

135806

OIL AND GAS LEASE

No. 500P-1 Rev. 1971.

AGREEMENT, Made and entered into this _____ day of _____

1st _____ day of _____

October 19 90, by and between

American Colloid Company

P.O. Box 2010, Felic Fourche, S. D. 57717

parts of the first part, hereinafter called lessor, whether one or more land _____ parts of the second part, hereinabove called lessee

Billings, Montana 59101

Loma Energy Corp., P.O. Box 21225

WITNESSETH, That the lessor for and in consideration of the royalties herein provided, and of the agreements of lessor herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas and other hydrocarbons and including all other products produced therefrom, laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, heat, transport, and own said products, and housing its employees, the following described land in Eureka County, State of Nevada, to-wit:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

including all minerals heretofore named underlying leases, streams, roads, easements and rights-of-way which traverse or appear said lands owned or claimed by lessor, or which may hereafter be established to be owned by lessor, and also in addition to the above described land and subs, and all strips or parcels of land, other than those constituting regular governmental subdivisions, adjoining or contiguous to the above described land and owned or claimed by lessor, all of the foregoing land hereinafter referred to as said land or leased premises, for the purpose of calculating the rental payments for which provision hereinafter is made; said land shall be treated as comprising 177.30 acres whether it actually comprises more or less.

TO HAVE AND TO HOLD the same subject to the other provisions herein contained) for a term of ten years from this date (called primary term) and as long thereafter as oil, gas, casinghead gas or other hydrocarbons or either of any of them, is produced therefrom, or as much longer thereafter as the lesser in good faith shall conduct drilling operations or reworking operations thereon and should production result from such operations, this lease shall remain in full force and effect as long as oil, gas, casinghead gas or other hydrocarbons shall be produced therefrom.

In consideration of the premises it is hereby mutually agreed at follows:

1. The lessor shall deliver to the credit of the lessor avavilably, free of cost, in the pipe line to which lessee may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or lessor may from time to time at its option purchase any royalty oil in its possession, paying the market price thereof prevailing for oil of like grade and gravity in the field where produced on the date of purchase.

2. The lessor shall pay lessor, as royalty, on gas, including casinghead gas or other gaseous substances, produced from the leased premises and sold or used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-eighth of the gas sold or used, provided that on gas sold the royalty shall be one-eighth of the amount realized from such sale. The amount realized from the sale of gas shall be the price established by the gas sales contract entered into in good faith by lessor and a gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessor after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessor compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessor in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed. If a well capable of producing gas or gas and gas-condensate or distillate or gasoline and gasoline condensate or distillate is paying quantities located on the leased premises for acreage pooled with all or a portion of the leased premises into a unit for the drilling or operation of such well, at any time shut-in and no gas or gas-condensate or distillate therefrom is sold or used off the premises for the manufacture of gasoline or other products, nevertheless such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this lease shall continue in force during all of the time or times while such well is so shut-in, whether before or after the expiration of the primary term hereof. Lessor shall use reasonable diligence to market gas or gas-condensate or distillate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in lessor's judgment exercised in good faith, are unsatisfactory. Lessor shall not be obligated to pay or tender to lessor within 45 days after the expiration of each period of one year in length (annual period) during which such well is so shut-in, an amount equal to annual delay rental herein provided applicable to the interest of lessor in acreage embodied in this lease as of the end of such annual period, provided that if gas or gas-condensate or distillate from such well is sold or used as aforesaid before the end of such annual period, or if, at the end of such annual period, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, lessor shall not be obligated to pay or tender, for that particular annual period, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered to lessor or to lessor's credit in the designated depositary bank in the manner prescribed for the payment of delay rentals. Royalty ownership as of the last day of each such annual period as shown by lessor's records shall govern the determination of the party or parties entitled to receive such payment.

3. If operations for the drilling of a new well or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessor shall, on or before one year from this date, pay or tender to the lessor or for the lessor's credit in

Pay Direct To Lessor _____ At _____ ADVO 20235

bank and its successors or assigns agents and which shall continue as the depositary regardless of changes in the ownership of the land or in the oil or gas or the rentals to accrue hereunder, the sum of One Hundred Seventy Seven and 30/100 Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well for a period of one year. In like manner and upon payment of tender to the lessor of a sum of money equal to the amount of the above rental, lessor shall be entitled to extend the primary term of the lease. As soon as is practicable and prior to the consideration first given by lessor, the down payment covers not only the original grant but the date when said rental is payable aforesaid, but also the lessor's option of extending that period aforesaid, and any and all other rights conferred. All payments of tenders may be made by check, draft, or lessor or any assignee thereof, mailed or delivered on or before the rental paying date. Lessor may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered and thereafter the rental payable hereunder shall be reduced in proportion that acreage covered herein is reduced by said release or releases.

4. If prior to discovery of oil or gas on said premises, lessor should drill a dry hole or holes thereon, or after discovery of oil or gas all wells thereon should become incapable of producing for any cause, this lease shall not terminate if lessor commences operations for additional drilling or for reworking within sixty (60) days thereafter or if oil or gas is within the primary term commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of dry hole or cessation of production. If at the expiration of the primary term there is no well upon the leased premises capable of producing oil, gas, casinghead gas or other hydrocarbons, but lessor has commenced operations for drilling or reworking thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than sixty (60) days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil, gas, casinghead gas or other hydrocarbons, so long thereafter as oil, gas, casinghead gas or other hydrocarbons or either of any of them is produced from the leased premises.

5. If said lessor owns a less interest in the above described land than the entire undivided fee simple estate herein, then the royalties and rentals herein provided for shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee.

6. Lessor shall have the free use of oil, gas, casinghead gas and water (irrespective of the source) from said land, except water from lessor's wells, for all operations hereunder, and the royalty on oil, gas, and casinghead gas shall be computed after deducting any so used.

When requested by lessor, lessor shall bury his pipe lines 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.

Lessor shall pay for damages caused by its operations to growing crops on said land.

Lessor shall have the right at any time (but not the obligation) to remove all improvements, machinery, and fixtures placed or erected by lessor on said premises, including the right to plant and remove crops.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto. Notwithstanding any actual or constructive knowledge of or notice to lessor, no change or division in the ownership of the lands, mineral or surface, however accomplished, shall be binding upon lessor, unless lessor receives an option in any event to a copy of the title, and within sixty (60) days after lessor shall have been furnished with the copy, lessor may file with the official recorder of the county where the land or portion thereof is located, or a photostatic of the recorded instrument or instruments evidencing the change or transfer, including any intermediate transfer from the lessor or his assigns or theretofore furnished to lessor, and such change or transfer shall not affect any payment made prior to said date whether or not due. In case of death of any person entitled to receive royalties or rents, the evidence of change in ownership shall consist of letters of administration or final decree of distribution of the estate of the decedent issued by a court of competent jurisdiction of the decedent's estate including his interest in the lands above described. Lessor may, until such date commence to pay such royalties and rentals as such change or transfer had not been made, or may pay the same according to the interests as recorded by the last certification of an abstract in lessor's possession subsequent to the date of the lease, or at lessor's option, may suspend the payment thereof until sixty (60) days after such evidence is recorded. No change or division in the ownership of the land, royalties, or rentals shall operate to enlarge the obligations or diminish the rights of the lessor. No division of royalties shall be made effective except at the end of a calendar month. If the ownership of royalties becomes changed into separate divided portions of said land and the owner of any such royalty desires separate payees for production from such separate tracts, he shall request the lessor to set separate measuring and receiving tanks and pay to the lessor in advance the lessor's estimated cost of procuring and setting such tanks and making the connections therewith, and unless and until such is done, lessor may pay such royalties to the separate owners jointly or may suspend payment until such time as said separate owners shall agree in writing upon an apportionment of such royalties and furnish lessor with the original agreement. In event of assignment of this lease as to a segregated portion of portions of said land, all rental payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. The acreage included in any assignment as related thereto in good faith shall be conclusive for the purpose of payment of rental. Whether or not this lease is owned by one party or by two or more different parties, production under the terms of this lease, or drilling or reworking operations on any portion of the land above described, shall keep this lease in effect upon all the land herein leased. The lessor shall not be liable for the failure of any subsequent owner of this lease, in whole or in part, to perform the terms, conditions and obligations of this lease, express or implied. Offsetting shall never be required or permitted on any portion of the leased premises against drainage unless and until just compensation is made to lessor.

8. Lessor shall have the right to unitize part or combine all or any part of the above described lands 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 of 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 allocated and not to any other tract of land, and the royalty payments to be made hereunder to lessor shall be based upon production units as so allocated. Lessor shall formally express lessor's consent to any co-operative or unit plan of development or operation adopted by lessor and approved by any governmental agency by executing the same upon request of lessor.

BOOK 220 PAGE 158

9. In addition to and not in limitation of the rights granted in paragraph 8 hereof, lessee is hereby granted the right and option to consolidate, pool or combine the lands covered by this lease, or any portion or portions thereof or any stratum or strata thereunder, with other lands or like strata thereunder for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons, or any or all of said products, when in lessor's discretion and judgment it is advisable so as to do the proper development or operation of the premises, or to conform to spacing or pooling rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessor may, even provided that any such unit when completed shall be completed tract or units, and provided, further that any tract or tracts included with some one or more of the other tracts in the unit in such manner as to form one connected tract or units, and provided, further that any tract or tracts included in any such unit separated only by a street, alley, road, railroad, canal, stream, right-of-way or other similar strip or parcel of land that be considered as a unit without regard to boundaries touching within the meaning of this paragraph. Any unit formed under this paragraph by production of oil and casinghead gas shall not exceed one hundred sixty-three (163) acres in surface area, and for production of dry or gas well gas or dry or gas well gas and condensate or dilute or dilute as prescribed or as determined by a lawful authority, then in such event such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this lease, the size of any of the units mentioned herein may be increased to the size of the there existing governmental survey unit nearest in size to the unit acreage prescribed herein. The right and option herein granted to lessor may be exercised at any time or from time to time, whether before or after production has started, and whether or not a unit may therefore have been created for some other product, by executing and filing an instrument identifying and describing the unit created, and by delivering a copy thereof to lessor or by recording a copy thereof in the county where the land is located. The lands in any such unit shall be developed or operated as one tract and any operations for the drilling of a well or on production from such unit, whether or not from lands described in this lease, shall be deemed to be drilling operations on or production on lands subject to this lease for all purposes except for the purpose of payment of royalty hereunder. Provided, further, that any operations for drilling and completing a well on any such unit shall be deemed to be operations on the lands described in this lease and under the terms thereof regardless of whether such operations result in a well of the type covered in the instrument declaring such unit or a well of a type not covered by such instrument. In lieu of the royalties herein specified, the lessor shall receive from production on any such unit only such portion of the royalty, at the rate stipulated elsewhere herein, as lessor's acreage in the unit for his royalty interest thereon bears to the total acreage of the unit. Formation of any unit as herein provided shall in no manner affect the ownership or amount of any rental which may be payable under the terms of this lease.

10. In the interest of conservation, the protection of reservoir pressures and recovery of the greatest ultimate yield of oil and/or gas, lessor shall have the right to combine the leased premises with other premises in the same general area for the purpose of creating and maintaining repressuring and recycling facilities, and for such purpose may locate such facilities, including input wells, upon the leased premises, and no royalties shall be payable hereunder upon any gas used for repressuring and recycling operations benefitting the leased premises.

11. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge any taxes, mortgage, or other liens existing, levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty or rentals accruing hereunder.

12. In the event lessor considers that lessee has not complied with all its obligations hereunder, both express and implied, lessor shall notify lessee in writing, setting out specifically in what respects lessor has breached this contract. Lessor shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any acts by lessor aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessor has failed to perform all its obligations hereunder.

13. All express and implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this lease shall not be terminated, in whole or in part, nor lessor held liable in damage for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation, or if such compliance is prevented by or fails in the result of inability of lessor through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

14. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

15. With respect to and for the purpose of this lease, lessor, and each of them if there be more than one, hereby release and waive the right of homestead.

16. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessors.

WITNESS: witness our hands at the day and year first above written.

Gary Ballenger
Gary Ballenger, attorney in fact for
American Colloid Company

NEVADA INDIVIDUAL ACKNOWLEDGEMENT

STATE OF South Dakota

COUNTY OF Butte

On the 10th day of October, in the year 1990, before me Victoria J. Bertsch known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same:

Victoria J. Bertsch
Notary Public, Lawrence County

Spearfish, SD

Place of Residence

My Commission expires:

May 13, 1991

NEVADA CORPORATE ACKNOWLEDGMENT

STATE OF South Dakota

COUNTY OF Butte

On this _____ day of _____, in the year _____, before me _____, known to me to be the _____ President
Notary Public, personally appeared _____ of the corporation that executed the within instrument and acknowledged to me that such corporation executed the same.

Notary Public

My Commission expires:

Place of Residence

OIL AND GAS LEASE FROM:

TO

State of _____ County _____

This instrument was filed for record on the _____ day of _____ 19_____
at _____ o'clock, _____ M., and duly recorded
in _____ Book _____ Page _____ of the records
of this office.

County Clerk - Register of Deeds
Deputy _____

When recorded return to
By _____

EXHIBIT "A"

Attached to and made a part of Oil and Gas Lease dated October 1, 1990, between American Colloid Company as Lessor, and Loma Energy Corp. as Lessee.

Township 32 North, Range 51 East N.D.M.
Section 14; Survey No 4859, Known as:

Grayhound
Grayhound No. 1
Grayhound No. 2

Section 11 & 14; Survey No. 4862, Known as:

Grayhound No. 3
Grayhound No. 4
Grayhound No. 5
Grayhound No. 6
Grayhound No. 7

Grayhound No. 8, Excepting that portion of Grayhound No. 8,
lying in Section 11, containing 3.54 acres,
more or less.

Lessor and Lessee agreed that Lessee its successors and/or assigns shall consult with Lessor
as to any proposed location or access on the surface of the leased premises in an attempt to
minimize potential interference with Lessor surface mining operations.

Signed for identification Gary Ballenger

Gary Ballenger, attorney in fact for
American Colloid Company

BOOK 220 PAGE 158
OFFICIAL RECORDS
RECORDED AT THE REQUEST OF
Loma Energy Corp.
91 FEB -8 AM 22

EUREKA COUNTY, NEVADA
M.M. REBALLETI, RECORDER
FILE NO. 135806 FEE \$700

BOOK 220 PAGE 160