

Form 2000-1  
(October 1992)

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

Serial No. 7-60246

7-60246

The undersigned (proposed) 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 (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 41, or the NEVADA LAND OFFICE

READ INSTRUCTIONS BEFORE COMPLETING

1. Name  
Street  
City, State, Zip Code

Lonefree Energy, Inc.  
12600 W. Colfax Ave., Suite C450  
Lakewood, CO 80215

9:00 A.M. DEC 13 1995

NEVADA STATE OFFICE  
RENO, NEVADA

2. This application/offer/lease is for: (Check only One)  PUBLIC DOMAIN LANDS

ACQUIRED LANDS (pursuant to U.S. Interior)

Surface managing agency if other than BLM: \_\_\_\_\_

Unit/Project: \_\_\_\_\_

Legal description of land requested: \_\_\_\_\_

Parcel No.: \_\_\_\_\_

State Date (only): \_\_\_\_/\_\_\_\_/\_\_\_\_

\*SEE ITEM 1 IN INSTRUCTIONS BELOW PRIOR TO COMPLETING PARCEL NUMBER AND SALE DATE.

T. 9 North R. 63 East & 64 East Meridian Mount Diablo S. Nevada County Lincoln

See Exhibit "A", attached hereto and made a part hereof.

Amount received: Filing fee \$ 75.00

Rent for \$ 8,152.50

Total acres applied for 5,434.84  
Total \$ 8,227.50

DO NOT WRITE BELOW THIS LINE

3. Land included in lease:

T. 9 N., R. 63 E., Meridian MD S. Nevada County Lincoln

sec. 10, SE1/4;  
sec. 11, N1/4, SE1/4NW1/4, S1/4NE1/4, SW1/4, W1/4SE1/4;  
sec. 12, N1/4, N1/4SE1/4, S1/4SE1/4;  
sec. 13, all;  
sec. 14, all;  
sec. 15, E1/4;  
sec. 23, all;  
sec. 24, all.

T. 9 N., R. 64 E.,  
sec. 6, lots 6,7, SE1/4SW1/4;  
sec. 17, SE1/4NE1/4.

Total acres in lease 4274.84  
Rental received \$ 6412.50

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 removal 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 standards concerning landowner participation 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 3426 and is subject to the provisions of that bid nomination and those specified on this form.

Type and primary term of lease:

Noncompetitive lease (ten years)

Competitive lease (ten years)

Other \_\_\_\_\_

THE UNITED STATES OF AMERICA

By James O. Moffitt  
Signing Official

Chief, Mining Law Operations Section

(Title)

DEC 27 1995

(Date)

EFFECTIVE DATE OF LEASE

APR 01 1995

(Continued on reverse)

126 702250

4. (a) Underigned certifies that (1) offeror is a citizen of the United States, an association of such citizens, a foreign party, 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 interest, direct and indirect, in each lease in each leasing District in Alaska of which up to 200,000 acres may be in oil and gas leases (of which up to 200,000 acres may be in oil and gas leases) or 300,000 acres in located, (5) offeror is in compliance with qualifications concerning Federal coal lease holdings as required by sec. 17(c) of the Mineral Leasing Act, and (7) offeror is not in violation of sec. 4 of the Act.

This offer will be rejected and will 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 5th day of September, 1995

LoneTree Energy, Inc.
Andre Hillig
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 the first 5 years; 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 committal 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 (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) 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 lessee, 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 this 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 economic 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) (50 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, utilization, and drainage—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary drainage 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 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 pay compensatory royalty for drainage in amount determined by lessee.

Sec. 5. Discoveries, evidence, and inspection—Lessee shall file with proper office of lessor, not less than 30 days after effective date thereof, any contract or evidence of other arrangements 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 otherwise lost. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to portions in interest, expenditures, and depreciation items. In the form prescribed by lessee, lessee shall keep a daily drilling record, a log, information on well surveys and logs, and a record of subsurface investigation and pertinent copies to lessor when required. Lessee shall keep open to 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 support

costs claimed in manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessor'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—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 intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modifications to siting or design of facilities, timing of operations, and specification of interim and final reclamation action measures. Lessee 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 investigations or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor investigations of 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, lessee 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—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 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 23 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 lessee nor lessor'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, the lease shall be subject to condemnation 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 and 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 lease condemnation for the same default occurring at any other time. Lessee shall be subject to applicable provisions and penalties of FOGRMA (50 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 accrue to the heirs, executors, administrators, assignees, beneficiaries, or assignees of the respective parties hereto.

EXHIBIT "A"

Attached to and made a part of that certain Offer to Lease and Lease for Oil and Gas dated September 5, 1995 covering the following lands, to-wit:

Township 9 North, Range 64 East, Meridian: Mount Diablo, State: Nevada, County: Lincoln

- Section 6: Lots 6(37.38), 7(37.46), SE/4SW/4
- Section 8: SW/4SW/4
- Section 17: SE/4NE/4

Township 9 North, Range 63 East, Meridian: Mount Diablo, State: Nevada, County: Lincoln

- Section 10: SE/4
- Section 11: N/2N/2, SE/4NW/4, S/2NE/4, SW/4, W/2SE/4
- Section 12: N/2, N/2S/2, S/2SE/4
- Section 13: All
- Section 14: All
- Section 15: E/2
- Section 23: All
- Section 24: All
- Section 25: All
- Section 26: E/2
- Section 36: N/2N/2

Containing 5,434.84 acres, more or less

RECEIVED  
Bur. of Land Management  
NEVADA LAND OFFICE

9:00  
A.M. DEC 13 1995

NEVADA STATE OFFICE  
RENO, NEVADA

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.

TIMING LIMITATION STIPULATION

No surface use is allowed during the following time period(s). This stipulation does not apply to operations and maintenance of production facilities. On the land described below:

Sage Grouse Lek(s)

A 2 mile radius around a sage grouse lek(s) from March 1 to May 15. All valleys throughout the BLM Ely District Egan Resource Area.

DESCRIPTION OF LANDS

PARCEL NV-96-03-0223

T. 09 N., R. 64 E.  
sec. 17, SE/4E/4.

NO. **108332**  
Filed And Recorded At Request Of  
HSC Services Account  
March 7, 1997  
At 40 Minutes Past 2 O'Clock  
P M In Book 126 Of Official Records  
Page 256 Lincoln County Nevada.  
Yuriko Setzer  
County Recorder  
by Leslie Boucher deputy

OG-047-3