

135806

OIL AND GAS LEASE

No. 308-P Rev. 1971.

AGREEMENT, Made and entered into this 1st day of October, 19 90, by and between

American Colloid Company

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

parts of the first part, hereinafter called lessor, whether one or more; and Lora Energy Corp., P.O. Box 21395

Billings, Montana 59102 parts of the second part, hereinafter called lessee

WITNESSETH That the lessor and in consideration of Ten and No/100 Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided, and of the agreements of lessee herein contained, hereby grants, demises, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining (and producing oil, gas, casinghead gas and other hydrocarbons and including all other products produced therefrom, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in BURDICK County, State of North Dakota, to-wit:

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

including all minerals hereinafter named underlying seas, streams, roads, easements and rights-of-way which traverse or adjoin 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 rights, any 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 being hereinafter referred to as land and/or leased premises. For the purpose of calculating the rental payments for which provision hereinafter is made, said land shall be treated as comprising 172.30 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 FIVE (5) 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 lessee in good faith shall conduct drilling operations or reworking operations thereon and should be producing therefrom 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 aforesaid mutually agreed as follows: 1. The lessee shall deliver to the credit of the lessor annually, 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 lessee 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 lessee 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 of the gas sold or used, provided that on gas 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 a shut-in, whether before or after the expiration of the primary term hereof. Lessee 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 lessee's judgment exercised in good faith, are unsatisfactory. Lessee shall 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, as royalty, an amount equal to annual delay rental herein provided applicable to the interest of lessee in acreage embraced in this lease at 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, lessee 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 at the designated depository 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 date or dates entitled to receive such payment.

3. If operations for the drilling of a well for oil 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 lessee 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 \$300 at ABOVE ADDRESS or its successor or successors, which

bank and its successors are jointly agents and which shall continue as the depository 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 payments or tenders, the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of the lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check, or cash, or by any means hereinafter provided or before the rental payment date or lessee may at any time accredit 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 rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases.

4. If prior to discovery of oil or gas on said premises lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas all wells thereon should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within sixty (60) days thereafter, or if, within the primary term commencing or resuming the payment or tender of rentals on or before the rental payment 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 lessee has commenced operations for drilling or reworking thereon, the lease shall continue 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 and undivided fee simple estate herein, then the royalties and rentals herein provided for shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

6. Lessee shall have the free use of oil, gas, casinghead gas and water (regardless 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, lessee shall have 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.

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

Lessee shall have the right at any time that not the obligations to remove all improvements, machinery, and fixtures placed or erected by lessee on said premises, including the right to pull and remove casings.

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 lessee, no change or division in the ownership of the lands, royalties or rentals, however accomplished, shall be binding upon the lessee, except at lessee's option in any particular case, until sixty (60) days after lessee shall have been furnished with the original, a copy certified by the official recorder of the county where the land or some part 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 not theretofore furnished to lessee, and such change or transfer shall not affect any payments made prior to said date whether or not due. In case of death of any person entitled to receive royalties or rentals, 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. Lessee may until such date continue to pay such royalties and rentals as if such change or transfer had not been made, or may pay the same according to the interests of record as disclosed by the last certification of an abstract in lessor's possession subsequent to the date of the lease, or at lessee's option, may suspend the payment thereof until sixty (60) days after such evidence is received. 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 lessee. 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 gauges for production from such separate tracts, he shall request the lessee to set separate measuring and receiving tanks and pay to the lessee in advance the lessee's estimated cost of procuring and setting such tanks and making the connections therefor, and unless and until such is done, lessee may pay such royalties to the separate owners pro rata. Lessee may suspend payment until such time as said separate owners shall agree in writing upon an apportionment of such royalties and furnish lessee with the original agreement. In event of apportionment of this lease as to a segregated portion of portions of said land, all rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to their respective surface area of such and default in payment by one shall not affect the rights of other leasehold owners. The acreage included in any assignment as recited therein in good faith shall be conclusive for the purpose of payment of rentals. Whether or not this lease be 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 lessee 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 to protect one portion of the leased premises against drainage through a well or wells on another portion of the leased premises. If six or more parties become entitled to royalty hereunder, lessee may withhold payment thereof unless and until furnished with a reasonable instrument executed by all such parties designating a single party to receive the same for all.

8. Lessee shall have the right to unitize, pool, 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 complied 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 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 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 lessor.

9. In addition to and not in limitation of the rights granted in paragraph 8 hereof, lessor hereby grants 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 the strata thereunder for the development thereof or for the production thereof 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 to do. The proper development or operation of the premises, or to conform to spacing or zoning rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessor may elect provided that any such unit when completed shall be composed of tracts each of which is contiguous to, touches or adjoins with some one or more of the other tracts in the unit in such manner as to form one or more other similar strip or parcel of land that had been considered as contiguous, touching or touching within the meaning of this paragraph. Any unit formed under this paragraph for 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 distillate shall not exceed six hundred sixty-three (663) acres in surface area. If some larger unit for the production of oil and casinghead gas or dry or gas well gas or dry or gas well gas and condensate or distillate is permitted or prescribed by 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 three existing governmental survey unit nearest in size to the unit or units 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 is secured and whether or not a unit may therefore have been created for some other product, by executing or writing 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 unit and any operations for the drilling of a well on or production from such unit, whether or not from lands described in this lease, shall be deemed to be drilling operations on or production secured on lands subject to this lease for all purposes except for the purpose of payment of royalties 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 said 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 royalty rates hereinafter specified, the lessor shall receive from production on any such unit only such portion of the royalties, at the rate stipulated elsewhere hereon, as lessor's acreage in the unit for his royalty interest therein 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 operating 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 benefiting 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 of such lien 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 lessor has not complied with all its obligations hereunder, lessor shall notify lessee in writing, setting out specifically in what respects lessor has breached this contract. Lessee 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 lessor. 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 failure is 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, 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.

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

S. S. # \_\_\_\_\_ S. S. # \_\_\_\_\_  
 S. S. # \_\_\_\_\_ S. S. # \_\_\_\_\_

**NEVADA INDIVIDUAL ACKNOWLEDGEMENT**

STATE OF South Dakota  
 COUNTY OF Butte  
 On this 10th day of October, in the year 1990, before me Victoria J. Bertsch  
 Notary Public, personally appeared Gary Ballenger known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.  
 My Commission expires: May 13, 1991  
 My Commission Expires: Spearfish, SD Place of Residence

*Victoria J. Bertsch*  
 Victoria J. Bertsch  
 Notary Public

**NEVADA CORPORATE ACKNOWLEDGMENT**

STATE OF \_\_\_\_\_  
 COUNTY OF \_\_\_\_\_  
 On this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, before me \_\_\_\_\_, President of the corporation that executed the within instrument and acknowledged to me that such corporation executed the same.  
 My Commission expires: \_\_\_\_\_  
 My Commission Expires: \_\_\_\_\_ Place of Residence

Notary Public  
 \_\_\_\_\_  
 Place of Residence

No. \_\_\_\_\_

**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.

By \_\_\_\_\_  
 County Clerk—Register of Deeds  
 Deputy

When recorded return to \_\_\_\_\_

BOOK 220 PAGE 159

EXHIBIT "A"

Attached to and made a part of Oil and Gas Lease dated October 1, 1990, between American Colloid Company as Lessor, and Lona 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

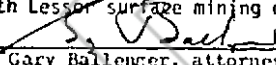
Section 11 & 14; Survey No. 4862, Known as:

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, attorney in fact for  
American Colloid Company

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

EUREKA COUNTY, NEVADA  
M.M. REBALEATI, RECORDER  
FILE NO. 138806 FEE \$ 700

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