

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT OFFER TO LEASE AND LEASE FOR OIL AND GAS

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. Atty. Gen. 41), or the

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)

Parcel No. NV-93-08-0121  
Sale Date (m/d/y): 8/10/93

SEE ITEM 2 IN INSTRUCTIONS BELOW PRIOR TO COMPLETING PARCEL NUMBER AND SALE DATE.

T. Meridian R. State County

Amount remitted: Filing fee \$ 75.00  
Rental fee \$ 2,880.00

Total acres applied for 1,920.00  
Total \$ 2,955.00

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. Meridian R. State County

T. 22 N., R. 54 E., MDM, Nevada  
sec. 09, 11;  
sec. 10, 11;  
sec. 15, 11.  
Eureka County  
1920.00 Acres

Total acres in lease 1920.00  
Rental retained \$ 2880.00

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.

NOTE: This lease is issued to the high bidder pursuant to his/her duly executed bid or nomination form submitted under 43 CFR 3129 and is subject to the provisions of that bid or nomination and those specified on this form.  
Type and primary term of lease:  
 Noncompetitive lease (ten years)  
 Competitive lease (ten years)  
 Other

THE UNITED STATES OF AMERICA  
by Andy M. ...  
Chief, Lands and Mineral Leasing Section  
SEP 27 1993  
EFFECTIVE DATE OF LEASE  
OCT 01 1993  
(Date)

(Continued on reverse)

28-5X09-00

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4. (a) Underlined portion certifies that (1) offeror is a citizen of the United States; an association of such citizens; a municipality; or a corporation 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 public domain and acquired lands separately in the same State, 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 options; (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located; (5) offeror is in compliance with qualifications concerning Federal coal lease holdings provided in sec. 17(a)(2)(A) of the Mineral Leasing Act; (6) offeror is in compliance with requirements for all Federal oil and gas lease holdings as required by sec. 17(b) of the Mineral Leasing Act and (7) offeror is not in violation of sec. 41 of the Act.

(b) Underlined portion certifies that offeror agrees that signature to this offer constitutes acceptance of this lease, including all terms, conditions, and stipulations of which offeror has been given notice, and any amendments or separate lease that may include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from the lease. The offeror further agrees that this offer cannot be withdrawn, either in part, unless the withdrawal is received by the proper BLM State Office before the 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. 1001 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 *Billie Snapp*

(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 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 law, rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

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 specify whether royalty is to be paid in value or in kind, and the right to establish reasonable minimum values on production after giving lessee 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. Lessee 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 lessee be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessee.

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 in paying quantities. 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). Such loss or waste is due to negligence on the part of the operator, or due to the failure to comply 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—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of public interest and to require lessee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for production purposes or operation of area, field, or pool embracing these leased lands. Lessee 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—Lessee 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, lessee shall furnish detailed statements showing amount and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unprofitably lost. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation in the form prescribed by lessor. Lessee shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee 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. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports records, and documents necessary for production purposes or operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 6. Documents, evidence, and inspection—Lessee 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, lessee shall furnish detailed statements showing amount and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unprofitably lost. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation in the form prescribed by lessor. Lessee shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee 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. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports records, and documents necessary for production purposes or operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

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 by lessor at no expense or loss to lessor or owner of the gas. Lessee shall include in any contract of sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessee shall pay lessor for damage to lessor's improvements, and shall have and hold lessor harmless from all claims for damage to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Lessee shall: pay when due all taxes legally assessed and levied under laws of the State or the United States; accord all employees freedom of contract; 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.

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

Lessee 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 lessee nor lessee's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessee shall file with lessor any assignment or other transfer of an interest in this lease. Lessee 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 lessee and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of this lease are returned to lessor, lessee 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 producible wells.

Sec. 13. Proceedings in case of default—If lessee 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 leasehold contains a well capable of production plan or communication agreement which contains a well capable of production or until plan or communication agreement is amended, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time. Lessee 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

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M21115  
U.S. G.P.O. 1982-774-017/87034  
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EUREKA COUNTY, NEVADA  
M. N. REBAL/LEATI, RECORDER  
FILE NO. 147257  
FEE \$9-

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OFFICIAL RECORDS  
RECORDED AT THE REQUEST OF  
*Dunham Energy Co.*  
93 OCT 29 P4:40

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