

OFFER TO LEASE AND LEASE FOR OIL AND GAS

DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

UNITED STATES

147256

Serial No. N57713

The undersigned (reverse) offers to lease all or any of the lands in Item 2 that are available for lease pursuant to the Mineral Leasing Act of 1920, as amended and supplemented (30 U.S.C. 181 et seq.); the Mineral Leasing Act for Acquired Lands of 1947, as amended (30 U.S.C. 351-359); the Attorney General's Opinion of April 2, 1941 (40 Op. Att. Gen. 41); or the

READ INSTRUCTIONS BEFORE COMPLETING

Energy Partners Nominee Company

C/O Duncan Energy Company

1777 South Harrison Street, P-1

Denver, CO 80210

1. Name  
Street  
City, State, Zip Code

2. This application/offer/lease is for: (Check only One)  PUBLIC DOMAIN LANDS  ACQUIRED LANDS (percent U.S. interest \_\_\_\_\_)  UNIT/PROJECT \_\_\_\_\_

Legal description of land requested:

Parcel No.: NV-93-08-0123

Sale Date (m/d/y): 8/10/93

T. R. Meridian State County

County

Amount required: Filing fee \$ 75.00  
Rental fee \$ 3,360.00  
Total \$ 3,435.00  
Total acres applied for 2,240.00

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. 22 N., R. 54 E., MDM, Nevada

sec. 22, all;

sec. 27, all;

sec. 28, 5/8;

sec. 34, all.

Bureau County 2240.00 Acres

Total acres in lease

2240.00

Rental received \$

3360.00

NOTE: This lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in Item 3 together with the right to build and maintain necessary improvements thereupon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

This lease is issued to the high bidder pursuant to bid/offer duly executed bid or nomination form submitted under 43 CFR 3120 and is subject to the provisions of that bid or nomination and those specified on this form.

THE UNITED STATES OF AMERICA

by

*Glady M. ...*

Chief, Lands and Mineral Leasing Section  
(Signing Officer)

SEP 27 1993

OCT 1 1993

EFFECTIVE DATE OF LEASE

(Continued on reverse)

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28-5108-00

4. (a) Underlined certifies that (1) offeror is a citizen of the United States; an association of such citizens; an association organized under the laws of the United States or of any State or Territory thereof; (2) all parties holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities; (3) offeror's chargeable interests, direct and indirect, in each State or Territory of the United States, do not exceed 246,080 acres in oil and gas leases (of which up to 200,000 acres may be in oil and gas options), or 300,000 acres in leases in each leasing District in Alaska of which up to 200,000 acres may be in oil and gas options; (4) offeror is not in violation of sec. 17(g) of the Mineral Leasing Act, and (5) offeror is in compliance with requirements for all Federal oil and gas leaseholdings as required by sec. 17(g) of the Mineral Leasing Act; (6) offeror is in compliance with the requirements for all leases, whether covers or separate lease that include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from this lease, and any amendments or modifications to this lease, and any amendments or modifications to the offer cannot be withdrawn, either in whole or in part, unless the withdrawal is received by the proper BLM State Office before this lease, an amendment to this lease, or a separate lease, whichever covers the land described in the withdrawal, has been signed on behalf of the United States.

This offer will be rejected and will afford offeror no priority if it is not properly completed and executed in accordance with the regulations, or if it is not accompanied by the required payments, 18 U.S.C. Sec. 1081 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Daily executed this 11th day of August, 1993.

\_\_\_\_\_  
 Agent  
 (Signature of Lessee or Attorney-in-fact)

LEASE TERMS

Sec. 1. Rentals—Rentals shall be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

(a) Noncompetitive lease, \$1.50 for the first 5 years; thereafter \$2.00;  
 (b) Competitive lease, \$1.50 for the first 5 years; thereafter \$2.00;  
 (c) Other, see attachment, or as specified in regulations at the time this lease is issued.

If this lease or a portion thereof is committed to an approved cooperative or unit plan which includes a well capable of producing leased resources, and the plan contains a provision for allocation of production, royalties shall be paid on the production allocated to this lease. However, annual rentals shall continue to be due at the rate specified in (a), (b), or (c) for those lands not within a participating area.

Failure to pay annual rental, if due, on or before the anniversary date of this lease (or next official working day if office is closed) shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by leasee.

Sec. 2. Royalties—Royalties shall be paid to proper office of lessor. Royalties shall be computed in accordance with regulations on production removed or sold. Royalty rates are:

(a) Noncompetitive lease, 12 1/2 %;  
 (b) Competitive lease, 12 1/2 %;  
 (c) Other, see attachment; or as specified in regulations at the time this lease is issued.

Lessor reserves the right to establish reasonable minimum values on products after giving leasee notice and an opportunity to be heard. When paid in value, royalties shall be due and payable on the last day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessor, in merchantable condition on the premises where produced without cost to lessor. Leasee shall not be required to hold such production in storage beyond the last day of the month following the month in which production occurred, nor shall lease be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of leasee.

Minimum royalty in lieu of rental of not less than the rental which otherwise would be required for that lease year shall be payable at the end of each lease year beginning on or after a discovery. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this lease if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (30 U.S.C. 1701). Leasee shall be liable for royalty payments on oil and gas lost or wasted from a lease site in compliance with any rule, regulation, order, or citation issued under FOGRMA or the leasing authority. Sec. 3. Bonds—A bond shall be filed and maintained for lease operations as required under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage—Leasee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require leasee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Leasee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor. Sec. 5. Documents, evidence, and inspection—Leasee shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangements for sale or disposal of production. At such times and in such form as lessor may prescribe, leasee shall furnish detailed statements showing amount and quality of all products removed and sold, improvements, and reports to parties in interest, expenditures, and depreciation information on well surveys and tests, and a report of subsurface investigations and furnish copies to lessor on well surveys and tests. Leasee shall keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or in the leased lands. Leasee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports records, and documentation shall be filed and maintained for lease operations as required under regulations.

Sec. 6. Conduct of operations—Leasee shall conduct operations in a manner that minimizes adverse impacts to the land, air, water, and cultural, biological, visual, and other resources, and to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification of timing or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of elements or right-of-way. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of leasee.

Prior to disturbing the surface of the leased lands, leasee shall contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Leasee may be required to complete minor inventories or short term impact studies under guidelines provided by lessor. If in the context of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unmineralized environmental effects are observed, leasee shall immediately contact lessor. Leasee shall cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations—To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium—Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided for by lease or as an expense or loss to leasee or owner of the gas. Leasee shall include in any contract of sale of gas the provisions of this section.

Sec. 9. Damages to property—Leasee shall pay lessor for damage or harm to persons or property, and shall save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Leasee shall: pay when due all taxes legally assessed and levied under laws of the State or the United States; accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If leasee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to all derived from these leased lands, leasee shall comply with section 28 of the Mineral Leasing Act of 1920.

Leasee shall comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither leasee nor leasee's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, leasee shall file with lessor any assignment or other transfer of an interest in this lease. Leasee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the lease and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such times as all or portions of this lease are returned to lessor, leasee shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of productive wells.

Sec. 13. Proceedings in case of default—If leasee fails to comply with any provisions of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation unless or until the leaseholder contains a well capable of production plan or communitization agreement which contains a well capable of production or unit plan or oil or gas in paying quantities, or the leasee is committed to an approved cooperative or unit plan or communitization agreement which contains a well capable of production or unit plan or oil or gas in paying quantities. This provision shall not be construed to prevent the exercise of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time. Leasee shall be subject to applicable provisions and penalties of FOGRMA (30 U.S.C. 1701).

Sec. 14. Heirs and successors-in-interest—Each obligation of this lease shall extend to and be binding upon, and every benefit hereof shall inure to the heirs, executors, administrators, successors, beneficiaries, or assigns of the respective parties hereto.

DUNCAN ENERGY COMPANY  
 Penthouse One  
 1777 So. Harrison Street  
 Denver, Colorado 80210

BOOK 2817M505  
 17/0703A

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EUREKA COUNTY, NEVADA  
M.N. REBALLET, RECORDER  
FILE NO. 147256  
FEE \$ 900

BOOK 254 PAGE 549  
OFFICIAL RECORDS  
RECORDED AT THE REQUEST OF  
*Lincoln Energy Co*  
93 OCT 29 P4:40

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