

Lincoln County

Form 37-2-11
(October 1992)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OFFER TO LEASE AND LEASE FOR OIL AND GAS

Serial No.
R58181

The undersigned (hereinafter) 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 Winn Exploration Co., Inc.
Street P.O. DRAWER 2429
City, State, Zip Code Eagle Pass, Texas 78853

2. This application/offer/lease is for: PUBLIC DOMAIN LANDS ACQUIRED LANDS (please U.S. leases _____)
Surface managing agency or other than BLM: _____ Unit/Project: _____
Legal description of land requested: *Parcel No.: NV-93-08-0272 *Sale Date (m/d/y): 8 / 10 / 93

*SEE ITEM 2 IN INSTRUCTIONS BELOW PRIOR TO COMPLETING PARCEL NUMBER AND SALE DATE.
T. T. 01 S., R. 64 E. Meridian: MDM State: NV County: LINCOLN

sec. 25, all;
sec. 26, all;
sec. 35, all;
sec. 36, all.

Amount required: Filing fee \$ 75.00

Rental fee \$ 3840.00

Total acres leased for 2560.00
Total \$ 3915.00

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. R. Meridian State County

T. 1 S., R. 64 E., MDM, Nevada
sec. 25, all;
sec. 26, all;
sec. 35, all;
sec. 36, all.

Lincoln County

Total acres in lease 2560.00
Rental required \$ 3840.00

This lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except Artium) in the lands described in Item 3 together with the right to build and maintain necessary improvements thereon 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 at the time issuance, and to regulations and formal orders hereafter promulgated when not incompatible with lease rights granted or specific provisions of the 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 (one year)

Competitive lease (ten years)

Other _____

THE UNITED STATES OF AMERICA

by Linda Mae Kramer
(Signature)
Chief, Lands and Mineral Leasing Section JAN 31 1994
(Title) (Date)

EFFECTIVE DATE OF LEASE FEB 01 1994

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(Continued on reverse)

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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 lease's substance; (3) offeror's assignable interests, owned and owned, as each lessor in each interest in the offer, do not exceed 246,000 acres in oil and gas leases (of which up to 200,000 acres may be in oil and gas leases), or 300,000 acres in leases in each interest in the offer, of which up to 100,000 acres may be in oil and gas leases; (4) offeror is not considered a minor 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 to sec. 2(a)(2)(A) of the Mineral Leasing Act; (6) offeror is in compliance with reasonable or necessary reserves for all Federal oil and gas lease holders as required by sec. 27(g) of the Mineral Leasing Act; and (7) offeror is not in violation of sec. 41 of the Act.

(b) Undersigned agrees that signature to this offer constitutes acceptance of the 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 the offer was filed but deleted for any reason from the 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 the lease, an amendment to the lease, or a separate lease, whichever comes first, is filed.

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 payment. 18 U.S.C. Sec. 1601 makes it a crime for any person knowingly and wilfully to make to any Department or agency of the United States any false, forged or fraudulent statements or representations as to any matter within its jurisdiction.

Duly executed this 3 day of Jan. 1994 J.V. [Signature]

(Signature of Lessor or Attorney-in-fact)

LEASE TERMS

Sec. 1. Rentals—Rents shall be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

- (a) Noncomparative lease: \$1.50 for the first 5 years; thereafter \$2.00.
- (b) Comparative lease: \$1.50 for the first 5 years; thereafter \$2.00.
- (c) Other, see attachment, or as specified in regulations at the time the lease is issued.

If this lease or a portion thereof is converted to an approved cooperative or unit plan which includes a well capable of producing leased resources, and the plan provides 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 (or next official working day if it is a Monday) shall automatically terminate this lease by operation of law. Rental 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) Noncomparative lease: 12 1/2%.
- (b) Comparative lease: 12 1/2%.
- (c) Other, see attachment, or as specified in regulations at the time the 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 lessor 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 a convenient 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 lessor 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 royalty in kind shall be paidable at the end of each lease year beginning one year after a discovery, or 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 earliest ultimate recovery of the leased resource or 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. 170). Lessor shall be liable for royalty payments on oil and gas lost or wasted in 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 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. Duration, rate of development, maximum, and drainage—Lessee 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 on the public interest and to require lessor 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 containing 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. Documentation, evidence, and inspection—Lessee shall file with proper office of lessor, not later than 30 days after effective date hereof, any contract or evidence of other arrangement for sale or disposal of products. At such time and in such form as lessor may prescribe, lessor shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and expenses used for production purposes or unavoidable cost. Lessee shall be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to effects on leases, expenditures, and depreciation costs. In the form prescribed by lessor, lessor shall keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and future copies to lessor when requested. 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 therein, 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, lease agreements, accounting records, and documents such as bills of lading, invoices, or similar documentation that supports

costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained at lessor's accounting offices for future audit by lessor. Lessor shall maintain required records for 6 years after they are prepared or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of the 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, 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 aims of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to timing or scope of facilities, timing of operations, and specification of wastes and final reclamation measures. Lessor reserves the right to consume existing wells 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 lessor.

Prior to disturbing the surface of the leased lands, lessor shall contact lessor to be apprised of procedures to be followed and modifications or reclamations that may be necessary. Areas to be disturbed may require environmental or special studies to determine the effects of impacts to other resources. Lessor may be required to complete minor alterations 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 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—Lessee may, at 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 risk to lessor or owner of the gas. Lessee shall execute to lessor a 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 have 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—Lessee 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 conscience, 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 use measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that products are sold at reasonable prices and to prevent monopoly. If lessor operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to or derived from these leased lands, lessor 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 reserve orders of the Secretary of Labor issued pursuant thereto. Neither lessor nor lessor's subcontractors shall discriminate against females.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessor 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 lease and to pay all accrued rents and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of this lease are returned to lessor, lessor 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 lessor 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 converted to an approved cooperative or unit plan or combination agreement which contains a well capable of production of leased substances 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 preclude later cancellation for the same default occurring at any other time. Lessor 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 attach to the heirs, executors, administrators, successors, beneficiaries, or assigns of the respective parties hereto.

THE FOLLOWING NOTICE WILL BE ATTACHED TO ALL
ISSUED LEASES

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.

NO. 104373

Filed and recorded at the request
of Hunt Oil Company of Nevada on
December 18, 1995 at 10 minutes
past 1 o'clock in Book 116,
Page 261, Official Records.
Lincoln County Nevada.

Yuriko Setzer, Recorder

BY Lili Brucher, deputy