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OIL AND GAS LEASE

COMMERCIAL PETROLEUM CO., DENVER, CO., U.S.A.

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

STEPHEN D. DAMELE and PAULINE S. DAMELE, husband and wife,

Sheep Creek Ranch of Carlin, Nevada 89822

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 \$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 kept, kept and performed, has granted, demised, 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 methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind, and laying pipe lines, telephone and telegraph lines, building and operating, building tanks, power stations, gasometer plants, ponds, roads, 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 manner to any and all such operations and any and all other rights and privileges necessary, incident to, or government for the economical operation alone or jointly 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 continued as hereinafter provided. If prior to discovery of oil or gas on acreage pooled therewith, lease should terminate if after discovery of oil or gas production or drilling operations are continued as hereinafter provided. If no production or drilling operations should occur for any cause, this lease shall not terminate if lease commences additional drilling or reworking operations within sixty (60) days thereafter or if it be within the primary term 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 hole or cessation of production. If, at the expiration of the primary term of this lease, 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 are being continuously prosecuted on said land or on a drilling or development 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 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 as 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 to the pipe line to which lessee may connect his well, 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 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 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 produced 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 or tender to be made 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 thereafter on or before the anniversary date of this lease during the primary term of this lease. 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 Valley Bank of Nevada Bank at P.O. Box 231

Elko, Nevada 89801

or its successors, which shall continue as the depository for rental regardless of changes in the

ownership of said land, the sum of TWO THOUSAND ONE HUNDRED TWENTY-ONE and 90/100**** DOLLARS

(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 and upon like payments or tenders the commencement of operations for drilling of a well may be further deferred to the periods of the same number of months successively. All payments or tenders may be made by check or draft of issue or any assignee thereof, 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 rental is payable as 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 close without a successor, lessee 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 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 leased 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 or drilling or reworking operations of a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations of 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 of 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 of 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 of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, 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 also 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. Lessee 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 in accrue, as to the lands released, shall cease and determine. In the event of a partial release, the annual dry 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 lessee, lessee shall bury its pipe lines on cultivated portions below plow depth.

No well shall be drilled more 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 hereto is assumed, 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 of the lessor, the covenants hereunder 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 muniments of title designating title from lessor, and it is hereby agreed that in the event this lease is to be assigned or otherwise transferred, the lessee shall be bound to execute and assign 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 this 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 said rental. In the event of death of any person entitled to receive 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 lessor, any mortgage, taxes or other liens on the above-described lands in the event of default of payment by lessor, and he 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 lessor 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 only in proportion which his interest bears to the whole and undivided fee. Any interest in the production from the lands herein described in which the interest of lessor may be subject shall be deducted from the royalty herein reserved.

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EXHIBIT "A"

ATTACHED TO AND MADE A PART OF
THAT CERTAIN OIL AND GAS LEASE
DATED FEBRUARY 8, 1988, BETWEEN
STEPHEN D. DAMELE AND PAULINE S. 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 $\frac{1}{4}$ 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.

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[Stamp]

RECORDED AT THE REQUEST OF
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Hanagan Petroleum
OFFICIAL RECORDS
ELIHEKA COUNTY, NEVADA
H.N. REGALATI, RECORDER
FILE NO. 119209 700

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