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Form 3100-11 (August 1987)

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

Serial No. N-47669

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned proposes 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 (40 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Opinion of April 2, 1961 (40 Op. Atty. Gen. 41). Signatory certifies compliance with qualifications concerning Federal coal lease holdings provided in Sec. 202(a) of the Mineral Leasing Act.

Read Instructions Before Completing

1 Name Gary Williams Oil Producer, Inc.
Street 715 Inverness Drive East
City, State, Zip Code Englewood, CO 80112-9110

2 This offer lease is for (Check Only One) PUBLIC DOMAIN LANDS ACQUIRED LANDS - private U.S. interest

Surface managing agency of other than BLM

Lease Project

Legal description of land requested

Table with columns: T, S, R, Section, Meridian, Township, Range, Section, Township, Range, Section, and Note and Lincoln. It lists various sections (e.g., SEC. 12, 17, 20) and their corresponding townships and ranges.

Amount estimated. Filing fee \$ 20.00 Rental fee \$ 9349.00 Total acres applied for 9349.02 Total \$ 9349.00

3. Land included in lease

DO NOT WRITE BELOW THIS LINE

T. B. Meridian State County

SAME AS ITEM 2

OFFICIAL RECORDS
RECORDED BY
Gary Williams Oil Prod.
88 FEB -8 P3:53
202210

NOT IN A KNOWN GEOLOGICAL STRUCTURE

FEE 9.00 DEP. 888

Total acres in lease 9349.02
Rental received \$ 9349.00

In accordance with the above offer, or the previously submitted simultaneous oil and gas lease application or competitive bid, this lease is issued granting the nonexclusive right to conduct oil and gas geophysical exploration, and 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 2 together with the right to construct 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.

Type and primary term of lease:

- Simultaneous noncompetitive lease (two years)
Regular noncompetitive lease (ten years)
Competitive lease (five years)
Other

THE UNITED STATES OF AMERICA

Chief, Branch of Lands and Minerals Operations

JAN 13 1988

EFFECTIVE DATE OF LEASE

FEB 01 1988

*Formulary 3100-1, 2, 3, 3020-1, 7, 3030-4, 5, and 7)

4. (a) Undersigned 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 either public domain or acquired lands do not exceed 200,000 acres in oil and gas options or 246,000 acres in options and leases in the same State, or 300,000 acres in leases and 200,000 acres in options in either leasing District in Alaska, and (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located. (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 any 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 part, unless the withdrawal is received by the 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. 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.

GARY-WILLIAMS OIL PRODUCER, INC.

Day executed this 28th day of December 19 87

Pat Keating, Attorney-in-Fact (Signature of Lessee's 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) Simultaneous noncompetitive lease, \$1.00 for the first 5 years, thereafter, \$3.00.
(b) Regular noncompetitive lease, \$1.00
(c) Competitive lease, \$2.00, or
(d) Other, see attachment

If all or part of a noncompetitive leasehold is determined to be within a known prehistoric structure or a favorable petroleum geological province, annual rental shall become \$2.00 beginning with the lease year following in date of such determination. However, a lease that would otherwise be subject to rental of more than \$2.00 shall continue to be subject to the higher rental.

If the 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), (c), or (d) 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 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) Simultaneous noncompetitive lease, 12 1/2%.
(b) Regular noncompetitive lease, 12 1/2%.
(c) Competitive lease, see attachment, or
(d) Other, see attachment

Lessor reserves the right to specify whether royalty is to be paid in value or in kind, and the right to establish reasonable maximum values on products 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 load 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 shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at end of lease year. 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 amount charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (96 Stat. 2447). Lessee shall be liable for royalty payments on oil and gas lost or wasted from a lease site when 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 canon issued under FOGRMA or the leasing authority.

Sec. 3. Bonds—Lessor shall file and maintain any bond requested under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage—Lessor 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 times of development and production in the public interest and to require lessee 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. Lessee shall drill and produce wells necessary to protect leased lands from drainage or any compensatory royalty for damage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection—Lessor shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessee shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidably lost. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports 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 documents such as billings, invoices, or similar documents that

supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained at lessee's accounting offices for future audit by lessor. Lessee shall maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released 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—Lessor shall conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. 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 siting or design of facilities, timing of operations, and specification of erosion 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 easements or rights-of-way. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee 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. Lessee may be required to complete inventories or short term special studies under guidelines provided by lessor. If 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 lessee. Lessee 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 by lessor at no expense or loss to lessee or owner of the gas. Lessee shall include in any contract or sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessor shall pay lessor for damage to lessor's improvements, 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—Lessor shall, 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 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.

Lessor 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 lessor 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. Lessor 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. Lessee shall also be subject to applicable provisions and penalties of FOGRMA (96 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be cancelled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor 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.

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 herein.

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

The foregoing instrument was acknowledged before me this 28th day of December, 1987, by PAT KEATING, as Attorney-in-Fact for GARY-WILLIAMS OIL PRODUCER, INC., a Delaware Corporation, on behalf of the corporation.

WITNESS my hand and official seal.

My Commission Expires:
Sept. 23, 1990

Mary Kay White
Mary Kay White, Notary Public
115 Inverness Drive East
Englewood, Colorado 80112

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UNSTABLE SOILS SPECIAL STIPULATION

The following described lands contain unstable/highly erodible soils. Therefore, prior to entry onto the lands, the lessee (operator) will discuss the proposed activities with the Bureau of Land Management's authorized officer. Additional measures for the protection of the soils may be required. Such measures may include:

- a. No surface occupancy of selected areas;
- b. Restriction on surface entry during periods of excessive runoff; and/or
- c. Special reclamation techniques.

Description of Lands

Parcel NV-178	All lands
Parcel NV-179	secs. 16, 17, 18, 19, 20, 21, 28, 29, 30, 31, 32, 33
Parcel NV-189	secs. 33, 34
Parcel NV-180	All lands
Parcel NV-181	secs. 13, 14, 15, 16, 17, 18, 20, 21, 22, 23, 24
Parcel NV-182	secs. 25, 26, 27, 28, 29, 31, 32, 33, 34, 35, 36
Parcel NV-183	secs. 13, 23, 24
Parcel NV-184	secs. 25, 26, 34, 35, 36, T. 4 N., R. 58 E.
Parcel NV-192	sec. 6
Parcel NV-193	secs 13, 16
Parcel NV-194	secs 26, 27, 28
Parcel NV-223	sec. 28
Parcel NV-202	sec. 10
Parcel NV-225	secs. 8, 10, 11, 15, 16
Parcel NV-217	secs. 8, 9
Parcel NV-249	secs 2, 3, 4, 9, 10, 11, 16, 20, 21, 22

NOTICE TO LESSEE

Provisions of the Mineral Leasing Act (MLA) of 1920, as amended by the Federal Coal Leasing Amendments Act of 1976, affect an entity's qualifications to obtain an oil and gas lease. Section 2(a)(2)(A) of the MLA, 30 U.S.C. 201(a)(2)(A), requires that any entity that holds and has held a Federal coal lease for 10 years beginning on or after August 4, 1976, and who is not producing coal in commercial quantities from each such lease, cannot qualify for the issuance of any other lease granted under the MLA. Compliance by coal lessees with Section 2(a)(2)(A) is explained in 43 CFR 3472.

In accordance with the terms of this oil and gas lease with respect to compliance by the initial lessee with qualifications concerning Federal coal lease holdings, all assignees and transferees are hereby notified that this oil and gas lease is subject to cancellation if: (1) the initial lessee as assignor or as transferor has falsely certified compliance with Section 2(a)(2)(A) or (2) because of a denial or disapproval by a State Office of a pending coal action, i.e., arms-length assignment, relinquishment, or logical mining unit, the initial lessee as assignor or as transferor is no longer in compliance with Section 2(a)(2)(A). The assignee or transferee does not qualify as a bona fide purchaser and, thus, has no rights to bona fide purchaser protection in the event of cancellation of this lease due to noncompliance with Section 2(a)(2)(A).

Information regarding assignor or transferor compliance with Section 2(a)(2)(A) is contained in the lease case file as well as in other Bureau of Land Management records available through the State Office issuing this lease.

88353

FILED AND RECORDED AT OFFICE OF
CLERK-Williams Oil Producer
March 10, 1988

A-1
P. 78
RECORDS 663
CLERK, NEWADA

FRANK C. HULSE
COUNTY RECORDER

By *Maria Conlin* Deputy