

STATE LANDS COMMISSION
State of California

Oil and Gas Lease

THIS INDENTURE OF LEASE, Made and entered into this 29th day of August, 1955, pursuant to Division 6 of the Public Resources Code, Statutes of California, by and between the State of California, acting by and through the State Lands Commission, hereinafter called the State, and

Richfield Oil Corporation, a Delaware corporation

hereinafter called the Lessee;

WITNESSETH: That the State in consideration of the rental and royalty to be paid and the covenants, conditions, agreements and stipulations herein contained does hereby lease unto the Lessee that certain tract of tide and submerged land, situate in the County of Ventura, State of California, described as follows:

Beginning at a point on the ordinary high water mark of the Pacific Ocean, South (approximately 75 feet) from Division of State Lands survey station "Gorda" 2 relocated (Mussel Shoals Tract); thence East 1,000 feet, more or less, to the projection landward of the west boundary of State Oil and Gas Lease P.R.C. 429; thence South along the landward projection and the west boundary of State Oil and Gas Lease P.R.C. 429 to the southwest corner of said lease; thence East 1,256 feet, more or less, along the south boundary of said lease to the northwesterly boundary of State Oil and Gas Lease P.R.C. 427; thence South $44^{\circ} 41'$ West 1,050 feet, more or less, along the northwesterly boundary of State Oil and Gas Lease P.R.C. 427 to the most westerly corner of State Oil and Gas Lease P.R.C. 427; thence South $39^{\circ} 46'$ East, 1,234 feet, more or less, along the southwesterly boundary of said lease to the northwesterly corner of State Oil and Gas Lease P.R.C. 145; thence South 525 feet along the west boundary of State Oil and Gas Lease P.R.C. 145 to a point; thence West 10,560 feet to a point; thence North 5,280 feet to a point; thence East 8,300 feet, more or less, to the

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ordinary high water mark; thence along the ordinary high water mark to the point of beginning; containing approximately 1,175 acres.

The term of this Lease shall continue for a period of twenty (20) years from and after the date hereof, and for so long thereafter as oil or gas is produced in paying quantities from the leased lands.

This Lease shall be subject to the following terms and conditions:

1. The Lessee shall have the sole and exclusive right to prospect for, drill for, produce, and take oil and gas, or either, from the demised premises.

2. The Lessee agrees to pay to the State annually in advance, as rent, the sum of \$1,175.00. In the event of quitclaim of any portion of the demised premises as to all zones, as provided for hereinafter, the annual rental shall be reduced \$1.00 for each acre of area quitclaimed. Such reduction shall become effective on the Lease anniversary date next following the date of quitclaim.

3. The Lessee agrees to account for and pay to the State in money a royalty in accordance with the formula and schedule attached hereto, marked Exhibit "B", and by reference made a part hereof, on the oil produced and saved from each well, or on demand, the State's royalty in oil, determined in accordance with said Exhibit "B". When paid in money, the royalty shall be calculated upon the reasonable market price of the oil at the well as determined by the State, which price at the well shall not be less than the highest price at which an oil of like gravity and quality is being sold in substantial quantities at the Rincon Field in Ventura County, California, and it shall be due and payable not later than the 25th day of the calendar month following the calendar month in which the oil is produced. Reasonable market price of the oil at the well is hereby interpreted to mean the reasonable market price at the well as determined by the State; plus any subsidy or extra payment which the Lessee, or any successor in interest thereto, may receive at any future time or at any time during the term of this Lease, whether or not such subsidy or extra payment shall be in the nature of money or other consideration. When paid in kind, the royalty oil shall be delivered in the field and taken by the State at the receiving tanks of the Lessee on forty-eight (48) hours' notice by the Lessee that a tankful of oil will be ready for delivery. The oil royalty specified herein is a net royalty. In the event it should become necessary to dehydrate or clean the oil from wells drilled into the lands leased hereunder, no

deduction from the reasonable market price of the oil shall be permitted by reason of dehydration or cleaning costs. The Lessee also agrees to pay to the State, at the times and in the manner herein specified for the payment of royalty on oil, twenty (20) per cent of the gross market value, at Rincon, California, of all dry gas, natural gasoline and other products extracted and saved from the gas produced from the demised premises. The gross market value shall be the reasonable market value as fixed by the State, unless such dry gas, natural gasoline and other products are sold pursuant to a sales contract approved by the State.

Should the Lessee extract from the State's lands any products other than oil, gas or gasoline, the Lessee shall immediately report such fact to the State and shall pay to the State therefor a royalty to be agreed upon by the parties, which royalty shall in no event be less than twenty (20) per cent of the gross market value of such products in the field when produced. Said gross market value shall be such reasonable market value as shall be fixed by the State.

The Lessee shall pay to the State the State's royalty share of any bonus received by the Lessee from the sale of any oil, gas, natural gasoline or other products produced hereunder. The State may, at its option, receive its share of such bonus by payment in kind or in money based upon fair market value.

The State may, at its option, take its wet or dry royalty gas, natural gasoline and any other products in kind. Delivery thereof is to be made at a manufacturing plant located proximate to the demised premises where it can be processed or at such other place as the parties hereto may agree.

4. This Lease may be assigned, transferred, or sublet, only upon the written consent of the State and then only to a person, association of persons, or corporation, who at the time of the proposed assignment, transfer or sublease, possesses all qualifications originally required of Lessee hereunder and as provided in Division 6 of the Public Resources Code, Statutes of California, and the rules and regulations of the State. In the event of approval of such assignment or transfer, the assignor or transferor shall be released and discharged from all obligations thereafter accruing under this Lease with respect to the assigned or transferred lands. The assignee, transferee or sublessee shall be bound by the terms of this Lease to the same extent as if such assignee, transferee or sublessee were the original Lessee, any conditions in the assignment, transfer or sublease to the contrary notwithstanding.

5. This Lease may be surrendered and terminated in whole or in part, or as to any zone or zones or portions thereof, upon the payment of all royalties and other obligations due and payable to the State, but in no event shall such termination be effective until the Lessee has complied with all of the then existing laws and rules and regulations relative to the abandonment of oil and gas wells.

In the event of partial surrender, as provided, the portion of the area quitclaimed shall be in a compact form and contain fifteen acres or multiples thereof. Such quitclaim shall convey to the State easements or rights-of-way through, under or over the portion not quitclaimed, to prospect for, produce and take oil and gas or other products from the surrendered area or zones. However, no such easement or right-of-way shall come within one hundred (100) feet of the perforated portion of any well or wells located in the demised premises and belonging to the Lessee who is quitclaiming.

Upon any surrender or partial surrender, as provided above, Lessee shall thereupon be released and discharged from all further obligations, duties and drilling requirements as to the land or portion thereof quitclaimed, except rentals or royalties theretofore accrued and unpaid.

6. In the event the Lessee shall fail in the performance or observance of the applicable rules and regulations of the State now promulgated or of any of the terms, covenants, and stipulations hereof, **except with respect to the drilling or operation of any well or wells as required herein**, and if such default shall continue for a period of sixty (60) days after written notice thereof to the Lessee, and no steps shall have been taken within that time, in good faith, to remedy said default, then the State may cancel said Lease.

If a default in the drilling or operation of any well or wells shall continue for a period of sixty (60) days after written notice thereof given to the Lessee by the State, then the State may cancel this Lease as to all undeveloped leased area saving to the Lessee only such drilling or producing wells as to which no default exists, together with a parcel of land surrounding each such well or wells and such rights-of-way through the State lands as may be reasonably necessary to enable the Lessee to drill and operate such retained well or wells. Unless the State expressly waives in writing a particular cause of forfeiture, the failure of the State to act upon any cause of forfeiture shall not prevent the cancellation of this Lease for such cause or any other cause.

7. The State expressly reserves the right to allow, and to continue to allow if and where presently existing, upon such terms as the State may determine, joint or several use of such easements or rights-of-way, including easements upon, through, or in the demised premises as may be necessary or appropriate for the working of any State lands.

The State also reserves the right to lease or otherwise dispose of the surface of the lands embraced within this Lease. Any such leases or rights granted by the State shall be subject to the Lessee's then existing structures and to the Lessee's right to use the demised premises in its operations.

8. The Lessee shall use all reasonable precautions to prevent waste of oil and gas developed in the demised premises or the entrance of water through wells drilled to the oil or gas-bearing strata and the destruction or injury of the oil or gas deposits.

9. The Lessee shall comply with all valid laws of the United States and of the State of California and with all valid ordinances of cities and counties, applicable to the Lessee's operations hereunder, including without limitation by reason of the specification thereof, the Lessee's compliance with Divisions 3 and 6 of the Public Resources Code, Statutes of California, and such applicable rules and regulations as have been issued pursuant thereto.

10. The Lessee shall commence operations for the drilling of wells into the demised premises, and thereafter diligently continue with such drilling in accordance with the drilling program attached hereto, marked Exhibit "A", and by reference made a part hereof. The drilling obligations imposed upon Lessee by the provisions of this paragraph shall be suspended during such time as the Lessee is prevented or hindered from complying therewith by wars, strikes, riots, acute and unusual labor or material shortages, acts of God, laws, rules and regulations of any federal, state or municipal agency or by such other unusual conditions as are beyond the control of the Lessee.

11. The Lessee shall exercise reasonable diligence in the operation of the wells while the products therefrom can be obtained in paying quantities and shall not unreasonably or unnecessarily suspend operations. All operations hereunder shall be carried on in a proper and workmanlike manner in accordance with approved methods and with due regard for the protection of the safety and health of workmen.

12. The Lessee shall be liable for and agrees to indemnify the State against any and all losses, damages, claims, demands or actions caused by, arising out of, or connected with the operations of the Lessee hereunder.

13. The Lessee shall, at the time of execution of this Lease furnish and thereafter maintain a good and sufficient bond in favor of the State of California in the penal sum of \$25,000 to guarantee the faithful performance by the Lessee of the terms, covenants, and conditions of this Lease and of the provisions of Division 6 of the Public Resources Code, Statutes of California, and of the rules and regulations promulgated thereunder. In the event of approved placement of filled lands on the area leased hereunder, the Lessee shall also maintain a good and sufficient bond in favor of the State of California in a reasonable amount as specified by the State but not to exceed fifty per cent (50%) of the cost of the filled lands and auxiliary structures to guarantee the faithful performance by the Lessee of the placement and maintenance of the filled lands and the removal thereof at the request of the State upon the expiration or sooner termination of this Lease.

14. The Lessee shall file with the State true and correct copies of the pertinent portions of all sales contracts for the disposition of oil, gas, natural gasoline and other substances produced hereunder. Said copies shall be certified by the Lessee to be true and correct copies of such portions of the originals. Any such contracts if approved in writing by the State shall be deemed to establish the reasonable market price, sale value or use value for all products specified in this Lease. In the event the State should elect to take royalty in money instead of in kind, the Lessee shall not sell or otherwise dispose of the royalty share of the products produced hereunder except in accordance with approved sales contracts or other method first approved in writing by the State.

15. The Lessee shall furnish correct and true monthly statements in detail in such form as may be prescribed by the State, showing with respect to each well, the amount, gravity and market price at the well of all oil produced, saved and sold, the amount and gross value of gas produced, saved, used and sold and the amount and gross value of natural gasoline or other products produced hereunder by the Lessee therefrom during the preceding calendar month, and the number of days each well is on production, as the basis for computation of royalties due the State.

16. The Lessee, in so far as it has the right to do so, hereby consents to an examination of the books and records of any individual, association or corporation

which has transported for, or received from the Lessee any oil, gas, natural gasoline and other products produced from the demised premises; and to the inspection at all times of the operations of the Lessee with respect to the wells, improvements, machinery and fixtures used in connection therewith by any person authorized by the State.

17. The Lessee shall file promptly with the State Lands Commission copies of all logs, including electric logs, surveys, drilling records, well histories, core records and related information as determined, for the wells drilled by the Lessee into the demised premises. The Lessee does hereby waive any statutory limitations upon the use by the State, or a duly authorized employee of the State, of any information filed with the Division of Oil and Gas of the Department of Natural Resources by the Lessee in connection with this Lease. Any and all information filed by the Lessee with the said Division of Oil and Gas in connection with this Lease shall be available at all times to the State for the purpose of enforcing compliance with the terms, covenants, and conditions of this Lease and rules and regulations now promulgated by the State.

18. The Lessee shall furnish to the State detailed drawings of all pipe lines attached in any manner to the said wells and report any changes or additions promptly, and shall gauge all oil, and measure all gas, whether dry or wet, in accordance with the rules and regulations now promulgated by the State. The State shall have, at all times, the right to gauge and sample all oil and measure and test all gas, gasoline and other products. In the event of a disagreement between the State and the Lessee concerning the quality or quantity of the oil, gas, gasoline or other products so gauged or measured, the burden of establishing the incorrectness of such gauging or measurement shall rest upon the Lessee, and the Lessee is hereby given the right to establish, by proper court proceedings, the correct quality or quantity of such oil or gas so gauged or measured. The Lessee shall measure the production from each well and shall take samples and make tests of the oil produced from each well to determine the net volume thereof.

19. The State shall have the right to restrict by appropriate rules and regulations the spacing of wells and the rate of drilling and production of such wells so as to prevent the waste of oil or gas and to promote, without reservoir impairment, the maximum economic recovery of oil or gas from each zone or separate underground source of supply of oil or gas covered in whole or in part by this Lease.

The State may issue rules and regulations which may be amended from time to time to effectuate the purpose of this paragraph, and in connection therewith restrict the rate of production from any such zone or separate underground source of supply to that provided by Federal or State laws or rules or regulations thereunder, or by any reasonable conservation or curtailment plan ordered by the State or agreed to by the producers representing a majority of the total production from any such zone or underground source of supply.

20. Subject to agreement by a majority of the owners of a majority of the working interest in the pool or field affected, the State, at its option, may require the inclusion of the lands in this Lease in a cooperative or unit plan of development or operation for any pool, or the field. Such cooperative or unit plan of development or operation shall be deemed by the State as necessary or proper to secure the proper protection of the interests of the State.

Amended
21. Each well drilled pursuant to the terms of this Lease shall be drilled in accordance with the rules and regulations now promulgated by the State on a course and to an objective approved in writing by the State prior to the commencement of such drilling. The derricks, machinery, and any and all other surface structures, equipment, and appliances shall be located only upon filled lands, which lands shall be at locations approved by the State, or upon the littoral lands or uplands or upon any pier heretofore constructed and available for such drilling upon any tide or submerged lands described in any valid existing lease heretofore issued pursuant to the provisions of Chapter 303, Statutes of 1921, as amended, and all surface operations shall be conducted therefrom.

In the event that any well to be drilled must penetrate tide and submerged lands not leased hereunder, easement for such crossing will be granted by the State, pursuant to applicable statutes and rules and regulations, after the approval of the course and objective referred to hereinbefore.

Amended
22. All operations under this Lease shall be conducted in such a manner as to prevent pollution and contamination of the ocean and tidelands or any impairment of and interference with bathing, fishing, or navigation in the waters of the ocean or any bay or inlet thereof, and no oil, tar, residuary products of oil, or any refuse of any kind from any well or works of the Lessee shall be permitted to be deposited on or pass into the waters of the ocean or any bay or inlet thereof.

23. In the event that the Lessee at any time during the term hereof is insolvent under any of the provisions of the Federal Bankruptcy Act, or makes a voluntary assignment of his assets for the benefit of creditors, or is adjudged a bankrupt, either upon Lessee's voluntary petition in bankruptcy, or upon the involuntary petition of Lessee's creditors, or any of them, or should an attachment be levied and permitted to remain for an unreasonable length of time upon or against the interest, rights or privileges of Lessee in or to any oil, gas, natural gasoline or other products produced from the wells drilled by Lessee upon the demised premises, then, upon election by the State, all of the interest, rights and privileges of Lessee in and to all oil, gas, natural gasoline or other products produced and saved from the demised premises by reason of Lessee's operations thereon, shall terminate upon receipt of written notice from the State advising that the State has so elected. In such event the State shall have, and Lessee, by the acceptance hereof, hereby gives the State the right, option and privilege to cancel and terminate this Lease and all of the terms and provisions granted hereby, and all of the rights and privileges of Lessee in and to or upon the demised premises and in and to any oil, gas, natural gasoline or other products produced and saved from the demised premises by reason of Lessee's operations thereon, and all of Lessee's rights and privileges granted by this Lease shall terminate immediately upon receipt of written notice from the State that the State has so exercised its option.

24. The Lessee may use oil produced from Lessee's wells upon the demised premises for necessary operations of Lessee's wells upon said premises. Such oil shall be used for fuel and drilling purposes only. The Lessee may also use for fuel purposes only, gas produced from Lessee's wells upon the demised premises or gas received currently in exchange for such gas so produced. Any surplus gas produced from the Lessee's wells or received currently in exchange for gas so produced may be used only for necessary gas-lift operations in Lessee's wells in the demised premises or for necessary repressuring of the oil sand or sands from which the well or wells may be producing. The State at its option shall be entitled to take, without payment or compensation therefor, but at no expense to the Lessee, all produced surplus gas which cannot be marketed or beneficially utilized by the Lessee. Such surplus gas as may be taken by the State shall be for the use of the State of California.

25. Pursuant to Public Law 31 - 83d Congress, Chapter 65 - 1st Session, in time of war or when necessary for national defense, and the Congress or the President

shall so prescribe, the United States shall have the right of first refusal to purchase at the prevailing market price, all or any portion of the oil, gas, natural gasoline or other products produced from Lessee's wells in the demised premises, or to acquire and use any portion of said premises by proceeding in accordance with due process of law and paying just compensation therefor.

26. Lessee shall be empowered to sell and convey good title to the full amount of the State's royalty share of oil, gas, natural gasoline and other products produced and saved if and when such sales have been approved in writing as herein provided. The proceeds from the royalty share of oil, gas, gasoline or any other products produced from the demised premises shall be held by the Lessee in trust for the State until the Lessee shall have made full royalty payment to the State therefor.

27. This Lease may be terminated and any of the provisions hereof may be modified or amended, upon the mutual consent in writing of the parties hereto.

28. All notices herein provided to be given or which may be given by either party to the other shall be deemed to have been fully given when made in writing and deposited in the United States mail, registered and postage prepaid, and addressed as follows:

(to the State):

State Lands Commission
California State Building
217 West First Street
Los Angeles 12, California

and

(to the Lessee):

Richfield Oil Corporation
555 South Flower Street
Los Angeles 17, California

The addresses to which the notices shall or may be mailed, as aforesaid, to either party, shall or may be changed by written notice given by such party to the other as hereinabove provided; but nothing herein contained shall preclude the giving of any such notice by personal service to the Lessee or an officer thereof. All payments specified in this Lease shall be made to the State at the address provided for notices to the State.

28. The Lessee agrees to pay, when due, all taxes or assessments lawfully assessed and levied under the laws of any State, County, City or the United States of America, against improvements placed thereon by the Lessee and oil or gas and

other products produced from the demised premises. Further, the Lessee agrees that there shall be no deduction from the royalties payable hereunder by reason of any payments made on account of charges levied as specified in Section 3402 et seq. Public Resources Code, Statutes of California, or any amendments thereto.

IN WITNESS WHEREOF, the parties hereto have executed this Lease the date and year first above written:

STATE LANDS COMMISSION OF THE
STATE OF CALIFORNIA

By


Executive Officer



ATTEST:

LESSEE:

RICHFIELD OIL CORPORATION

By:


Vice President

By:


ASSISTANT SECRETARY



APPROVED AS TO FORM:

EDMUND G. BROWN
Attorney General

JOHN F. HASSLER, JR.
Deputy

April 8, 1954

ENDORSEMENT BY OWNER OF LITTORAL LANDS OR UPLANDS

The owners or owner of real property referred to in this Lease as the surface location of the well or wells to be drilled, or the location of storage or other operating facilities hereby acknowledge(s) that the Lessee named in this Lease has been granted all necessary rights-of-way and easements, in and through the littoral lands or uplands necessary for the performance upon the part of the Lessee of the covenants, and the observance upon the part of the Lessee of the conditions, herin set forth, and the said owners or owner hereby consent(s) to all operations upon the littoral lands or uplands specified and contemplated by the provisions of this Lease.

June 19, 1954
(Date)

ATTEST:

Geo. W. Mason
Geo. W. Mason
Geo. W. Mason
Geo. W. Mason

Grace Hobson Smith
Grace Hobson Smith and
Fred W. Smith
Fred W. Smith as Testamentary Trustees
under the Last Will And Testament of
A. L. Hobson, deceased
Grace Hobson Smith
Grace Hobson Smith, individually
Edith H. Hoffman
Edith H. Hoffman

EXHIBIT "A"

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1. The failure of the State to enforce any of the conditions or requirements of this Exhibit shall not constitute a waiver by the State of such conditions or requirements.

2. The term "commence operations" as used herein is hereby defined to be the actual penetration of the ground with a drilling bit. In the event that any required well is to be drilled from filled lands, the Lessee shall be allowed reasonable additional time prior to commencement of operations, as specified by the State, to secure any necessary permission from such federal and state agencies as may be required legally, and to place the filled lands.

3. All operations shall be conducted in accordance with approved current good engineering practices.

4. For general purposes, an oil or gas zone is hereby defined to mean any sequence of strata containing oil, gas or other hydrocarbon products whenever such sequence of strata lies immediately below a layer of shale or other impervious rock; provided such layer of shale or other impervious rock has a minimum thickness of fifty (50) feet.

5. For the purposes of this Lease, the existing and prospective oil or gas zones in the offshore portion of the Rincon Oil Field are defined as follows:

Upper Interval: All oil or gas-bearing strata above a vertical depth 2,000 feet below the base of a geological "marker", generally known throughout the Rincon Oil Field as the Miley Shale. Said Upper Interval, as herein defined, includes the zones which have sometimes been called the Top Zone, Intermediate Zone and Miley Zone.

Deep Interval: All oil or gas-bearing strata between the base of the Upper Interval, as defined herein, and all prospective deeper oil sands.

6. Within sixty (60) days from and after the date of this Lease, the Lessee shall commence operations, as specified in Section 2 of this Exhibit, for the drilling of a well and shall continue diligently thereafter with such drilling until said well has reached a depth below sea level sufficient to penetrate completely the

Upper Interval or, at Lessee's option, to the Deep Interval as defined herein, and shall continue diligently thereafter with the drilling until such well has penetrated the objective zone or zones to a depth sufficient to determine the productive possibilities of such zone or zones, unless by written agreement of the parties hereto, it shall be determined that said well should be drilled to a greater or lesser depth. In the event that more than one oil or gas zone is indicated by the cores or electric logs in the first well drilled, and the first of such zones tested demonstrates that such zone will not be productive of oil or gas in commercial quantities, then adequate production tests of all other indicated oil or gas zones shall be made by the Lessee before said well is abandoned or drilling operations or testing operations therein are suspended. If tests indicate that more than one zone encountered in the first well will be productive of oil or gas in commercial quantities then said first well may be completed in any productive zone at the option of the Lessee.

7. Within sixty (60) days from and after the date of completion of the first well, or the cessation of drilling operations or testing operations therein, the Lessee shall commence operations, as specified in Section 2 of this Exhibit, for the drilling of the next well. Operations for the drilling of each succeeding well thereafter shall be commenced, as specified in Section 2 of this Exhibit, within sixty (60) days from and after the date of completion of, or cessation of drilling or testing operations in the preceding well, so that there shall be drilled to each commercially productive oil or gas zone, if it is mechanically practicable to do so, wells as follows:

- a. At least one well for the production of oil for each fifteen (15) acres of the area contained in the demised premises where the bottom of the productive interval of the well as completed for production is at a vertical depth of less than 6,000 feet below mean sea level.
- b. At least one well for the production of oil for each thirty (30) acres of the area contained in the demised premises where the bottom of the productive interval of the well as completed for production is at a vertical depth in excess of 6,000 feet below mean sea level.
- c. At least one well for the production of gas from a gas zone only for each three hundred twenty (320) acres of the area contained in the demised premises.

It is understood that the drilling requirements as set forth in Subparagraphs a, b and c of Section 7, are required for and are applicable to each separate commercially productive oil or gas zone, respectively.

8. Any well drilled in accordance with the provisions of this Exhibit shall be drilled from such surface location and to such bottom hole location as shall be approved by the State.

~~9. In the event any well has been, is or shall be completed with any part of its producing interval within five hundred (500) feet from the exterior boundary of this Lease, and if such well is capable of producing oil or gas in commercially profitable quantities, then the State may notify the Lessee in writing to drill an offset well thereto, and within sixty (60) days from the date of such notice, the Lessee shall commence operations, as specified in Section 2 of this Exhibit, for the drilling of an offset well on the demised premises to the same zone as that zone from which such well is producing, or is capable of producing, oil or gas.~~

M.D.
R. O. CORP.
By: JRS

10. In the event that during the first two years of this Lease no well drilled by the Lessee is drilled to a sufficient depth to test the productive possibilities of the Deep Interval, as herein defined, the Lessee shall within sixty (60) days from and after the date of written notice by the State commence operations, as specified in Section 2 of this Exhibit, for drilling a well to a depth sufficient to test the oil or gas possibilities of the Deep Interval. Such well shall be drilled to a depth of at least 10,000 feet below sea level, or basement rock.

11. In drilling all wells to any zone or zones, electric logs shall be made of all formations penetrated and rock core samples shall be taken in order to identify all of the geological formations and to determine the productive possibilities of all oil or gas zones penetrated by the well. At least one oriented core or dip-meter record shall be made during the drilling of the first well to each zone. Copies of all electric logs, surveys, paleontological reports, dip-meter records, oriented core records, rock core records and all other drilling data shall be immediately available to the representatives of the State, and said representatives shall also have ready access to all rock cores and samples which may be obtained during the drilling of each well.

12. The State, at the time of award of this Lease or at any other time during the term hereof, may require that the Lessee observe any other reasonable condition or requirement which the State might impose, provided, that the cost incurred by the Lessee in observing such conditions or requirements, as approved in advance by the State, shall be paid by the State.

EXHIBIT "B"

The oil royalty which the Lessee shall pay to the State shall be according to the following formula:

$$R = \frac{P}{2.5} - \frac{36.67}{.016667P} \times \underline{5.2375}$$

Where R is the royalty rate in per cent applicable to the total value of the production of oil from each well during the month, and

P is the average daily production of the well, determined by dividing the total production for the month by the total number of production days of twenty-four hours each;

provided, however, the Lessee shall pay at all times a minimum royalty of ~~sixteen and two thirds (16 2/3)~~ ^{thirty (30)} per cent upon such average daily production.

AWD
JRI

INSTRUCTIONS TO BIDDER

The last term of the above equation shall be inserted by the bidder to establish the oil royalty which the bidder shall pay to the State.

REVISED PARAGRAPH 9, PAGE 3, OF EXHIBIT "A"

BID FORM - W. O. 1436

9. In the event any well has been, is or shall be completed on other than State lands, with any part of its producing interval within five hundred (500) feet from the exterior boundary of this Lease, and if such well is capable of producing oil or gas in commercially profitable quantities, then the State may notify the Lessee in writing to drill an offset well thereto, and within sixty (60) days from the date of such notice, the Lessee shall commence operations, as specified in Section 2 of this Exhibit, for the drilling of an offset well on the demised premises to the same zone as that zone from which such well is producing, or is capable of producing, oil or gas.

pm
R. O. CORP.
By *JRJ*