

Lincoln County

LEASE AGREEMENT

THIS LEASE AGREEMENT, made and entered into this July 1, 1986  
by and between West Virginia Sioux Coal Corp. (hereinafter referred  
to as "LESSOR") and Blue Mining Partnership, Ltd. (hereinafter referred  
to as "LESSEE").

WITNESSETH:

WHEREAS, LESSOR now owns certain mineral rights to mine Ore  
(the "Ore") and a lease hold estate covering lands and minerals located  
in Lincoln County, Nevada called Castle Claim #6 (collectively referred  
to as the "LEASE"); and,

WHEREAS, LESSOR desires to lease, let and demise unto LESSEE;  
and, LESSEE desires to acquire from LESSOR, for the consideration  
hereinafter set forth, the right and privilege to mine and remove all of  
the merchantable and mineable Ore in, on, and underlying the lands  
described as follows: the 160 acre Castle Claim #6 described as S.E.  
quarter of section 31, T12S, R66E in Lincoln County, comprising a  
portion of said lands and minerals covered by the LEASE, subject to the  
terms and conditions of the LEASE and to the provisions hereof (hereafter  
referred to as the "LEASE").

NOW THEREFORE, for and in consideration of the payment of the  
consideration set forth herein, the performance and observance of the  
mutual covenants, terms and conditions herein contained the parties  
agree as follows:

1. RIGHTS GRANTED.

A. LESSOR hereby leases, lets and demises the Property to  
LESSEE, its respective successors and assigns for the period of time  
set forth herein, together with the sole and exclusive right to mine,  
excavate, remove, process, transport, ship and market the Ore on or  
underlying the PROPERTY.

B. LESSOR further gives, grants, conveys and demises unto  
LESSEE, so long as this LEASE is in effect, all of the mining rights,  
easements and privileges owned by LESSOR with respect to the PROPERTY  
under the provisions of the LEASE and which it has the right to grant,  
including, but not limited to, the following rights and privileges;  
insofar as they are not inconsistent with the duties of the LESSOR.

(1) The right and privilege of ingress, egress and regress  
in to, upon, over, across and through said PROPERTY and the surface and  
subsurface of the PROPERTY, at such points and in such manner as LESSEE

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may deem necessary or convenient for the purpose of prospecting, exploring, investigating, core drilling, testing, developing, mining, removing, producing, storing, processing, washing, cleaning, transporting, marketing and shipping Ore from the PROPERTY (hereinafter collectively referred to as the "OPERATIONS").

(2) The right to construct, operate, use and maintain such roads, tram roads, railroads, and other ways, building, stock-piles, telephone and telegraph wires, electric transmission lines, power houses, transformers, chops, tipples, bings, chutes, picking tables, sluices, sediment basins, silt dams, washing, processing, cleaning and other machinery and equipment upon the PROPERTY as may be necessary or convenient to the OPERATIONS on the PROPERTY.

(3) The right and privilege to deposit upon the surface such earth, rock, stone, slate, gob and other refuse and waste material as may be produced in connection with the LESSEE'S OPERATIONS hereunder, and the right to take and use from the PROPERTY, any such materials produced from the OPERATIONS hereunder or found upon said PROPERTY for the purpose of utilizing same in building such roads, ramps, dams, fills or other facilities as may be necessary or convenient to the OPERATIONS hereunder.

(4) The right and privilege to use, impound, or drain water upon and over the surface of the PROPERTY by any means and to use, change, divert, increase, decrease, or destroy such dams, impoundments, surface, and underground or subterranean streams, springs, or percolating water as may be necessary or convenient to the OPERATIONS hereunder.

(5) All mining rights, easements, and privileges as may be necessary or convenient for the economical mining by the placer method or any other methods or processes of mining, regardless of whether now known, or hereafter developed, or, any combination of same.

C. The foregoing rights and privileges granted to LESSEE are granted only to the extent of LESSOR'S power to grant same are limited to such as LESSOR possesses and has the lawful right to grant and are made subject to all reservations, covenants, and conditions contained in or referred to in the LEASE.

D. Notwithstanding any provisions to the contrary contained herein, LESSOR EXCEPTS and RESERVES unto itself, its successors and assigns, the following:

(1) Full and free rights of ingress, egress and regress into, upon, over, across and through the surface and sub-surface of the PROPERTY for purpose of access to and the exploration, development and operation of properties now held, or hereafter acquired, by LESSOR or by its assignees, by deed, lease or otherwise.

(2) The right to use jointly and in common with LESSEE any, and all, roads or other ways constructed on the PROPERTY, without charge for wheelage, which right shall be exercised so as to avoid unreasonable interference with, or adverse effect upon, LESSEE'S existing or proposed OPERATIONS hereunder.

2. TERM. Unless sooner terminated in the manner herein provided, the term of this LEASE shall begin on the date hereof and continue for an initial term of Ten (10) years with an option to renew for an indefinite period so long as the Operations on the Property continues.

3. DEVELOPMENT AND OPERATION. LESSEE shall promptly and diligently commence OPERATIONS on the PROPERTY in a proper, skillful and workmanlike manner so as to recover the greatest amount of mineable and merchantable Ore from the PROPERTY which can be mined with modern machinery and equipment and consistent with good mining practices, having due regard for the development of the entire PROPERTY and the future development thereof; and, so as to avoid unnecessary damage, and shall comply with all laws, regulations and ordinances now in effect or which may be hereafter enacted by State or Federal Government, or, any agency or political subdivisions thereof, relating to, or governing, directly or indirectly, mining practices and procedures, reclamation, air or water pollution control, health and safety, and related subjects.

4. ROYALTY. LESSEE agrees to pay to the LESSOR at its office in Elkins, West Virginia, or at such other place as the LESSOR may designate in writing on or before December 31 of each year a Royalty in an amount equal to Ten (10%) percent of the sales proceeds or gross smelting price (whichever is lower) received by the Lessee for each ounce of gold, silver or other metals, removed and sold from the PROPERTY.

5. PAYMENT OF LESSOR'S ROYALTIES.

A. LESSEE is hereby given permission to pay for and on behalf of LESSOR on, or before, the date the same shall become due and payable to the LESSOR under the Lease, each of LESSOR'S royalty or other obligations thereunder; provided the LESSEE shall simultaneously pay

to LESSOR the difference, if any, between the royalties reserved hereunder and the royalties so paid to the party leasing the Property to the LESSOR: and, shall deliver to LESSOR evidence of such payment within thirty (30) days after LESSOR may request the same. Any such payments by LESSEE on behalf of LESSOR shall constitute a credit against royalties payable hereunder.

B. The payment of any royalties by LESSEE on behalf of the LESSOR under the LEASE shall not constitute an attornment.

6. INSPECTION OF RECORDS. LESSEE agrees to keep accurate and correct books of accounts and records showing all metals mined, removed, and sold from the PROPERTY, and such other information as may be pertinent to LESSEE'S obligations hereunder.

7. TAXES.

A. LESSEE covenants and agrees to assume and pay all taxes, assessments and governmental charges that may be levied or assessed against the estate, rights, and privileges granted hereby, the metals mined or sold hereunder, any mining equipment owned or leased by LESSEE and placed upon the PROPERTY, and/or any improvements and fixtures erected by LESSEE thereon.

B. LESSOR shall pay all taxes, assessments and governmental charges that may be levied or assessed against the estate rights, and privileges reserved hereunder and on, or based upon, the income received by it under the provisions hereof.

C. LESSEE shall have the right, at its option, to pay any taxes, assessments or governmental charges levied against the PROPERTY which is in default, regardless of whether any lien or encumbrances has then attached or been perfected; and, unless payable by them hereunder, to set off and deduct any amounts so paid from sums otherwise due to LESSOR hereunder.

8. SECURITY INTEREST. To secure the due and punctual payment of amounts from time to time payable to LESSEE under this LEASE grants to LESSOR a mortgage on, and a security interest in, the below described PROPERTY (collectively the "COLLATERAL").

A. The PROPERTY.

B. All improvements, buildings, structures, equipment, machinery and other personal property of LESSEE used in connection with the OPERATIONS on the PROPERTY.

C. All proceeds realized after a default, as defined hereunder, from such properties described in Sub-paragraphs A and B above, including, without limitation, insurance proceeds from any

loss or damage to the PROPERTY and other proceeds of any kind resulting from any event of loss with respect to the PROPERTY: provided, however, that except as hereinafter specifically set forth in this provision, the LESSOR shall look only to the Collateral for payment of LESSEE obligations secured hereby.

9. EVENT OF DEFAULT. If LESSEE shall default in the payment of any royalties and/or monies required hereunder, when the same shall become due and payable, and such default shall not have been remedied within thirty (30) days after written notice thereof shall have been received by LESSEE from LESSOR, then there shall be an event of default.

10. REMEDIES/FORFEITURE. If any event of default occurs, then, in that event, and as often as the same occurs, LESSOR may, at its option exercised by written notice to LESSEE terminate this LEASE and declare it forfeited, and hold and possess the PROPERTY.

11. FORCE MAJEURE. In the event LESSEE is rendered unable in whole, or in part, by a force majeure, to carry out its respective obligations under this LEASE, such obligations so far as they are affected by such force majeure shall be suspended during the continuance of any liability so caused. The term "force majeure" as used herein shall include, without limitation, Acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, riots, epidemics, lightning, earthquakes, explosions, mine accidents, accidents or repairs to machinery or pipes, delays of carriers, partial or complete embargoes of transportation, interruption in normal transportation, inability to obtain materials, or rights of way on reasonable terms, acts of public authorities, or any other causes, whether or not of the same kind enumerated herein, not within the control of the LESSEE and which, by the exercise of due diligence, LESSEE is unable to overcome.

12. WAIVER. The failure of either party to insist, in any one or more instances, upon strict performance of any one of the provisions of the LEASE or to enforce any of its rights hereunder, shall not be considered a waiver of any such provisions or rights, but the same shall continue and remain in full force and effect.

13. REMOVAL OF PROPERTY. Upon termination of this LEASE, whether by its terms, agreement, forfeiture or surrender, LESSEE shall have one hundred twenty (120) days to enter upon the PROPERTY and to remove therefrom all equipment, machinery, supplies, structures, tanks, and other items of personalty, and all fixtures owned by LESSEE, provided that all sums due and owing to LESSOR hereunder shall have been paid. Any such property not so removed within said one hundred twenty (120) day period shall become the property of LESSOR.

14. LESSOR'S WARRANTIES.

A. LESSOR represents, warrants, covenants and agrees that:

- (1) It is validly organized and existing in good standing under the laws of the state of its organization;
- (2) It is the owner of the leasehold, estate and mineral rights created or granted by the LEASE;
- (3) The LEASE is valid and subsisting; is not in default; and grants all rights necessary for the conduct of the OPERATIONS upon the lands described therein;
- (4) LESSOR has good and lawful right to LEASE the Ore lying in, on, and under the PROPERTY to LEASE as herein done;
- (5) Upon proper execution and recording of this LEASE, LESSEE shall have the exclusive right to mine and remove the Ore in, on, and under the PROPERTY;
- (6) LESSOR has granted to LESSEE hereunder the entire economic interest in the PROPERTY so that LESSEE will be entitled to any and all depletion available in respect of the PROPERTY pursuant to the Internal Revenue Code of 1954, as amended, and any similar state or local tax laws applicable to the PROPERTY or income therefrom.
- (7) LESSOR will not well or assign or offer to sell or assign or otherwise transfer an or all of the PROPERTY, either in whole or in part, or any interest therein, without the written consent of LESSEE; and
- (8) The PROPERTY will be kept free from any claim, adverse lien, security interest or encumbrance attributable to LESSOR; LESSOR WARRANTS GENERALLY the title to the leasehold estate granted herein and hereby, subject to the terms of the LEASE, LESSOR agrees to indemnify and hold harmless LESSEE from any loss, liability, claim, damage, or expense, resulting from any defect of title and further agrees to assume and bear the expenses of the defense of any action brought against LESSEE as a result of any title defect; and LESSOR covenants that it will take no action or omit to take any action which would result in the amendment, modification, cancellation or termination of the LEASE. If LESSOR fails to perform any of such covenants and agreements, LESSEE shall have the right to make the same and to perform such obligation and deduct the amount thereof from (and thereby reduce) any payment otherwise due to the LESSOR.

B. In the event that title to any portion of the leasehold estate granted herein is defective or any portion of the leasehold estate is being used or exploited by any person having the right to so use or exploit it; and LESSEE is thus prevented or restricted from conducting mining operations thereon, regardless of whether such defect or right appears of record, and such defect can not be cured by LESSOR or restriction lifted within sixty (60) days following written notification thereof to LESSOR, LESSOR shall substitute other Ore bearing property and leasehold estates now owned or hereafter acquired by LESSOR, containing substantially equivalent recoverable reserves of Ore of at least equal quality, containing terms no more onerous than the terms of the LEASE and said substituted leases and leasehold estates shall be treated as if it was the PROPERTY as originally described and all references to the PROPERTY contained herein shall include such substituted leases and leasehold estates.

15. LIMITATION OF LIABILITY. Except as warranted in Paragraph 14 above with respect to the warranties of the LESSOR, neither LESSOR nor LESSEE nor their respective nominees, successors, assigns, employees, agents, or any person or entity controlled by them or with which they are affiliated shall initiate, seek, pursue, or participate in any action, legal or equitable including but not limited to, any attempt to obtain money, damage, or deficiency judgments, against LESSEE or LESSOR, as the case may be, their respective heirs, executors, administrators, successors, or assigns, in their capacity as LESSEE or LESSOR under the LEASE it being agreed that:

A. With respect to LESSEE, only its interest in collateral shall be subject to execution, attachment, or any other claim or proceeding on account of any obligation of LESSEE hereunder, and

B. With respect to LESSOR, only the interest of LESSOR under the LEASE and the LEASE, shall be subject to execution, attachment, or any other claim or proceeding on account of any obligation of LESSOR hereunder (except as provided in Paragraph 14).

16. NOTICES. Any notice, consent, communication, or delivery which is permitted or required under this LEASE shall be duly and properly given if in writing and either delivered personally to the person to whom it is authorized to be given, or, if sent, by registered or certified mail, return receipt requested, postage prepaid, or, by telegraph as follows:

LESSOR: West Virginia Sioux Coal Corp.  
P.O. Box 1514  
Elkins, West Virginia 26241

Changes of address or parties to be notified, shall be accomplished in like manner.

17. ENTIRE AGREEMENT. This LEASE incorporates the entire agreement among the parties hereto with respect to the matters contained herein.

18. AMENDMENTS. Any amendment to this LEASE shall be in writing and signed by all parties hereto.

19. PARTIES BOUND. This LEASE shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.

20. ASSIGNING OR SUB-LETTING. The LESSEE shall not have the right to assign or sub-let his interest in this LEASE without the written consent of LESSOR.

21. GOVERNING LAW. This LEASE shall be interpreted and construed in accordance with the laws of the State of New York.

22. CAPTIONS. The captions used in this LEASE, are inserted for convenience only and shall be ignored in interpreting or construing the terms hereof.

23. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of this 15<sup>th</sup> day of July, 1986.

LESSOR:

West Virginia Sioux Coal Corp.

By: [Signature]  
President

LESSEE:

Blue Star Mining Company, Inc.

By: [Signature]  
General Partner  
Blue Mining Partnership, Ltd.

No. 85303  
FILED AND RECORDED AT REQUEST OF  
Dennis J. McLaughlin  
July 18, 1986  
AT 1 MINUTES PAST 1 O'CLOCK  
P.M. IN BOOK 71 OF OFFICIAL  
RECORDS, PAGE 289 LINCOLN  
COUNTY, NEVADA

TURIKO SEITZER  
COUNTY RECORDER

By [Signature] Deputy