STATE LANDS COMMISSION
State of California
FIRST AMENDMENT AND MODIFICATION OF
STATE OIL AND GAS LEASE P.R.C. 3120.1, and
STATE OIL AND GAS LEASE P.R.C. 3242.1
(SECONDARY RECOVERY)

THIS AGREEMENT, entered into on October 28, 1971, by and
between THE STATE OF CALIFORNIA, ACTING BY AND THROUGH THE STATE LANDS COMMISSION
OF THE STATE OF CALIFORNIA, sometimes herein called "State" or "Lessor", and
ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation, and MOBIL OIL CORPORATION,
a New York corporation, both herein called "Lessee", is made with respect to the
following agreed facts:

RECIPIENTS:

A. Lessee heretofore acquired and is now the owner and holder of the leasehold and the rights of the Lessee under Oil and Gas Lease P.R.C. 3120.1, made and entered into the 29th day of April, 1964, by and between State and Richfield Oil Corporation and Socony Mobil Oil Company, Inc.

B. Lessee heretofore acquired and is now the owner and holder of the leasehold and the rights of the Lessee under Oil and Gas Lease P.R.C. 3242.1, made and entered into the 8th day of April, 1965, by and between State and Richfield Oil Corporation and Socony Mobil Oil Company, Inc.

C. Said leases cover State tide and submerged lands located within the South Elwood Offshore Oil and Gas Field, Santa Barbara County, California, as such field is delineated and defined by the State Oil and Gas Supervisor.

D. The lands under said leases have been developed to such extent that it is desirable that secondary recovery operations be undertaken within said lands in an effort to obtain the maximum economic ultimate recovery of oil and gas therefrom and Lessee has so advised State.

E. Said leases now provide for the payment by Lessee to State of graduated royalties, dependent upon average daily production.
F. State and Lessee mutually agree to modifications of said leases as hereinafter set forth, pursuant to and in accordance with applicable provisions of the California Public Resources Code, particularly Sections 6830.1, 6830.2 and 6830.3 of said Code, and other applicable provisions of California law.

G. State has made a determination which it hereby affirms that it is in the best interests of State that State enter into the within agreement, and that before making said determination and as a basis for the making thereof, and before authorizing the execution of this instrument, and in determining the mutually agreed royalty rates on production as hereinafter set forth, State, acting through the State Lands Commission, has agreeably with Section 6830.2 of the Public Resources Code made a calculated projection of the volume of primary oil to which State would be entitled under the existing royalty provisions of said leases without any secondary recovery operations. State has compared its determinations thus made with those made by Lessee and the parties have arrived at the mutual agreement herein contained.

WHEREFORE, in consideration of the premises, and of the covenants herein contained, it is hereby mutually agreed that the provisions of this instrument shall supersede and be in lieu of the provisions of said leases to the extent, in the manner, and subject to the conditions, limitations and restrictions as herein set forth:

1. The two aforesaid leases and the lands covered thereby and described therein, to the extent hereafter stated, are hereby combined, consolidated, pooled and unitized insofar only as the same cover the oil produced (as distinguished from "non-oil production"—see paragraph 6 hereof) from the Rincon Sand Formation as typified on the electrical log (attached hereto and designated Exhibit "B") of the Ames 3242 number 4 well between the measured depths of 5,174 feet and 5,327 feet on Exhibit "B" or the equivalent thereof, in and under that portion of the lands described in the aforementioned two leases that are shown to be within the productive limit as depicted on Exhibit "C" which is attached hereto and made a part hereof. Such pooling and unitization as to the oil produced from the formation and area herein described to be as if a single lessor had executed one lease to a single
lessee covering all of the herein described lands that are covered by the two afore-
said leases. There shall be no duty on the part of the lessee to offset wells
completed in the Rincon Sand Formation within the hereby pooled or unitized area,
as between these lands formerly covered separately by the said two leases, and
there shall be no duty on the part of lessee to maintain separate measuring tanks
nor to maintain separate records with respect to the oil produced from said Rincon
Sand Formation in and under the hereby pooled or unitized lands.

2. Lessee shall undertake and commence secondary recovery operations within
the lands covered by this agreement, subject to approval as hereinafter provided
in Paragraph 9. Such operations are to be conducted by the injection of water,
provided that such operations may be conducted or such methods may be supplemented
by other secondary recovery methods which shall be first approved in writing by
State.

3. Once it has commenced such operations as hereinabove provided, Lessee
shall diligently and in conformance with good engineering practices carry on the
conduct thereof throughout the term of the lease, provided that if Lessee deter-
mines in its best judgment, exercised in conformance with good engineering and
oil field practices and based upon reasons which shall be conveyed in adequate
detail to the State in writing, that the production response from such operations
is not sufficient to economically justify the continuance thereof, Lessee may
cease such operations, and further provided that if Lessee ceases operations it
will be in conformance with Sections 6830.1, 6830.2 and 6830.3 and other appli-
cable sections of the Public Resources Code. Nothing contained in this agreement
shall require that Lessee continue to maintain, operate and produce the leasehold
or the leased lands, and it shall be free to quitclaim at any time all or any
part of the leased lands pursuant to the existing provisions of the lease and in
compliance with Section 6804.1 of the Public Resources Code.

4. Lessee shall make and carry out the determinations and decisions required
in connection with such operations including but not limited to the selection of
the locations for any new wells to be drilled and completed, whether intended for
production purposes or for the injection of water and the conversion of presently existing wells to injection functions, whether now producing or idle; provided that Lessee shall, in accordance with the lease terms, submit for approval by State the surface location and proposed course of any new wells to be drilled and completed, shall comply with the provisions of Section 6830 of the Public Resources Code, and shall continue to file with State such notices of intention, reports, proposed drilling programs, logs, surveys and all other engineering data and material which matters, or their counterparts with reference to such secondary operations, have heretofore been required to be filed with State by Lessee under the terms of said leases, applicable laws or regulations.

5. State and Lessee agree that neither can predict with certainty that secondary recovery operations, however conducted, will result in given volumes of production, although both verify that the determinations made herein and in connection herewith in accordance with Section 6830.2 of said Public Resources Code represent and contain their best efforts to project the volumes of oil production which would result from the exercise of production efforts on a diligent and workmanlike basis. Therefore, it is further agreed that nothing contained herein shall be construed to mean that Lessee must account to State for any guaranteed quantity of either primary or secondary royalty production.

6. For purposes of future royalty accounting under said leases, as hereby modified and amended, the parties hereby agree that under successful secondary recovery operations, the projected remaining primary reserves determined as provided in Paragraph 7 (a) will be produced sooner than such reserves would have been produced under primary recovery operations; and further agree that the total future royalty production accruing to the State may be greater than would be the case if secondary recovery operations were not undertaken. The parties further agree that the royalty accounting procedures contained herein shall apply to oil produced from the Rincon sand only, and that royalty accounting for such dry gas, natural gasoline and other products (referred to as "non-oil production" in Paragraph 3 of the original of said lease) as may be produced by such operations shall continue to be as provided for in the aforesaid original leases.
7. In arriving at the determinations mentioned in Recital Paragraph G above, and in concluding that it is mutually desirable that this agreement be entered into, the parties have made the following determinations and agree that:

(a) The expected remaining primary reserves, attributable to both of the aforesaid original leases from the Rincon sand are as set forth on Exhibit "A" (hereinafter referred to as the "Schedule").

(b) The royalty payable to State for oil production from the Rincon sand shall continue to be in accordance with the provisions of the aforesaid leases until the following time (hereinafter referred to as the "effective date" of the Schedule):

   (i) If water injection begins on the first day of a month, at 12:01 a.m. on that day;

   (ii) If water injection begins on any day other than the first day of a month, at 12:01 a.m. on the first day of the following month.

(c) From and after the effective date determined in accordance with (b) above, until the remaining primary reserves have been produced, the royalty payable to State for oil produced from the Rincon sand shall (in lieu of the provisions set forth in the aforesaid original leases) be calculated as follows:

   (i) The remaining primary reserves as of the effective date shall be determined from the Schedule by subtracting from the grand total, as shown on the Schedule, the actual cumulative primary production as of the effective date since July 1, 1971.

   (ii) If the actual oil production since July 1, 1971 is as projected on the Schedule, the royalty production
shall be as set forth on the Schedule, it being the intention of the parties that the royalty rates shall be paid as set forth on the Schedule, regardless of the actual time of production.

(iii) If the actual oil production since July 1, 1971 is greater than the amount projected on the Schedule, the royalty production shall consist of the balance of the projected royalty for that month, plus royalty on the oil produced in excess of that amount projected on the Schedule at the royalty rate for the following month (and so forth until there is no excess production, i.e., all overages would be carried forward from month to month until there was no further overage).

(iv) If the actual oil production since July 1, 1971 is less than the amount projected on the Schedule, the royalty production would be based on the actual production at the royalty rate set forth on the Schedule for that month, and the underproduced amount would be carried forward to the succeeding month's production for payment at the rate which would have been applicable had such oil been produced as projected on the Schedule (and such underages shall be carried forward from month to month until no further underage exists).

(d) After the remaining primary reserves (as determined above) have been produced, the royalty rate for all production thereafter shall be the average of the royalty paid during the period covered in (c) above.

8. It is recognized by the parties hereto that Lessee may hereafter discover or produce oil from a zone, pool, or separate underground reservoir other
than the hereby pooled or unitized Rincon sand, and the oil accumulations within such zone, pool or reservoir were not included by the parties in making the agreed determinations under Paragraph 6 and Exhibit "A" hereof, and which zone, pool or reservoir is not being affected by secondary recovery operations being carried on at the time of such discovery or such production. In the event that production should occur under the foregoing circumstances, it is agreed that the royalty provisions set out in the aforesaid leases shall control. State agrees that in the event Lessee proposed to apply secondary recovery operations and methods to any such zone, pool or reservoir, Lessee will endeavor to arrive at a mutual agreement with State on further amendment of said lease to cover such proposed additional secondary recovery operations pursuant to the provisions of Public Resources Code Sections 6830.1, et seq.

9. Lessee hereby agrees to indemnify and hold harmless State and any officer, agency, commission, agent or employee thereof from and against any and all claims, demands or causes of action made or presented by any third party on account of the injection by Lessee of water or any other substance into the lands included in this agreement.

10. Lessee shall seek and obtain the approval of the Executive Officer of the State Lands Commission and of the California Oil and Gas Supervisor to any secondary recovery program which Lessee proposes to undertake pursuant to the terms of this agreement prior to undertaking any such program. If requested by Lessee, State agrees to join with Lessee in making any such request for approval, provided that such program has been approved by the Executive Officer of the State Lands Commission.

11. As heretofore and herein amended, said leases shall remain in full force and effect.

IN WITNESS WHEREOF, State and Lessee have caused this instrument to be executed the day and year first above written.

ATLANTIC RICHFIELD COMPANY
By ______________________
Its Attorney in Fact

MOBIL OIL CORPORATION
By ______________________

By ______________________
LESSEE

STATE LANDS COMMISSION OF THE STATE OF CALIFORNIA
By ______________________
LESSOR
than the hereby pooled or unitized Rincon sand, and the oil accumulations within such zone, pool or reservoir were not included by the parties in making the agreed determinations under Paragraph 6 and Exhibit "A" hereof, and which zone, pool or reservoir is not being affected by secondary recovery operations being carried on at the time of such discovery or such production. In the event that production should occur under the foregoing circumstances, it is agreed that the royalty provisions set out in the aforesaid leases shall control. State agrees that in the event Lessee proposed to apply secondary recovery operations and methods to any such zone, pool or reservoir, Lessee will endeavor to arrive at a mutual agreement with State on further amendment of said lease to cover such proposed additional secondary recovery operations pursuant to the provisions of Public Resources Code Sections 6830.1, et seq.

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11. As heretofore and herein amended, said leases shall remain in full force and effect.

IN WITNESS WHEREOF, State and Lessee have caused this instrument to be executed the day and year first above written.

On Oct 5, 1971, before me, the undersigned, a Notary Public in and for said County and State, personally appeared

B. O. SIMS, JR

known to me to be the person whose name is subscribed to the within instrument as an attorney in fact of MOHIL OIL CORPORATION, and acknowledged to me that he subscribed the name of MOHIL OIL CORPORATION, thereto as principal and his own name as attorney in fact.

In Witness Whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Shirley P.デザインチェア
Notary Public in and for said County and State
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YEAR TOTAL: 311485.4

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TOTAL: 685733.7

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STATE LANDS DIVISION
PROJECTION OF PRIMARY PRODUCTION AND REVENUE
SOUTH ELMSFFORD COTTESMORE
08/11/71 PAGE 1

GRAND TOTAL
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| 208555    |
| 263991    |
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STATE OF CALIFORNIA } ss.
COUNTY OF LOS ANGELES }

On this _______ day of ______________________, A.D., 1971, before me, the undersigned, a Notary Public in and for the State of California, with principal office in the County of Los Angeles, personally appeared F. J. HORTIG, known to me to be the Executive Officer of the STATE LANDS COMMISSION, STATE OF CALIFORNIA, the Commission that executed the within instrument, known to me to be the person who executed the within instrument, on behalf of the Commission therein named, and acknowledged to me that such Commission executed the within instrument pursuant to a resolution of its Commissioners.

WITNESS my hand and official seal.

Notary Public in and for said County and State

My Commission Expires:

____________________, 19____

STATE OF CALIFORNIA, } ss.
COUNTY OF KERN }

ON September 21, 1971, before me, the undersigned, a Notary Public in and for said State, personally appeared Peter K. Bacon known to me to be the person whose name is subscribed to the within Instrument, as the Attorney-in-Fact of ATLANTIC RICHFIELD COMPANY and acknowledged to me that he subscribed the name of ATLANTIC RICHFIELD COMPANY thereto as principal and his own name as Attorney-in-Fact.

WITNESS my hand and official seal.

Mary Pauly
Notary Public in and for said County and State

MARY PAULY
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN KERN COUNTY
MY COMMISSION EXPIRES SEPTEMBER 14, 1974