

W.O. 5040 (Parcel 18A)

P.R.C. 3120.1

STATE LANDS COMMISSION

State of California

Oil and Gas Lease

THIS INDENTURE OF LEASE, Made and entered into this 29th
day of April, 1964, 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, sometimes hereinafter called
the State, and

RICHFIELD OIL CORPORATION, a Delaware Corporation and

SOCONY MOBIL OIL COMPANY, INC., a New York Corporation

hereinafter called the Lessee;

WITNESSETH: That the State in consideration of the bonus, 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 lands, situate in the County of Santa Barbara, State of
California, described as follows:

(See description on Page 1A attached)

1 A PARCEL OF TIDE AND SUBMERGED LAND IN SANTA BARBARA CHANNEL, SANTA
2 BARBARA COUNTY, IN THE VICINITY OF ELWOOD OIL FIELD, SAID PARCEL BEING
DESCRIBED AS FOLLOWS:

3 BEGINNING AT A POINT ON THE MEAN HIGH TIDE LINE OF SANTA BARBARA
4 CHANNEL, SAID POINT BEING THE NORTHWEST CORNER OF STATE OIL AND GAS
LEASE P.R.C. 129.1 AND ALSO THE NORTHEAST CORNER OF P.R.C. 208.1,
5 WHICH POINT BEARS N. 77° 18' 58" W. 4,865 FEET MORE OR LESS FROM A
6 6 INCH IRON PIPE DESIGNATED AS MONUMENT NUMBER 4 ON SHEET 3 OF 6 OF
A MAP OF A "SURVEY OF THE ORDINARY HIGH WATER MARK", DATED FEBRUARY
7 1954 AND RECORDED IN RECORD OF SURVEY MAP BOOK 35, PAGE 89, RECORDS
8 OF SANTA BARBARA COUNTY, SAID MONUMENT HAVING ZONE 5 CALIFORNIA
COORDINATES OF X = 1,420,819.40 Y = 345,145.75; THENCE FROM SAID
9 POINT OF BEGINNING SOUTHEASTERLY ALONG THE MEAN HIGH TIDE LINE TO
THE INTERSECTION WITH A CALIFORNIA COORDINATE SYSTEM ZONE 5 NORTH-
10 SOUTH GRID LINE HAVING AN X VALUE OF 1,424,750, SAID POINT OF
INTERSECTION ALSO HAVING A Y VALUE OF 342,436.83, AND BEING ON THE
11 LANDWARD BOUNDARY OF STATE OIL AND GAS LEASE P.R.C. 421.1; THENCE
SOUTH ALONG SAID GRID LINE 18,227.20 FEET TO A POINT IN THE SANTA
12 BARBARA CHANNEL; THENCE NORTHWESTERLY PARALLEL TO THE MEAN HIGH TIDE
LINE TO AN INTERSECTION WITH THE SOUTHERLY PROJECTION OF THE EAST
13 BOUNDARY LINE OF STATE OIL AND GAS LEASE P.R.C. 208.1; THENCE
NORTHERLY ALONG SAID BOUNDARY LINE TO THE POINT OF BEGINNING.
EXCLUDING THEREFROM THE AREA CONTAINED IN STATE OIL AND GAS LEASES
14 P.R.C. 129.1, P.R.C. 428.1 AND A PORTION OF P.R.C. 421.1, SAID
PARCEL CONTAINING 3,324 ACRES MORE OR LESS.

15 THE BEARINGS AND DISTANCES USED IN THE ABOVE DESCRIPTION ARE BASED
ON THE CALIFORNIA COORDINATE SYSTEM ZONE 5.

1 1. This lease shall be for a primary term of twenty (20) years, and
2 for so long thereafter as gas or oil is produced in paying quantities
3 from the leased lands, or Lessee shall be diligently conducting producing,
4 drilling, deepening, repairing, redrilling or other necessary lease or
5 well maintenance operations on the leased lands. The Lessee shall have
6 the sole and exclusive right to prospect for, drill for, produce and take
7 only oil, gas and other hydrocarbon substances from the leased lands
8 including the right to drill core holes into the leased lands for the
9 purpose of determining subsurface conditions; provided, however, that the
10 State may permit others to conduct geological or geophysical surveys on
11 the leased lands or drill core holes into said lands, in accordance with
12 the provisions of Section 6826 of the Public Resources Code and the
13 applicable regulations of the State Lands Commission. Within the drill-
14 ing term of three (3) years from and after the date of this lease or such
15 later date as shall be determined pursuant to Section 22(c) hereof, the
16 Lessee shall commence operations for the drilling of a well for oil or
17 gas. If the Lessee fails to commence such operations before, or to
18 prosecute them diligently after the expiration of said three-year term or
19 any extension thereof, this lease shall terminate. If, at any time or
20 from time to time, before or after the expiration of the primary term of
21 this lease, the leased lands cease to produce oil or gas, the lease shall,
22 nevertheless, continue in full force and effect if within six months
23 after the cessation of production, or such longer period of time as the
24 State may authorize, Lessee shall commence and thereafter prosecute with
25 reasonable diligence drilling, deepening, repairing, redrilling or other
26 operations which shall result in the restoration of production of oil or
27 gas from the leased lands.

28 The term "commence operations", as used in this lease and in Exhibit
29 "A" attached hereto and by reference made a part hereof, is hereby defined
30 to be the actual penetration of the ground with a drilling bit.

31 2. The Lessee agrees to pay to the State, annually in advance, as

1 rent, the sum of Three Thousand Three Hundred Twenty-four and No One-
2 hundredths Dollars (\$3,324) per year. In the event of quitclaim of any por-
3 tion of the leased premises as to all zones, the annual rental shall be
4 reduced One Dollar (\$1.00) for each acre of area quitclaimed. Such reduction
5 shall become effective on the lease anniversary date next following the date
6 of quitclaim.

7 3. The Lessee agrees to account for and pay to the State in money as
8 royalty on oil a percentage, determined in accordance with the schedule
9 attached hereto, marked Exhibit "B" and by reference made a part hereof, of
10 the current market price at the well of, and of any premium or bonus paid on,
11 all oil production removed or sold from the leased lands. The current market
12 price at the well shall be determined by the State and shall not be less than
13 the highest price in the nearest field in the State of California at which
14 oil of like gravity and quality is being sold in substantial quantities,
15 subject to an appropriate allowance for the cost of delivery of such oil to
16 onshore storage and transportation facilities. Said money royalty on oil
17 shall be due and payable not later than the twenty-fifth day of the calendar
18 month following the calendar month in which the oil is produced.

19 At the State's option, exercised upon one hundred eighty (180) days'
20 previous written notice, and in lieu of said money royalty on oil, Lessee
21 shall deliver to the State in kind, a percentage, determined in accordance
22 with said Exhibit "B" hereto, of all oil production removed or sold from the
23 leased lands. If the State elects to take in kind its royalty share of oil
24 produced from the leased lands, Lessee shall provide at Lessee's shipping
25 tanks, without charge to the State, tankage of sufficient capacity to store
26 the State's royalty share of oil produced from this lease during any continu-
27 ous forty-eight (48) hours.

28 The Lessee also agrees to account for and pay to the State in money as
29 royalty on dry gas, natural gasoline, and other products extracted and saved
30 from the gas produced under this lease, except gas used for lease use of
31 reinjection into the leased lands (said dry gas, natural gasoline, and other

1 products, subject to said exception, being hereinafter sometimes referred to
2 as "non-oil production"), sixteen and two-thirds ($16\frac{2}{3}$) per cent of the
3 current market price at the well of, and of any premium or bonus paid on, all
4 said non-oil production removed or sold from the leased lands. The current
5 market price at the well shall be determined by the State and shall not be
6 less than the highest price in the nearest field in the State of California
7 at which such non-oil production of like quality is being sold in substantial
8 quantities. Said money royalty on said non-oil production shall be due and
9 payable not later than the twenty-fifth day of the calendar month following
10 the calendar month in which the said non-oil production is produced.

11 At the State's option, exercised upon one hundred eighty (180) days'
12 previous written notice, and in lieu of said money royalty on said non-oil
13 production, Lessee shall deliver to the State in kind, sixteen and two-thirds
14 ($16\frac{2}{3}$) per cent of all said non-oil production removed or sold from the
15 leased lands.

16 If the State elects to take in kind its royalty share or shares of oil
17 or non-oil production, or both, it may thereafter, upon one hundred eighty
18 (180) days' written notice, elect to take said royalty share or shares in
19 money, and may, thereafter, from time to time, upon like notice, elect to
20 take said royalty share or shares either in kind or in money.

21 In the event that it should become necessary to dehydrate or treat the
22 oil produced from wells drilled into the leased lands, the Lessee shall be
23 entitled to an allowance of actual cost not to exceed five cents (\$.05) per
24 barrel for royalty oil so dehydrated or treated.

25 4. This lease may be assigned, transferred, or sublet as to all or any
26 part of the leased lands, and as to either a divided or undivided interest
27 therein, or as to any separate and distinct zone or geological horizon or
28 portion thereof, subject to approval by the State, to any person, association
29 of persons, or corporation, who at the time of the proposed assignment,
30 transfer, or sublease, possesses the qualifications provided in Chapter 3,
31 Part 2, Division 6 of the Public Resources Code. Any assignment, transfer or

1 sublease shall take effect as of the first day of the month following the
2 approval by the State and filing with the State of an executed counterpart
3 thereof, together with any required bond and proof of the qualification,
4 under the Public Resources Code and the rules and regulations of the State,
5 of the assignee, transferee or sublessee to take or hold this lease or an
6 interest therein. Unless approved by the State no assignment, transfer or
7 sublease hereof shall be of any effect. Upon approval of any assignment,
8 transfer or sublease, the assignee, transferee or sublessee shall be bound
9 by the terms of this lease to the same extent as if such assignee, trans-
10 feree or sublessee were the original lessee, any conditions in the assignment,
11 transfer or sublease to the contrary notwithstanding.

12 Any assignment or transfer of a separate portion of this lease or of a
13 separate and distinct zone or geological horizon, or a portion thereof, shall
14 segregate the assigned, transferred or subleased portion thereof from the
15 retained portion thereof, and the approval of the assignment, transfer or
16 sublease shall release and discharge the assignor or transferor from all
17 obligations thereafter accruing under this lease with respect to the assigned
18 or transferred lands or zones or horizons. Any such segregated lease or
19 leases shall continue in full force and effect for the primary term of this
20 lease, but for not less than two (2) years after the date of discovery of
21 oil or gas in paying quantities, upon any segregated portion of the lands or
22 zones or horizons originally subject to this lease, and so long thereafter as
23 oil or gas is produced in paying quantities.

24 Assignments or transfers may also be made with the approval of the State
25 of parts of this lease which are on their extended term because of production,
26 and the segregated lease of any undeveloped lands or zones or horizons shall
27 continue in full force and effect for two (2) years and so long thereafter
28 as oil or gas is produced in paying quantities from the segregated lease
29 lands or zones or horizons.

30 5. Lessee may at any time make and file with the State a written quit-
31 claim or relinquishment of all rights under this lease or of any portion

1 thereof comprising a ten-acre parcel or multiple thereof in a compact form,
2 or of any separate or distinct zone or geological horizon or portion thereof
3 underlying such ten-acre parcel or multiple thereof. Such quitclaim or
4 relinquishment shall be effective as of the date of its filing, subject to
5 the continued obligation of the Lessee and his surety to make payment of all
6 rentals and royalties theretofore accrued and to place all wells on the lands
7 or in the zones or horizons to be quitclaimed or relinquished, in condition
8 for suspension or abandonment in accordance with the terms of this lease and
9 the rules and regulations of the State; thereupon the Lessee shall be released
10 from all obligations thereafter accruing under the lease with respect to the
11 lands, zones, or horizons quitclaimed or relinquished. But no such quitclaim
12 or relinquishment shall release such Lessee or his surety from any liability
13 for breach of any obligation of this lease with respect to which the Lessee
14 is in default at the time of the filing of such quitclaim or relinquishment.

15 6. In the event the Lessee shall fail to exercise due diligence and
16 care in the prosecution of the development work in accordance with the terms
17 and conditions of this lease prior to the discovery of oil or gas in paying
18 quantities in the lands leased hereunder and if such default shall continue
19 after thirty (30) days' written notice to the Lessee and demand for perform-
20 ance, then the State may cancel this lease. After discovery of oil or gas
21 in paying quantities on the lands leased hereunder this lease may be forfeited
22 and cancelled upon, and only upon, failure of the Lessee after ninety (90)
23 days' written notice and demand to comply with any of the provisions of this
24 lease or of the regulations applicable hereto and in force at the date of
25 invitation for bids pursuant to which this lease is awarded; provided, how-
26 ever, that in the event of any such cancellation the Lessee shall have the
27 right to retain hereunder any and all drilling or producing wells as to which
28 no default exists, together with a parcel of land surrounding each such well
29 or wells and such rights of way through the leased lands as may be reasonably
30 necessary to enable the Lessee to drill and operate such retained well or
31 wells. In the event of the cancellation, quitclaim, expiration or other

1 termination of this lease in whole or in part, the Lessee shall have a
2 reasonable time within which to remove any and all property, equipment and
3 facilities owned or used by the Lessee in connection with operations under
4 the portion of this lease so terminated.

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

10 The State also reserves the right to lease, sell, or otherwise dispose
11 of the surface of the lands embraced within this lease, insofar as the surface
12 is not required by the Lessee for present or future use in its operations
13 under this lease. Any such surface leases or rights granted by the State
14 shall be subject to the Lessee's then existing structures and to the Lessee's
15 right to use the leased lands in its operations.

16 8. The Lessee shall use all reasonable precautions to prevent waste of
17 oil and gas developed in the leased lands or the entrance of water through
18 wells drilled to the oil or gas-bearing strata, to the destruction or injury
19 of the oil or gas deposits.

20 9. The Lessee shall comply with all valid laws of the United States and
21 of the State of California and with all valid ordinances of cities and
22 counties applicable to the Lessee's operations hereunder, including, without
23 limitation by reason of the specification thereof, the Lessee's compliance
24 with Division 3 of the Public Resources Code, Statutes of California. The
25 Lessee further agrees without limitation by reason of the specification
26 thereof to comply with all provisions of Division 6 of the Public Resources
27 Code, Statutes of California, applicable to the Lessee's operations hereunder,
28 and with all rules and regulations of the State Lands Commission applicable
29 to the Lessee's operations hereunder in effect at the date of the invitation
30 for bids in pursuance of which this lease is awarded.

31 10. The Lessee shall commence operations for the drilling of wells into

1 the leased lands in accordance with Exhibit "A" hereof, and shall thereafter
2 diligently prosecute such operations.

3 11. The obligations imposed upon Lessee by the provisions of this lease
4 may be suspended during such time as the Lessee is prevented from complying
5 therewith by wars, strikes, riots, acute and unusual labor or material short-
6 ages, acts of God, laws, rules and regulations of any federal, state, county,
7 or municipal agency or by such other unusual conditions as are beyond the
8 control of the Lessee.

9 12. The Lessee shall exercise reasonable diligence in the operation of
10 the wells while the products therefrom can be obtained in paying quantities
11 and shall not unreasonably or unnecessarily suspend operations. All opera-
12 tions hereunder shall be carried on in a proper and workmanlike manner in
13 accordance with generally accepted good oil field practice and with due
14 regard for the protection of the safety and health of workmen.

15 13. With respect to damage to any reservoir underlying the demised
16 premises and loss of oil, gas or other hydrocarbon substances therein or
17 therefrom, Lessee shall be liable to the State for such damage and loss to
18 the extent that such damage and loss is caused by the negligence of, or the
19 breach of any provision of this lease by, or non-compliance with any appli-
20 cable statutes or rules and regulations by, the Lessee or its employees,
21 servants, agents or contractors, provided that nothing herein shall diminish
22 any other rights or remedies which the State may have in connection with any
23 such negligence or breach. With respect to any other damage or loss, Lessee
24 agrees to indemnify the State and save the State harmless from and against
25 any and all losses, damages, claims, demands or actions caused by or arising
26 out of or connected with the operations of the Lessee hereunder.

27 14. The Lessee shall, at the time of execution of this lease, furnish
28 and thereafter maintain a good and sufficient bond in favor of the State of
29 California in the penal sum of \$50,000 to guarantee the faithful performance
30 by the Lessee of the terms, covenants, and conditions of this lease and of
31 the provisions of Division 6 of the Public Resources Code, Statutes of

1 California, and of the rules and regulations promulgated thereunder, including
2 immediate elimination of any contamination or pollution caused in any manner
3 or resulting from operations under this lease.

4 In the event of approved placement of filled lands, platforms, or other
5 fixed or floating structures, for development of the area leased hereunder,
6 the Lessee shall also maintain a good and sufficient bond in favor of the
7 State of California in a reasonable amount as specified by the State, but not
8 to exceed fifty (50) per cent of the cost of the filled lands and auxiliary
9 structures, platforms, or other fixed or floating structures, to guarantee
10 the faithful performance by the Lessee of the placement and maintenance of the
11 filled lands, platforms, or other fixed or floating structures and the removal
12 thereof at the request of the State upon the expiration or sooner termination
13 of this lease. At the expiration of this lease or sooner termination thereof,
14 the Lessee shall surrender the premises leased, with all permanent improve-
15 ments thereon, in good order and condition, or, at the option of the State
16 and as specified by the State, the Lessee shall remove such structures,
17 fixtures and other things as have been put on the leased lands by the Lessee
18 and otherwise restore the premises, all removal and restoration costs to be
19 borne by the Lessee, subject to the Lessee's right to remove his equipment as
20 provided in the statutes. Notwithstanding any provision of this lease, the
21 Lessee shall have the right to remove any and all drilling and producing
22 platforms and other oil field development and producing equipment having a
23 re-use or salvage value.

24 15. The Lessee shall file with the State true and correct copies of the
25 pertinent portions of all sales contracts for the disposition of oil, gas,
26 natural gasoline and other substances produced hereunder. Said copies shall
27 be certified by the Lessee to be true and correct copies of such portions of
28 the originals or of any pertinent amendments thereof. In the event the State
29 should elect to take royalty as a percentage of the current market price at
30 the well in money instead of in kind, the Lessee shall not sell or otherwise
31 dispose of the royalty share of the products produced hereunder except in

1 accordance with approved sales contracts or other method first approved in
2 writing by the State.

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

11 17. The Lessee, insofar as it has the right to do so, hereby consents
12 to an examination of the books and records of any individual, association or
13 corporation which has transported for, or received from the Lessee any oil,
14 gas, natural gasoline and other products produced from the leased lands; and
15 to the inspection at all times of the operations of the Lessee with respect to
16 the wells, improvements, machinery and fixtures used in connection therewith
17 by any person authorized by the State.

18 18. The Lessee shall file promptly with the State Lands Commission copies
19 of all logs, including electric logs, surveys, drilling records, well histories,
20 core records and related information as measured and recorded for the wells
21 drilled by the Lessee into the leased lands. The Lessee does hereby waive any
22 statutory limitations upon the use by the State, or a duly authorized employee
23 of the State, of any information filed with the Division of Oil and Gas of the
24 Department of Natural Resources by the Lessee in connection with this lease.
25 Any and all information filed by the Lessee with the said Division of Oil
26 and Gas in connection with this lease shall be available at all times for
27 the confidential use of the State for the purpose of enforcing compliance
28 with the terms, covenants, and conditions of this lease and rules and regula-
29 tions now promulgated by the State but shall not be open to inspection by any
30 person except members, officers, or employees of the State Lands Commission
31 or Division and persons performing any function or work assigned to them by

1 said Commission or Division, except upon the written consent of the Lessee.
2 Notwithstanding any other provision hereof, said information may be disclosed
3 to any person where such disclosure is reasonably necessary for the adminis-
4 tration of the functions, responsibilities, and duties vested in the Commis-
5 sion by law, including, but not limited to, functions, responsibilities, and
6 duties arising in connection with any litigation relating to this lease or to
7 the rights, duties, and obligations arising hereunder.

8 19. The Lessee shall furnish to the State detailed drawings of all pipe
9 lines attached in any manner to the said wells and report any changes or
10 additions promptly, and shall gauge all oil, and measure all gas, whether
11 dry or wet, in accordance with the rules and regulations now promulgated by
12 the State. The State shall have, at all times, the right to gauge and sample
13 all oil and measure and test all gas, gasoline and other products. In the
14 event the State chooses to gauge said oil, such gauges shall be taken by a
15 State inspector in the presence of a representative of the Lessee, and if
16 there be a disagreement between the Lessee and the State, such gauges shall
17 be retaken by a State inspector in the presence of a representative of the
18 Lessee and the average of the gauges taken by the State shall be binding on
19 the Lessee. In the event that a representative of the Lessee is not present
20 after having been given an opportunity to be present, gauges taken by the
21 State shall be binding on the Lessee. Samples for laboratory tests shall be
22 furnished by the Lessee as required by the State. The readings and results
23 of tests of oil samples made by the State shall be binding upon the Lessee.
24 The Lessee shall, and the State at its option may, measure the production
25 from each well and shall take samples and make tests of the oil produced from
26 each well to determine the net volume thereof.

27 20. The State shall have the right to determine the spacing of wells
28 and the rate of drilling and rate of production of such wells so as to prevent
29 the waste of oil and gas and promote the maximum economic recovery of oil or
30 gas from, and the conservation of reservoir energy in, each zone or separate
31 underground source of supply of oil or gas covered in whole or in part by

1 this lease.

2 21. In the event that the State shall determine that it is necessary or
3 advisable in the public interest, for the purpose of conserving the natural
4 resources of any oil or gas pool or field, or any part thereof, Lessee may
5 unite with other lessees of the State jointly or separately, or jointly and
6 separately with others owning or operating lands not belonging to the State,
7 including lands belonging to the United States, in collectively adopting and
8 operating under a cooperative or unit plan of development or operation of the
9 pool or field, or any part thereof. The State may, with the consent of the
10 Lessee, establish, alter, change, and revoke any drilling and production
11 requirements of this lease, permit apportionment of production, and may make
12 such regulations with reference to this lease, with like consent on the part
13 of the Lessee, in connection with the institution and operation of any such
14 cooperative or unit plan, as the State deems necessary or proper to secure
15 the proper protection of the interests of the State.

16 22. (a) Subject to the provisions of Exhibit "A" hereto, each well
17 drilled pursuant to the terms of the lease may be drilled or slant-drilled
18 to and into the subsurface of the tide or submerged lands or beds of navigable
19 rivers or lakes, covered by the lease from upland, riparian or littoral
20 drill sites owned or controlled by the State or owned by or available, at any
21 time, to the lessee, or from drill sites located upon any filled lands here-
22 tofore or hereafter filled, whether contiguous or noncontiguous to the
23 riparian or littoral lands or uplands, or from any pier heretofore or here-
24 after constructed, owned by or available to the lessee and available for such
25 purpose, or from platforms or other fixed or floating structure in, on or
26 over the tide or submerged lands or beds of navigable rivers or lakes,
27 covered by the lease or otherwise available to the lessee.

28 (b) Pollution and contamination of the ocean, and tidelands, or navigable
29 rivers or lakes, and all impairment of and interference with bathing, fishing
30 or navigation in the waters of the ocean or any bay or inlet thereof, or any
31 navigable river or lake, is prohibited, and no oil, tar, residuary product

1 of oil or any refuse of any kind from any well or works shall be permitted
2 to be deposited on or pass into the waters of the ocean or any bay or inlet
3 thereof or any navigable river or lake; provided, however, that this sub-
4 section (b) shall not be deemed to apply to deposit on or passage into said
5 waters of water not containing any hydrocarbons or vegetable or animal matter.

6 (c) If the lessee, as disclosed by information submitted with his bid,
7 proposes to drill one or more wells from filled lands, whether contiguous or
8 noncontiguous to the riparian or littoral lands or uplands, or from any pier
9 or from platforms or other fixed or floating structures to be constructed for
10 such purpose, and if permission from any federal or state agency is legally
11 required in order to construct any such filled land or structures, the lessee
12 shall be allowed a reasonable time following the execution of the lease within
13 which to secure the necessary permission from such federal and state agencies
14 as shall be legally required, and, upon the securing of such permission, a
15 further reasonable time, determined with regard to the nature of the filled
16 lands or structure or structures to be constructed, within which to commence
17 operations for the drilling of such well or wells. The drilling term of the
18 lease shall be extended by the commission by a period equal to such reasonable
19 time to secure such permission, and, if necessary, to the date to which the
20 time to commence operations for the drilling of such well or wells has been
21 extended.

22 (d) Any offshore filled lands or structure or structures constructed for
23 the purpose of drilling pursuant to this section shall conform to the rules
24 and regulations of the commission in effect at the time of invitation for
25 bids in pursuance of which the lease is awarded. Drilling, whether from
26 upland, riparian, littoral or offshore locations, shall be conducted in con-
27 formance with such rules and regulations in effect at the time of invitation
28 for bids in pursuance of which the lease is awarded.

29 23. In the event that the Lessee at any time during the term hereof is
30 insolvent under any of the provisions of the Federal Bankruptcy Act, or makes
31 a voluntary assignment of his assets for the benefit of creditors, or is

1 adjudged a bankrupt, either upon Lessee's voluntary petition in bankruptcy,
2 or upon the involuntary petition of Lessee's creditors, or any of them, or
3 should an attachment be levied and permitted to remain for any unreasonable
4 length of time upon or against the interest, rights or privileges of Lessee
5 in or to any oil, gas, natural gasoline or other products produced from the
6 wells drilled by Lessee upon the leased lands, then, upon election by the
7 State, all of the interest, rights and privileges of Lessee in and to all
8 oil, gas, natural gasoline or other products produced and saved from the
9 leased lands by reason of Lessee's operations thereon, shall terminate upon
10 receipt of written notice from the State advising that the State has so
11 elected. In such event the State shall have, and Lessee, by the acceptance
12 hereof, hereby gives the State the right, option and privilege to cancel and
13 terminate this lease and all of the terms and provisions granted hereby, and
14 all of the rights and privileges of Lessee in and to or upon the leased lands
15 and in and to any oil, gas, natural gasoline or other products produced and
16 saved from the leased lands by reason of Lessee's operations thereon, and
17 all of Lessee's rights and privileges granted by this lease shall terminate
18 immediately upon receipt of written notice from the State that the State has
19 so exercised its option.

20 24. Lessee may use oil produced from Lessee's wells drilled into the
21 leased lands for fuel, drilling and production purposes only, to the
22 extent such use is necessary for operations of said wells. Such oil,
23 so used, shall not be included in computing, for royalty purposes, the
24 total production of oil removed or sold from the leased lands during the
25 month, nor in computing, for royalty purposes, the current market price
26 at the well of such production, but shall be included in computing
27 the average production of oil per well per day for the purpose of
28 determining the royalty rate as provided in Exhibit "B" hereto. The
29 Lessee may also use gas produced from Lessee's wells drilled into the
30 leased lands, or gas received currently in exchange for gas so produced,
31 for the following purposes and the following purposes only:

1 Fuel purposes, gas lift, injection into oil sand or sands from which
2 the well or wells may be producing, or reinjection into the leased
3 lands. Such gas, so used, or given in exchange for gas so used, shall
4 not be included in computing, for royalty purposes, the total produc-
5 tion removed or sold from the leased lands during the month nor in
6 computing, for royalty purposes, the current market price at the well
7 of such production. The State at its option may take, without payment
8 or compensation therefor, but at no expense to the Lessee, all produced
9 surplus gas which cannot be marketed or beneficially utilized by the
10 Lessee. Such surplus gas as may be taken by the State shall be for the
11 use of the State of California.

12 25. Pursuant to Public Law 31, 83d Congress, Chapter 65, 1st
13 Session, in time of war or when necessary for national defense, and the
14 Congress or the President shall so prescribe, the United States shall
15 have the right of first refusal to purchase at the prevailing market
16 price, all or any portion of the oil, gas, natural gasoline or other
17 products produced from Lessee's wells in the leased lands, or to
18 acquire and use any portion of said lands by proceeding in accordance
19 with due process of law and paying just compensation therefor.

20 26. Lessee shall be empowered to sell and convey good title to
21 the full amount of the State's royalty share of oil, gas, natural gaso-
22 line and other products produced and saved if and when such sales have
23 been approved in writing as herein provided. The proceeds from the
24 royalty share of oil, gas, gasoline or any other products produced
25 from the leased lands shall be held by the Lessee in trust for the
26 State until the Lessee shall have made full royalty payment to the
27 State therefor.

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

31 28. All notices herein provided to be given or which may be given

1 by either party to the other shall be deemed to have been fully given
2 when made in writing and deposited in the United States mail, registered
3 and postage prepaid, and addressed as follows:

4 To the State:

5 State Lands Commission

6 Room 305 California State Building

7 217 West First Street

8 Los Angeles, California 90012

9
10 To the Lessee:

11 Richfield Oil Corporation

12 555 South Flower Street

13 Los Angeles, California 90054
14

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

22 29. The Lessee agrees to pay, when due, all taxes or assessments
23 lawfully assessed and levied under the laws of any state, county,
24 city or the United States of America, against improvements placed
25 thereon by the Lessee and oil or gas and other products produced from
26 the leased lands. Further, the Lessee agrees that there shall be no
27 deduction from the royalties payable hereunder by reason of any pay-
28 ments made on account of charges levied as specified in Sections 3402
29 et seq., Public Resources Code, Statutes of California, or any amend-
30 ments thereto.

31 30. The failure of the State to enforce any of the conditions,

1 requirements, or other provisions of this lease or of any and all
2 exhibits hereto shall not constitute a waiver by the State of any such
3 condition, requirement, or other provision.

4 IN WITNESS WHEREOF, The parties hereto have executed this lease the
5 date and year first above written.

6 STATE LANDS COMMISSION OF THE
7 STATE OF CALIFORNIA

8 By:

9 J. J. Hartley
Executive Officer

10 LESSEE:

11 RICHFIELD OIL CORPORATION, a Delaware
12 Corporation

13 By: Stephen A. ...

VICE PRESIDENT

14 By: R. G. Nelson

ASSISTANT SECRETARY

15 SOCONY MOBIL OIL COMPANY, INC. a
16 New York Corporation

17 By: L. C. Stevens

ATTORNEY IN FACT

18 By: A. C. Hilton

Assistant Secretary

19 APPROVED AS TO FORM:

20 STANLEY MOSK, ATTORNEY GENERAL

21 By: /s/ JAY L. SHAVELSON

22 Deputy Attorney General

23 AMENDMENT:

24 By: /s/ ARIEL C. HILTON

25 Deputy Attorney General

requirements, or other provisions of this lease or of any and all exhibits hereto shall not constitute a waiver by the State of any such condition, requirement, or other provision.

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:

F. J. Hortig
Executive Officer

LESSEE:

RICHFIELD OIL CORPORATION, a Delaware Corporation

By: Stanger Auerman
VICE PRESIDENT

By: R. Nelson
ASSISTANT SECRETARY

SOCONY MOBIL OIL COMPANY, INC. a New York Corporation

By: L. C. Stevens
ATTORNEY IN FACT

By: R. H. Harris
Assistant Secretary

APPROVED AS TO FORM:

STANLEY MOSK, ATTORNEY GENERAL

By: /s/ JAY L. SHAVELSON

Deputy Attorney General

STATE OF CALIFORNIA)
COUNTY OF) ss.

On this 29th day of April, A.D., 1964, before me, the undersigned, a Notary Public in and for the State of California, with principal office in the County of Sacramento, 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.

Edith L. Belflower
EDITH L. BELFLOWER
Name (Typed or Printed)
NOTARY PUBLIC IN AND FOR THE STATE OF CALIFORNIA

My Commission Expires October 29, 1965

EXHIBIT "A"

1. All operations hereunder shall be conducted in accordance with generally accepted good oil field practices.

2. An oil or gas zone is hereby defined to mean any sequence of strata containing oil, gas or other hydrocarbon substances, wherein the reservoir characteristics, such as pressure, temperature, specific gravity, viscosity, permeability, and porosity are similar and whenever such sequence of strata is separated from dissimilar producing strata by a competent layer of shale, or other impervious rock.

3. Within one hundred and twenty (120) days from and after the date of the cessation of drilling operations in the first well, the Lessee shall commence operations for the drilling of the next well. Operations for the drilling of each succeeding well thereafter shall commence within one hundred and twenty (120) days from and after the cessation of drilling operations in the preceding well. Without limiting the generality thereof, the term "drilling operations" as used in this Section 3 shall include any or all of the following: Actual drilling in the ground, logging or surveying the well bore, coring, sidewall sampling or coring, drill stem or formation testing, carrying on fishing operations, running and cementing protection or production casing, running tubing, perforating casing for production, milling casing, reaming, setting whipstock for redrilling, operations to stop lost circulation, actual plugging and abandonment of said well. As used in this section the term "cessation of drilling operations" shall not include a temporary stoppage of drilling operations of less than seventy-two (72) hours' duration for a purpose or purposes related to the resumption of drilling operations in the same well, nor to a stoppage of longer duration for such purpose or purposes where such stoppage is approved by the State or any authorized representative thereof. During the initial drilling term of three (3) years or any extension thereof, and irrespective of the requirements of this Section 3, Lessee may at its option suspend or resume drilling operations at any time and from time

1 to time. After oil or gas shall have been discovered in commercial quanti-
2 ties in any oil or gas zone in the leased lands, there shall be drilled to
3 each commercially productive oil or gas zone, if it is mechanically practi-
4 cable to do so, wells as follows:

5 a. At least one (1) well for the production of oil into each twenty
6 (20) acres of the area contained in the leased lands where the
7 bottom of the productive interval of the well as completed for
8 production is at a vertical depth of less than 6,000 feet below
9 mean sea level.

10 b. At least one (1) well for the production of oil into each forty
11 (40) acres of the area contained in the leased lands where the
12 bottom of the productive interval of the well as completed for
13 production is at a vertical depth in excess of 6,000 feet below
14 mean sea level.

15 c. At least one (1) well for the production of gas or gas conden-
16 sate from any zone which produces gas or gas condensate only
17 into each three hundred and twenty (320) acres of the area
18 contained in the leased lands.

19 It is understood that the drilling requirements as set forth in Subpara-
20 graphs a, b, and c of this Section 3 are required for and are applicable to
21 each separate commercially productive oil or gas zone, respectively. A well
22 may, with the approval of the State, be completed in more than one zone, and
23 for the purpose of satisfying the drilling requirements of Subparagraphs a,
24 b, and c of this section, and for such purpose only, shall be considered a
25 well for each zone into which it is completed and producing. Lessee here-
26 under shall not be required to operate more than one (1) drilling string at
27 any time, unless the operation of more than one (1) drilling string at any
28 time is necessary in order to commence an offset well within the time required
29 by Section 5 of this exhibit.

30 4. Any well drilled in accordance with the provisions of this lease
31 shall be drilled only from a surface location and on a course and to an

1 objective approved in writing by the State prior to the commencement of
2 drilling.

3 5. In the event any well has been, is or shall be completed on other
4 than State lands, with any part of its producing interval within five hun-
5 dred (500) feet from the exterior boundary of this lease, and if such well
6 is capable of producing oil or gas in commercial quantities, provided Lessee
7 is not drilling or has not theretofore drilled an offset well thereto on the
8 leased lands, then the State may notify the Lessee in writing to drill an
9 offset well thereto, and within such reasonable time as shall be specified
10 in said notice, which time shall take into account the availability, type
11 and location of facilities required and which, in no event, shall be less
12 than one hundred and twenty (120) days from the date of such notice, the
13 Lessee shall commence operations for the drilling of an offset well on the
14 leased lands to the same zone as that zone from which such well is producing,
15 or is capable of producing, oil or gas. For the purpose of this section an
16 offset well shall mean a well the producing interval of which is situated at
17 a location in the leased lands not more than five hundred (500) feet from
18 the point on the boundary of the lease nearest to the producing interval of
19 the well to be offset.

20 6. An electric log or logs shall be made of all formations penetrated
21 to the drilled depth of each well or to such depth as is mechanically possible.
22 At least one oriented core or dipmeter record shall be made during the drill-
23 ing of the first well to each zone if it is mechanically practicable to do
24 so or during the drilling of the earliest subsequent well in which it is
25 mechanically practicable to make such core or record. True and correct
26 copies of all electric logs, surveys, paleontological reports, dipmeter
27 records, oriented core records, rock core records and all other drilling,
28 test, and production data taken by Lessee or his agents shall be immediately
29 available to the representatives of the State, and said representatives shall
30 also have ready access to all rock cores and samples which may be obtained
31 during the drilling of each well.

7. No piers shall be permitted to be constructed, used, maintained or operated seaward of the ordinary high water mark for well sites or other operations for oil and gas development from the area leased hereunder; provided that this section shall not apply to the use, maintenance or operation of any pier constructed prior to the date of this lease with respect to which the State or other owner thereof has consented to such use.

8. No permanent filled lands, platforms, or other fixed or floating structures for well sites or other operations for oil and gas development from the area leased hereunder shall be constructed, used, maintained or operated at any location less than one statute mile seaward of the ordinary high water mark of the Santa Barbara Channel. Provided, however, that this section shall not apply to drilling and completion of a submerged ocean floor oil or gas well; and provided further that this section shall not apply to filled lands, platforms or fixed or floating structures in, on or over tide and submerged lands constructed prior to the date of this lease with respect to which the State or other owner thereof has consented to such use.

9. Each well drilled landward of the ordinary high water mark shall when required by the State be completed in such manner that all production equipment and facilities shall be recessed, covered, or otherwise screened from view to the satisfaction of the State.

10. The State reserves and retains the right, upon receipt of any evidence of subsidence of the surface of either the leased or adjacent lands, to determine that any or all further operations under this lease would or might aggravate or cause subsidence to the impairment or interference with the developed shoreline recreational or residential areas adjacent to the leased lands or damage to other shoreline properties. In the event of such determination, the State may notify the Lessee, in writing, to suspend in the manner and to the extent specified in said notice, all or any part of Lessee's operations under this lease within thirty (30) days of said notice, and the Lessee agrees to suspend said operations within said time in the manner and to the extent so specified.

1 Exercise of either or both of the foregoing rights by the State is sub-
2 ject to the following PROVISOS:

3 (1) Such determination may be made by the State Lands Commission
4 at any time during the effective term of this lease but only at a
5 meeting of said Commission following at least thirty (30) days after
6 written notice to Lessee that the Commission has received evidence of
7 such subsidence and proposes to determine whether any or all further
8 operations under this lease would or might cause or aggravate subsidence
9 to the impairment or interference with the developed shoreline recrea-
10 tional or residential areas or damage to other shoreline properties
11 adjacent to the leased lands. At any such meeting Lessee may present
12 facts and arguments relevant to such determination.

13 (2) At least thirty (30) days prior to said meeting, the State
14 shall, to the best of its ability and to the extent permitted by law,
15 make available to Lessee for study any and all written and graphic
16 information and opinions theretofore received or prepared by or for the
17 Commission relative to subsidence of the surface of the leased and
18 adjacent lands.

19 (3) Operations under this lease suspended pursuant to this
20 Section 10 may be resumed by Lessee, in whole or in part, only in the
21 manner and to the extent provided and subject to conditions contained
22 in a program, agreed to by both the State and Lessee, designed to
23 alleviate or prevent further subsidence.

24 (4) Notwithstanding any agreement by the State to any such program,
25 the State may, upon receipt of evidence of further such subsidence
26 occurring subsequent to the resumption of operations under such program,
27 notify Lessee to again suspend operations in accordance with the provi-
28 sions of this Section, and Lessee agrees to so suspend operations.

29 During any such period of suspension in whole or in part pursuant to
30 this Section 10, the drilling, offset, and production obligations of Lessee
31 shall likewise be suspended in whole or in part to the extent and only to

1 the extent that the performance of such drilling, offset, and production
2 obligations is rendered impracticable or unreasonable as a result of the
3 notice to suspend issued by the State pursuant to this Section 10.

4 The rights reserved and retained by the State Lands Commission under
5 this Section 10 shall be exercisable to the extent and only to the extent
6 that such exercise is permitted by law at the time of such exercise.

EXHIBIT "B"

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

$$R = \frac{P}{5 + 0.01P}$$

Where R is the royalty rate in per cent, and

P is the average production of oil per well per day under the lease determined by dividing the total lease production in barrels for the month by the total number of well-production days of twenty-four (24) hours each.

Provided, however, the Lessee shall pay at all times a minimum oil royalty rate of not less than sixteen and two-thirds (16-2/3) per cent, and a maximum oil royalty rate of not more than fifty (50) per cent.

EXHIBIT "C"

The undersigned RICHFIELD OIL CORPORATION and SOCONY MOBIL OIL COMPANY, INC.

hereby offer(s) to pay to the State of California the sum of Three Hundred Fifty Two Thousand One Hundred Eleven and 15/100 Dollars (\$ 352,111.15) as a cash bonus payment in consideration of the issuance of Oil and Gas Lease W.O. 5040 (Parcel 18A), pursuant to the published notice of intention and proposal by the State Lands Commission.

A check or checks in the total amount of Seventy Five Thousand Four Hundred Twenty Two and 23/100 (\$ 75,422.23) is or are transmitted herewith, representing the sum of \$5,000 plus one-fifth of the amount of the cash bonus offered as specified above.

It is understood that no variation shall be made in this prescribed form of offer and that the insertion of any additional condition, qualification or provision hereon will invalidate the bid.

RICHFIELD OIL CORPORATION

By: Stephen A.weeney VICE PRESIDENT

By: R. Nelson ASSISTANT SECRETARY

SOCONY MOBIL OIL COMPANY, INC.

By: L. C. Stevens

By: W. B. Davis Assistant Secretary