

Lincoln County

Form 1168-11
(Rev. 12/84)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial No.

N-53609

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (offeror) 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 **Hixon Development Company**
Street **Post Office Box 2810**
City, State, Zip Code **Farmington, New Mexico 87499**

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. **NV-05-90-150**

*Sale Date (m/d/y): **5 / 8 / 90**

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

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

Amount remitted: Filing fee \$ **75.00**

Rental fee \$ **2880.00**

Total acres applied for **1920.00**
Total \$ **2955.00**

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

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

T. 08 N., R. 04 E., MDM, Nevada

sec. 22, all;

sec. 27, all;

sec. 36, all.

Lincoln County, Nevada

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 in a specific provision 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

By *Frank Cochran*

Chief, Minerals Section

(Signing Officer)

MAY 29 1990

(Title)

(Date)

EFFECTIVE DATE OF LEASE

MAY 1 1990

BOOK

91 PAGE 378

Ind.

Lincoln County

in either public domain or acquired lands do not exceed 240,000 acres in Federal lands and pay lease to the same State, of which not more than 240,000 acres are held under option, or 100,000 acres in leases and 200,000 acres in options to either leasing District in Alaska, (4) offeror is not considered a major under the laws of the State in which the lands covered by the offer are located, (5) offeror is in compliance with qualifications concerning Federal coal lease holdings provided in sec. 2012(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(g) of the Mineral Leasing Act, and (7) offeror is not in violation of sec. 41 of the Act.

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.

Duly executed this 8th day of May, 1990. Hixon Development Company. Charles Orin Foster, Vice President.

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 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 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 is a material breach of this lease. If the lease 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 in 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 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 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 lessor.

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). 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 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—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 rates of development and production in the public interest and to require lessee to subscribe to a cooperative 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 amounts 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 plots and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs. 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 relating to operations, surveys, or investigations on or on 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

costs claimed in manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessee's accounting offices 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 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 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 easements or right-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 minor 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, lessee shall immediately contact lessor. 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 of 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: 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 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 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. 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 of oil or gas in paying quantities, or the lease is committed to an approved cooperative or unit plan or communitization agreement which contains a well capable of production of oil or gas in paying quantities. 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. Lessee shall be subject to applicable provisions and penalties of FOGRMA (30 U.S.C. 1706).

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.

Lincoln County

State of New Mexico)
)SS.
County of San Juan)

Before me, the undersigned authority, on this 10th day of July, 1990 personally appeared Charles Orin Foster, Vice President - Land of Giant Exploration & Production Company, a Texas Corporation, as successor in interest to Hixon Development Company, a Texas Corporation, who is known to me to be the person who, being by me duly sworn, did say that he executed the foregoing instrument on May 8th, 1990 and who acknowledged to me that he executed the same as his free act and deed for all of the purposes therein stated.

My commission expires
October 2, 1990

Patricia Lee Chick
Patricia Lee Chick, Notary Public

SPECIAL STIPULATIONS FOR OIL AND GAS LEASING WITHIN THE ELY DISTRICT

The Lessee shall comply with the following special conditions and stipulations unless they are modified by mutual agreement of the lessee, and the authorized officer:

1. No drilling or storage facilities will be allowed within 500 feet of any pond, reservoir, canal, spring or stream. Other buffer zones and areas near water may be restricted to protect riparian habitat. This distance may be modified when specifically approved in writing by the Ely District Manager, BLM. Restricted surface occupancy may be required in other buffer zones to protect other resource values, including threatened or endangered flora and fauna.

2. To secure specific compliance with the stipulations under Sec. 6, paragraph (2) of the oil and gas lease form, the lessee shall, prior to operations, furnish to the authorized officer, a certified statement that either no archaeological values exist or that they may exist on the leased lands to the best of the lessee's knowledge and belief and that they might be impaired by oil and gas operations. Such certified statement must be completed by a qualified archaeologist acceptable to the authorized officer.

If the lessee furnishes a statement that archaeological values may exist where the land is to be disturbed or occupied, the lessee will engage a qualified archaeologist, acceptable to the authorized officer, to survey and salvage, in advance of any operations, such archaeological values on the lands involved. The responsibility for the cost for the certificate, survey and salvage will be borne by the lessee, and such salvaged property shall remain the property of the lessor or the surface owner.

3. The use of wide or balloon tired vehicles and/or helicopters may be required for any activities in off-road areas where deemed necessary to protect the soil and other resources.

4. Springs and water developments on Federal lands may be used only with the prior written approval of the authorized officer.

5. The lease area may contain critical habitat for wild and free roaming horses and burros. Therefore, prior to entry onto the lands within the described areas the lessee (operator) will discuss the proposed activities with the surface management agency's authorized officer who may require additional measures for the protection of the horses and burros.

Such measures may include:

- a. The fencing of mud pits on drill sites.
- b. The protection of springs and water developments.
- c. The rehabilitation of areas of surface disturbance to reestablish the vegetative cover.

6. To maintain aesthetic values, all semipermanent and permanent facilities will be painted or camouflaged to blend with the natural surroundings. The paint selection or method of camouflage will be subject to approval by the Bureau of Land Management's authorized officer.

7. In order to minimize watershed damage during muddy and/or wet periods, the Bureau of Land Management's authorized officer, may prohibit exploration, drilling or other development. This limitation does not apply to maintenance and operations of producing wells.

Description of Lands

| | |
|--------------------------------|-----------------------|
| PARCEL NY-05-90-016 | ALL LANDS. |
| PARCEL NY-05-90-017 | ALL LANDS. |
| PARCEL NY-05-90-018 | ALL LANDS. |
| PARCEL NY-05-90-021 | ALL LANDS. |
| PARCEL NY-05-90-022 | ALL LANDS. |
| PARCEL NY-05-90-023 | ALL LANDS. |
| PARCEL NY-05-90-024 | ALL LANDS. |
| PARCEL NY-05-90-025 | ALL LANDS. |
| PARCEL NY-05-90-026 | ALL LANDS. |
| PARCEL NY-05-90-027 | ALL LANDS. |
| PARCEL NY-05-90-028 | ALL LANDS. |
| PARCEL NY-05-90-029 | ALL LANDS. |
| PARCEL NY-05-90-030 | ALL LANDS. |
| PARCEL NY-05-90-036 | ALL LANDS. |
| PARCEL NY-05-90-037 | ALL LANDS. |
| PARCEL NY-05-90-038 | ALL LANDS. |
| PARCEL NY-05-90-039 | ALL LANDS. |
| PARCEL NY-05-90-040 | ALL LANDS. |
| PARCEL NY-05-90-046 | ALL LANDS. |
| PARCEL NY-05-90-047 | ALL LANDS. |
| PARCEL NY-05-90-048 | ALL LANDS. |
| PARCEL NY-05-90-049 | ALL LANDS. |
| PARCEL NY-05-90-052 | ALL LANDS. |
| PARCEL NY-05-90-053 | ALL LANDS. |
| PARCEL NY-05-90-055 | ALL LANDS. |
| PARCEL NY-05-90-056 | ALL LANDS. |
| PARCEL NY-05-90-057 | ALL LANDS. |

Lincoln County

| | |
|---------------------|------------|
| PARCEL NV-05-90-121 | ALL LANDS. |
| PARCEL NV-05-90-122 | ALL LANDS. |
| PARCEL NV-05-90-123 | ALL LANDS. |
| PARCEL NV-05-90-124 | ALL LANDS. |
| PARCEL NV-05-90-125 | ALL LANDS. |
| PARCEL NV-05-90-126 | ALL LANDS. |
| PARCEL NV-05-90-127 | ALL LANDS. |
| PARCEL NV-05-90-128 | ALL LANDS. |
| PARCEL NV-05-90-129 | ALL LANDS. |
| PARCEL NV-05-90-130 | ALL LANDS. |
| PARCEL NV-05-90-131 | ALL LANDS. |
| PARCEL NV-05-90-132 | ALL LANDS. |
| PARCEL NV-05-90-133 | ALL LANDS. |
| PARCEL NV-05-90-134 | ALL LANDS. |
| PARCEL NV-05-90-135 | ALL LANDS. |
| PARCEL NV-05-90-136 | ALL LANDS. |
| PARCEL NV-05-90-137 | ALL LANDS. |
| PARCEL NV-05-90-138 | ALL LANDS. |
| PARCEL NV-05-90-139 | ALL LANDS. |
| PARCEL NV-05-90-140 | ALL LANDS. |
| PARCEL NV-05-90-141 | ALL LANDS. |
| PARCEL NV-05-90-142 | ALL LANDS. |
| PARCEL NV-05-90-143 | ALL LANDS. |
| PARCEL NV-05-90-144 | ALL LANDS. |
| PARCEL NV-05-90-145 | ALL LANDS. |
| PARCEL NV-05-90-146 | ALL LANDS. |
| PARCEL NV-05-90-147 | ALL LANDS. |
| PARCEL NV-05-90-148 | ALL LANDS. |
| PARCEL NV-05-90-149 | ALL LANDS. |
| PARCEL NV-05-90-150 | ALL LANDS. |
| PARCEL NV-05-90-151 | ALL LANDS. |
| PARCEL NV-05-90-152 | ALL LANDS. |
| PARCEL NV-05-90-153 | ALL LANDS. |
| PARCEL NV-05-90-154 | ALL LANDS. |
| PARCEL NV-05-90-155 | ALL LANDS. |
| PARCEL NV-05-90-156 | ALL LANDS. |
| PARCEL NV-05-90-157 | ALL LANDS. |
| PARCEL NV-05-90-158 | ALL LANDS. |
| PARCEL NV-05-90-159 | ALL LANDS. |
| PARCEL NV-05-90-160 | ALL LANDS. |
| PARCEL NV-05-90-161 | ALL LANDS. |
| PARCEL NV-05-90-162 | ALL LANDS. |
| PARCEL NV-05-90-163 | ALL LANDS. |
| PARCEL NV-05-90-164 | ALL LANDS. |
| PARCEL NV-05-90-165 | ALL LANDS. |
| PARCEL NV-05-90-166 | ALL LANDS. |
| PARCEL NV-05-90-167 | ALL LANDS. |
| PARCEL NV-05-90-168 | ALL LANDS. |
| PARCEL NV-05-90-169 | ALL LANDS. |

No. 094606

Filed and Recorded at the request of HIXON DEVELOPMENT COMPANY this 16th day of July, 1990 at 15 minutes past 3 O'clock P.M., in Book 91 of Official Records Page 378 Lincoln County, Nevada.

Frank C. Hulse
FRANK C. HULSE - Recorder