas only is not sold or used, lessor may pay or tender as royalty One Dollar per year per net royalty acre retained hereunder, such payment or 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 rental 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.

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 First Interstate Bank at P.O. Box 325

that date shall pay or tender to the lessor or to the lessor's credit in the Eureka, Nevada 89316 or its successors, which shall continue as the depository for rental payments of changes in the ownership of said land, the sum of TWO THOUSAND ONE HUNDRED TWENTY-ONE and 90/100**** DOLLARS

(5) 2,121.90 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 the number of months successively. All payments or tenders may be made by check or draft of lessee or by further deferred for like periods of the same number of months successively. All payments or tenders may be made by check or draft of lessee or by further mailed or delivered on or before the rental paying date. It is understood and agreed that the consideration first recited herein, the down payment, covers not only the privilege granted to the date when said first rental is payable as aforesaid, but also the lessor's right of extending that period as discussed, and also all other rights conferred should the depository bank hereinafter cited without a successor, lessor or its assigns 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 on from time to time as a recurring right, either before or after production, as to all or any part of the land described hereunder 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 lands, leases 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; an 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 include 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, drilling or reworking operations of a well shut in for want of a market and where on a unit which includes all or a part of this lease shall be treated as if it were producing oil and gas, such 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 or any part thereof, shall hereafter be operated under any such cooperative or unit plan, then the production allocated to any particular tract of land to 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 lessor's 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 others.

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 of division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the lessor, the covenants hereof 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 lessee until after the lessee has been furnished with certified copies of the above describing title from the lessor, and it is hereby agreed in the event this lease shall be assigned as to the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect the lease insofar as it covers a part or parts of said lands as to which the said lessee or any assignee thereof shall make due payment of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect the lease insofar as it covers a part or parts of said lands as to which the said lessee or any assignee thereof shall make due payment of such part or parts. In the event of death of any person entitled to rentals hereunder, lessee may pay or tender such rentals to the credit of the decedent or the estate of the decedent 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 decedent.

9. Lessee 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 lessor any mortgages, liens or other liens on the above-described lands in the event of default of payment by lessor and be subordinated to the rights of the holder thereof and lessee 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 thereon, then the purchase and growth hereof shall be paid the lessor only as proprietor; which his interest bears to the whole and undivided fee. Any interest in the purchase from the lands herein described to which the interest of lessor may be subject shall be distributed from the royalties hereon received.

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 lessor hereon 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 lessor for purposes of complying with such laws or regulations status of lessor not as error in the payment of any sum 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 lessor'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 lessor. All of lessor's obligations and covenants hereunder, whether express or implied, shall be suspended at the time or from time to time in 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 official by or under public authority claiming jurisdiction, or Act of God, adverse fact, weather, or market conditions, inability to obtain materials in the open market or transportation thereof, war, strikes, lockouts, riots, or other conditions or circumstances not wholly controlled by lessor, and this lease shall not be terminated in whole or in part, nor shall lessor hold 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 eventualities. The time during which lessor shall be prevented from conducting drilling or reworking 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 the lease is extended 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 lessors 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 aforesaid.

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

14. SEE EXHIBIT "A"

JOHN V. DAMELE
 S.S. # _____
John V. Damele

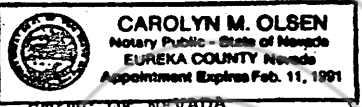
ROBERTA M. DAMELE
 S.S. # _____
Roberta M. Damele

ACKNOWLEDGMENTS

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STATE OF NEVADA
 COUNTY OF Eureka

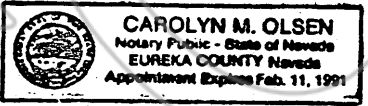
On April 7, 1988 personally appeared
 before me, a notary public, John V. Damele,
 who acknowledged that he executed the above instrument.



Carolyn M. Olsen

STATE OF NEVADA
 COUNTY OF Eureka

On April 7, 1988 personally appeared
 before me, a notary public, Roberta M. Damele,
 who acknowledged that she executed the above instrument.



Carolyn M. Olsen

No. _____ Date _____ No. Atn _____ Term _____ This file _____ the _____ recorded _____ record _____ By _____

STATE OF _____ } in
 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 JOHN V. DAMELE AND ROBERTA M. DAMELE, LESSORS, AND HANAGAN PETROLEUM CORPORATION, LESSEE.

DESCRIPTION

TOWNSHIP 26 NORTH, RANGE 50 EAST

- SECTION 1: SE $\frac{1}{4}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$
- SECTION 11: NE $\frac{1}{4}$ NE $\frac{1}{4}$
- SECTION 12: E $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{2}$ SE $\frac{1}{4}$
- SECTION 24: E $\frac{1}{2}$ SE $\frac{1}{4}$

TOWNSHIP 25 NORTH, RANGE 51 EAST

- SECTION 6: LOTS 3, 4, 5, 6, 7, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$
- SECTION 7: E $\frac{1}{2}$ NW $\frac{1}{4}$

TOWNSHIP 26 NORTH, RANGE 51 EAST

- SECTION 6: LOTS 3, 4, 5, 6, 7, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$
- SECTION 7: LOTS 1, 2, 3, 4
- SECTION 18: LOTS 1, 2, 3, 4
- SECTION 19: LOTS 1, 2, 3, 4
- SECTION 30: LOTS 1, 2, 3, 4, E $\frac{1}{2}$ SW $\frac{1}{4}$
- SECTION 31: NW $\frac{1}{4}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$, LOT 4, SW $\frac{1}{4}$ SE $\frac{1}{4}$

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.

J.V.D.
R.M.D.
A
RECORDED

RECORDED AT THE REQUEST OF
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PAGE 1 OF 1

88 JUN 14 10:42
Hanagan Petroleum

OFFICIAL RECORDS
EUREKA COUNTY, NEVADA
M.N. REBALATI, RECORDER

FILE NO. 119205 FEE \$ 7.00

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