

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

Serial No.

N-51266

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

READ INSTRUCTIONS BEFORE COMPLETING

1. Name Douglas J. Isern
Street P.O. Box 276
City, State, Zip Code Golden, CO 80402

137514

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

Surface managing agency if other than BLM: _____ Unit/Project _____

Legal description of land requested: _____ *Parcel No.: HV-05-89-073 *Sale Date (m/d/y): 6 9 89

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

T. _____ R. _____ Meridian _____ State _____ County _____

Amount remitted: Filing fee \$ _____ Rental fee \$ _____ Total acres applied for _____
Total \$ _____

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. _____ R. _____ Meridian _____ State _____ County _____

T. 18 N., R. 51 E., MDM, Nevada (Pro. Dia. No. 116)
sec. 06, lots 1-7, S1/4, SE1/4, E1/4, S1/4, SE1/4;
sec. 07, lots 1-4, E1/4, E1/4;
sec. 18, lots 1, 2, E1/4.

Eureka County, Nevada

Total acres in lease 1619.39
Rental retained \$ 2430.00

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 3120 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 (five years)

Other _____

THE UNITED STATES OF AMERICA

Acting Whitney M. Swann
Chief, Branch of Minerals Operations MAY 19 1989
(Title) (Date)

EFFECTIVE DATE OF LEASE JUN 1 - 1989

(Continued on reverse)

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4. (a) Undersigned certifies that the oil and gas interests in the oil and gas lease are in compliance with 43 C.F.R. 170.101 and the leasing and mining activities are chargeable interests, direct and indirect in either public domain or acquired lands not exceeding 240,000 acres in Federal oil and gas leases in the same State, of which not more than 200,000 acres are held under option, or 300,000 acres in leases and 200,000 acres in options as called leasing District in Alaska, (b) oil and gas interests are not considered a minor interest of the State in which the lands covered by this offer are located, (c) offer is in compliance with provisions concerning Federal oil and gas lease buildings provided under 28 USC 2401 of the Mineral Leasing Act, and (d) offer is in compliance with reclamation requirements for all Federal oil and gas lease activities as required by sec. 104 of the Mineral Leasing Act, and (e) offer is not in violation of sec. 41 of the Act.

(b) Undersigned 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 an amendment 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 this lease. The offeror further agrees that this 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 be of no effect if it is not properly completed and executed in accordance with the regulations, or if it is not accompanied by the required payments, 43 U.S.C. Sec. 1601 makes it a condition of this offer that any person knowingly and willfully to make to any Department of the United States any false, fictitious or fraudulent statements or representations in any matter within its jurisdiction.

Duly executed this 26th day of May 1987

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) Non-competitive lease, \$1.50 for the first 5 years, thereafter \$2.00.
- (b) Competitive lease, \$1.50 for primary term, 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 reclamation plan which includes a well capable of producing recoverable resources, and the plan contains a provision for allocation of production, royalties shall be paid in the production office and 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 for next official working day of office is cause which shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by lessee.

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) Non-competitive 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.

Lessee reserves the right to specify whether royalties are to be paid in kind or in kind, and the right to establish reasonable minimum rates on products after paying lesser notice and an opportunity to be heard. When paid in kind, 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 marketable 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 kind or in kind of 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 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 insure the prompt 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 (43 CFR 170.101). Lessee shall be liable for royalty payments on oil and gas produced or saved from a lease site when such lessor or waste production is on the part of the operation on the land subject to royalty with full, regulation, order, or citation issued under FURDAMA 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, mitigation, and drainage. Lessee shall exercise reasonable diligence in developing and producing and shall prevent unnecessary damage by loss of, or waste of, leased resources. Lessee reserves the right to modify the development and production in the public interest and to require lessee to submit to a review of development and production, within 30 days of notice of denial or cessation, for proper development and operation on area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to produce leased lands from drainage or pay compliance wells for drainage in amount determined by lessor.

Sec. 5. Examinations, evidence, and inspection. Lessee shall file with proper office of lessor, not later than 30 days after discovery date thereof, an inventory of production facilities, including the site of or operation of production. At such times and on such terms as may be practicable, lessor shall have the right to examine and audit all production facilities, including the site of or operation of production, and amount used for production purposes or immediately lost. Lessee may be required to furnish plans and statistical charts showing development, well, and production improvements, and reports with a particular emphasis on monitoring, development, and production costs. In the event a well is shut-in, lessor shall have the right to inspect, record, and photograph well surveys and logs, and to use all subsurface information and information to be known when required. Lessee shall keep production and lease records for inspection by lessor, authorized representatives of lessor, the leased premises, and the Secretary, and shall maintain accurate records, including production, and all books, accounts, maps, and other records, in operation, lease agreements, operating records, and volumetric calculations, for production, for the term of this lease and for the period of time specified in the regulations that apply.

costs claimed as maintenance, preparation and transportation costs. All such records shall be maintained in lessor's accounting office for future audit by lessor. Lessee shall maintain required records for 5 years after they are generated or if an audit or investigation is underway, until release of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section shall be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations. Lessee shall conduct operations in a manner that minimizes adverse impacts to the land and water, including cultural, biological, visual, and other resources, and to other land uses or interests. Lessee shall take reasonable measures deemed necessary by lessor 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 to timing or design of facilities, timing of operations, and specification of water and fluid reclamation measures. Lessee reserves the right to continue existing operations, and shall not be required to cease operations on the leased lands, including the approval of completion of fields or fields of fields, which may be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessor.

Prior to distributing the surface of the leased lands, lessor shall contact lessor to be apprised of procedures to be followed and modifications or to mitigation measures that may be necessary. Areas to be disturbed may require monitoring or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minimum surveys or short term special studies under guidelines provided by lessor. In the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessor shall immediately contact lessor. Lessee shall cease 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 obtain approval of such operations.

Sec. 8. Production of helium. Lessee reserves the option of extracting or having extracted helium from gas production from a natural gas well and by means provided by lessor at no expense or financial loss to or over the cost. 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 save and be held liable for damage to, destruction of, or harm to persons or property as a result of lease operations.

Sec. 10. Protection of electric interests and third parties. Lessee shall pay when due all taxes legally assessed and is not an agent of the State or the United States, and all employees complete freedom of public time, pay at least twice each month in lump sum money of the United States, maintain safe working conditions in accordance with standard industry practices, and take measures necessary to protect the health and safety of the public.

Lessee reserves the right to acquire the production from a well at reasonable prices and to present members. If lessor operates a pipeline system controlling interest in a pipeline or a company operating a pipeline, which may be acquired or controlled or otherwise from these leased lands, lessor shall comply with section 28 of the Mineral Leasing Act of 1920.

Lessee shall comply with section 2401 of the Mineral Leasing Act of 1920, as amended, and regulations and all conditions of the Secretary of Labor pursuant thereto. Neither lessor nor lessor's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease. As required by regulations, lessor shall file with lessor and a copy of any transfer of an interest in this lease. Lessee may relinquish this lease or any part of it by submission 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 lessor and survey to pay all accrued rentals and royalties.

Sec. 12. Rights of production. At such time as all or part of this lease are returned to lessor, lessor shall place affected wells in a condition for suspension or abandonment, reclaim the land as specified by lessor and having a reasonable period of time remove equipment and improvements not deemed necessary by lessor for preservation of productive wells.

Sec. 13. Production of oil and gas. Lessee shall comply with any provisions of this lease, and the terms of this lease, and shall file with lessor after written notice thereof, this lease shall be subject to the provisions of this lease. If the lease contains a well capable of production, Lessee shall be required to produce oil and gas in accordance with an approved cooperative or unit well arrangement, or if it is not possible, a well capable of production of limited quantities in paying quantities, the production shall not be construed to prevent the exercise by lessor of any other right or interest, including water of the defendant. Any such inclusion of water shall not prevent the defendant from the same defendant as in any other case. Lessee shall be required to file production and production of FURDAMA 50 U.S.C. 1011.

Sec. 14. Heirs and successors in interest. The obligations 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 lessor or the lessee parties hereto.

COPY

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OFFICIAL RECORDS
RECORDED AT THE CLERK'S OFFICE OF
Trans-Western
91 AUG 28 AM 10:08
Petroleum, Inc.
EUREKA COUNTY, NEVADA
M.N. REBALCAT RECORDS
FILE NO. FEES 700

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